

COMMENT LETTER

August 8, 2003

Institute Letter on Proposal Promoting Foreign Investment in U.S. Funds, August 2003

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Chairman William Thomas
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515-6348

Dear Chairman Thomas:

The Investment Company Institute (the "Institute") is pleased to support [H.R. 2896](#), the "American Jobs Creation Act of 2003", which among other things would enhance the international competitiveness of U.S. funds by treating 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. As described below, H.R. 2896 would remove a significant U.S. tax barrier to foreign investment in U.S. funds.

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.

The Institute supports the enactment of legislation that would make U.S. funds available to foreign investors without adverse U.S. withholding tax treatment. Absent this change, foreign investors seeking to enter the U.S. capital markets or obtain access to U.S. professional portfolio management will continue to have a significant U.S. tax incentive not to invest in U.S. funds.

We look forward to working with you to remove this significant U.S. tax barrier to foreign investment in U.S. mutual funds.

Sincerely,

Matthew Fink
President

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