

MEMO# 16708

October 29, 2003

BILL APPROVED BY HOUSE COMMITTEE WOULD ENHANCE INTERNATIONAL COMPETITIVENESS OF U.S. FUNDS

[16708] October 29, 2003 TO: BOARD OF GOVERNORS No. 56-03 FEDERAL LEGISLATION MEMBERS No. 20-03 INTERNATIONAL MEMBERS No. 39-03 PRIMARY CONTACTS - MEMBER COMPLEX No. 91-03 PUBLIC INFORMATION COMMITTEE No. 36-03 TAX MEMBERS No. 59-03 RE: BILL APPROVED BY HOUSE COMMITTEE WOULD ENHANCE INTERNATIONAL COMPETITIVENESS OF U.S. FUNDS On October 28, the House Ways and Means Committee approved a modified version of H.R. 2896, the American Jobs Creation Act of 2003. The Committee approved an amendment offered by Representative Jim McCrery (R-LA), which included Representative Philip Crane's (R-IL) proposal to treat distributions of short-term capital gains and U.S.-source interest income by U.S. funds to foreign investors as exempt from U.S. withholding tax. The Institute has long supported the enactment of legislation to make U.S. funds available to foreign investors without adverse U.S. withholding tax treatment. Under present law, short-term capital gains and U.S.-source interest income generally are exempt from U.S. withholding tax if received directly by a foreign investor, but not if the income flows through U.S. funds. This result occurs because U.S. tax law treats distributions of these types of income as "dividends" subject to U.S. withholding tax. By permitting the character of short-term capital gains and U.S.-source interest income distributed by U.S. funds to "flow through" to foreign investors, H.R. 2896 would provide foreign investors in U.S. funds with the same treatment available today when comparable investments are made directly or through foreign funds. We will keep you informed of further developments. Matthew P. Fink President