

MEMO# 3950

July 23, 1992

INSTITUTE TESTIFIES ON INTERNATIONAL COMPETITIVENESS

- 1 - July 23, 1992 TO: BOARD OF GOVERNORS NO. 47-92 TAX MEMBERS NO. 46-92 INTERNATIONAL MEMBERS NO. 17-92 RE: INSTITUTE TESTIFIES ON INTERNATIONAL COMPETITIVENESS _____ The Institute testified on July 21 before the House Ways and Means Committee on international competitiveness issues affecting the U.S. investment company industry. Attached are both oral and written testimony submitted by the Institute. The testimony states that there are two tax requirements that preclude U.S. funds from competing effectively with foreign funds for foreign investors. First, interest and short-term capital gain received by a U.S. fund are converted into dividends when distributed by the fund, and U.S. withholding tax is imposed when these dividends are paid to foreign shareholders. Conversely, no U.S. withholding tax is imposed on interest or short-term capital gain distributed to foreign investors in foreign funds. Second, U.S. funds are required to distribute their income each year, thus subjecting the foreign investor to current taxation in his home country. In contrast, foreign funds often may "build up", or accumulate, their income and gain, allowing the foreign shareholder to pay tax only when fund shares are sold, if ever. The Institute urged the Committee to adopt the provisions of S. 1748, the "International Competitiveness Act" introduced last year by Senator Baucus. (See Institute Memorandum to Tax Members No. 41-91, International Members No. 5-91, and Accounting/Treasurers Members No. 27-91, dated September 25, 1991.) That bill would allow the character of interest and short-term capital gain to pass through to foreign shareholders, permitting these distributions generally to be free from U.S. withholding tax. In addition, the bill would permit the creation of an "International Regulated Investment Company" or "IRIC", which would hold only the shares of a single U.S. fund and which could be sold only to foreigners. Like many foreign funds, the IRIC would not be required to distribute its income each year. We will keep you informed of further developments. - 2 - David J. Mangefrida Jr. Assistant Counsel - Tax Attachment