MEMO# 8652

February 20, 1997

INVESTMENT COMPETITIVENESS ACT INTRODUCED IN HOUSE

February 20, 1997 TO: BOARD OF GOVERNORS No. 8-97 FEDERAL LEGISLATION MEMBERS No. 4-97 PUBLIC INFORMATION COMMITTEE No. 5-97 RE: INVESTMENT COMPETITIVENESS ACT INTRODUCED IN HOUSE

____ On February 12, 1997, Representatives Philip Crane (R-IL), Jennifer Dunn (R-WA), and Jim McDermott (D-WA) introduced H.R. 707, the "Investment Competitiveness Act of 1997." The purpose of the bill is to enhance the competitiveness of U.S. mutual funds by providing the same U.S. tax treatment to foreign investors when they invest in a U.S. mutual fund as they receive when they invest in a foreign mutual fund. Current U.S. tax law imposes a withholding tax on dividends received by foreign investors of up to 30 percent, while interest and short-term capital gains are generally not subject to such tax. Since income derived from interest or short-term capital gain is treated as a "dividend" when paid out, foreign investors in U.S. mutual funds are subject to the withholding tax on these dividends. By contrast, however, income derived from interest or short-term capital gain received by a foreign person investing through a foreign mutual fund (or investing directly) is not subject to the tax, thereby creating a competitive inequity. The bill would eliminate this inequity by permitting U.S. funds to "flow through" to foreign investors interest and short-term gain that will not be subject to withholding tax. It is expected that a similar bill will be introduced later this month in the Senate. The Institute strongly supports these legislative proposals. Attached is a copy of the statement made by Representative Crane in introducing H.R. 707. We will keep you informed of further developments. Matthew P. Fink President Attachment (in .pdf format)