

MEMO# 11103

July 8, 1999

INSTITUTE STATEMENT ON THE IMPACT OF US TAX RULES ON INTERNATIONAL COMPETITIVENESS

1 See Institute Memorandum to International Members No. 19-99 and Tax Members No. 19-99, dated July 8, 1999. [11103] July 8, 1999 TO: INTERNATIONAL COMMITTEE No. 29-99 TAX COMMITTEE No. 16-99 RE: INSTITUTE STATEMENT ON THE IMPACT OF US TAX RULES ON INTERNATIONAL COMPETITIVENESS

The Institute recently submitted the attached written statement to the House Ways and Means Committee in connection with hearings on the impact of US tax rules on international competitiveness. The Institute's written statement urges the Committee to enhance the international competitiveness of US funds by supporting the enactment of H.R. 2430, the "Investment Competitiveness Act of 1999," introduced by Representatives Crane, Dunn and McDermott.¹ H.R. 2430 would eliminate the US withholding tax barrier to foreign investment in US funds by permitting all U.S. funds – equity, balanced and bond funds – generally to preserve, for US withholding tax purposes, the character of interest income and short-term capital gains distributed to foreign investors. For these purposes, US-source interest and foreign-source interest that is free from foreign withholding tax under the domestic laws of the source country (such as interest from "Eurobonds") would be eligible for flow-through treatment. However, flow-through treatment would be denied for interest from any foreign bond on which the source-country tax rate is reduced pursuant to a tax treaty with the United States. The Institute's written statement explains that enactment of H.R. 2430 merely would provide foreign investors in US funds with the same treatment currently available when comparable investments are made directly or through foreign funds. Absent this change, foreign investors seeking to enter the US capital markets or obtain access to US professional portfolio management will continue to have a significant US tax incentive not to invest in US funds. Deanna J. Flores Assistant Counsel Attachment