

**MEMO# 10854**

April 5, 1999

## **INSTITUTE SUPPORTS INTERNATIONAL TAX REFORM**

1 See Memorandum to the Board of Governors No. 25-99, Federal Legislation Members No. 12-99, Primary Contacts – Member Complex, No. 36-99, and Public Information Committee, No. 14-99, dated March 31, 1999. [10854] April 5, 1999 TO: BOARD OF GOVERNORS No. 27-99 FEDERAL LEGISLATION MEMBERS No. 14-99 PRIMARY CONTACTS - MEMBER COMPLEX No. 39-99 PUBLIC INFORMATION COMMITTEE No. 16-99 RE: INSTITUTE SUPPORTS INTERNATIONAL TAX REFORM

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The Institute recently submitted testimony on the international tax system to the Senate Finance Committee, which is holding a series of hearings to examine international tax issues. Finance Committee Chairman William Roth (R-DE) has said he plans to introduce legislation in this area during this session of Congress. The Institute's statement, which is attached, addresses investment competitiveness, or the "flow-through" issue, to remove barriers to foreign investment in U.S. mutual funds. The Institute's statement makes the following points: ! The U.S. fund industry is the global leader. ! U.S. tax policy encourages foreign investment in the U.S. capital markets. ! However, U.S. tax law inadvertently encourages foreigners to prefer foreign funds to U.S. funds. ! Congress should enact legislation eliminating U.S. tax barriers to foreign investment in U.S. funds. The Institute's statement encourages Congress to enact "investment competitiveness" legislation that would permit all U.S. funds to preserve, for U.S. withholding tax purposes, the character of interest income and short-term gains distributed to foreign investors, provided that the income and gains would be exempt from U.S. withholding tax if received directly or through a foreign fund. The Institute also made this point in a statement recently submitted to the House Ways and Means Committee.<sup>1</sup> Several Members of Congress may introduce legislation to enact similar proposals in the near future; related bills were introduced in the last Congress. We will keep you informed of further developments. Matthew P. Fink President Attachment Note: Not all recipients receive the attachment. To obtain a copy of the attachment referred to in this Memo, please call the ICI Library at (202) 326-8304, and ask for attachment number 10854. ICI Members may retrieve this Memo and its attachment from ICINett (<http://members.ici.org>).

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