

SUMMARY OF TESTIMONY ON
ADMINISTRATION REQUEST FOR TWO-YEAR
EXTENSION OF THE INTEREST EQUALIZATION
TAX ACT

AT

PUBLIC HEARING

JANUARY 30, 1973

HELD BY THE

COMMITTEE ON WAYS AND MEANS

PREPARED BY THE STAFF
OF THE
JOINT COMMITTEE ON INTERNAL
REVENUE TAXATION



JANUARY 30, 1973

1

2

3

4

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF THE HISTORY OF ARTS
1100 EAST 58TH STREET
CHICAGO, ILLINOIS 60637



SUMMARY OF TESTIMONY ON ADMINISTRATION REQUEST FOR TWO-YEAR EXTENSION OF THE INTEREST EQUALIZATION TAX ACT

Testimony was received before the Committee on Ways and Means from the administration and the general public at public hearings on January 30, 1973, on the subject of the extension of the Interest Equalization Tax Act.

Summarized below are the statements of the witnesses appearing during the public hearings, as well as written statements submitted to the Committee on Ways and Means.

Honorable Paul A. Volcker, Under Secretary of the Treasury.—Proposes extension of the interest equalization tax for another two years or until March 31, 1975.

The administration supports several amendments. It supports an amendment providing that the estate tax provisions of the Internal Revenue Code provide an exemption from estate tax for certain obligations that are made subject to the interest equalization tax by an election of the issuer and the interest on which is exempt from the U.S. withholding tax under a provision enacted in 1971.

The administration also supports limiting the interest equalization tax exemption for less developed country corporations to corporations that have significant economic contact with less developed countries, by eliminating the special rules under which a shipping company can qualify as a less developed country shipping corporation by registering its ships in a less developed country.

In addition, it has been suggested that the tax has been an impediment to the investment of foreign corporations in the United States. The Treasury is prepared to recommend that an Executive order be issued providing authority to exempt new issues of foreign securities of corporations which invest directly in the United States. However, the Treasury recommends that, to assure compliance, the statute be amended to impose the tax on an issuer (rather than the person acquiring the security) who did not comply with the conditions of the Executive order.

Adolphe J. Warner, Chairman, International Analysts Relations Committee, The Financial Analysts Federation, Inc.—He reluctantly supports the Treasury extension of the tax. However, he proposes that the President be provided with the authority to set and to adjust the rate of tax independently for bonds and for equities.

John E. Leslie, Chairman of the New York Stock Exchange, Advisory Committee on International Capital Markets.—He proposes that there be additional flexibility in applying the IET rate. He would permit the rate to be varied by country; by type of investment, and by type of security.

Stephen Kellen, Chairman, International Finance Committee, Securities Industry Association.—The SIA does not endorse a 2-year

extension of the interest equalization tax, but asks that it be limited to a shorter extension period so that it can be promptly reassessed and, if conditions warrant, removed.

He urges that the tax be amended to exempt new issues of foreign corporations where the entire proceeds of such issues, together with a prescribed additional amount from abroad, are used to finance direct investments in the United States. He proposes that at least 50 percent of the financing be raised in the United States.

He also proposes that the tax be amended to provide the President with authority to determine a tax rate for equity securities which may be different from the tax rate applicable to debt securities.

He also supports an exemption which would provide that nonresident aliens would not be subject to the Federal estate tax for certain obligations of domestic corporations in cases where the interest on such obligations would be treated as income from foreign sources under the provisions of the interest equalization tax, as presently in force.

Robert M. Norris, President, National Foreign Trade Council, Inc. (written statement).—The Council urges on behalf of its members that consideration be given to providing an exemption for nonresident aliens from the Federal estate tax for certain obligations of domestic corporations in cases where the interest on such obligations would be treated as income from foreign sources under the provisions of the interest equalization tax, as presently in force.

E. A. Sigler, Manager, Income Tax Department, Chrysler Corporation (written statement).—Requests that the interest equalization tax be amended to provide an exemption for nonresident aliens from the Federal estate tax for certain obligations of domestic corporations in cases where the interest on such obligations would be treated as income from foreign sources under the provisions of the interest equalization tax, as presently in force.

Hubert Spehar, Duluth, Minnesota (written statement).—Favors modification of the present law relating to certain stock of foreign corporations being treated as stock of domestic corporations. He would treat as a domestic corporation any foreign corporation whose stock had its principal market in either a national security exchange or association registered with the Securities and Exchange Commission.

Lee L. Morgan, President, Caterpillar Tractor Co. (written statement).—Pointed out that the interest equalization tax applies to the purchase by a U.S. bank of notes resulting from sales made through a foreign subsidiary to foreign users, such as foreign governments. To overcome this it has been necessary for these sales to be consummated directly between the U.S. manufacturing company and the foreign purchasers, rather than the foreign subsidiary or dealer. This has prevented the full utilization of the marketing expertise and necessitates an additional step in negotiations. He recommends the removal of this impediment to U.S. exports.

Donald R. Spuehler, of O'Melviney and Myers, Los Angeles (telegram).—Proposes that the tax imposed by reason of section 4912 (b) (12) be based on the tax which would have been paid if the shareholder or partner of the corporation or partnership had made the foreign investment directly on a pro rata basis.