

**MEMO# 4909**

June 24, 1993

## **INSTITUTE TESTIFIES ON INTERNATIONAL COMPETITIVENESS**

June 24, 1993 TO: BOARD OF GOVERNORS NO. 56-93 INTERNATIONAL MEMBERS NO. 18-93  
TAX MEMBERS NO. 20-93 RE: INSTITUTE TESTIFIES ON INTERNATIONAL COMPETITIVENESS

The Institute testified today before the Subcommittee on Select Revenue Measures of the House Ways and Means Committee in support of H.R. 1891, the Investment Competitiveness Act of 1993. (See Institute Memorandum to Tax Members No. 14-93, International Members No. 13-93, and Accounting/Treasurers Members No. 15-93, dated May 5, 1993.) Attached are the Institute's oral and written testimony. The testimony states that U.S. tax law precludes U.S. mutual funds from competing effectively for foreign investors. Specifically, U.S. tax law converts interest and short-term capital gain income that is earned by a U.S. mutual fund into "dividend" income. When this income is distributed by the U.S. fund to a foreign shareholder, the "dividend" is subject to U.S. withholding tax. By contrast, U.S. withholding is not applied to interest or capital gain income received by a foreign investor through a foreign mutual fund. The Institute urged the Subcommittee to support enactment of H.R. 1891, which would permit a U.S. mutual fund to flow through to foreign shareholders the character of both interest income and short-term capital gain income earned by the fund. Thus, the fund could distribute this income to foreign investors free from withholding. We will keep you informed of further developments. Catherine L. Heron Vice President - Tax & Pension Attachments

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