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THE INTEREST EQUALIZATION TAX

by

Ronald D. Paulson

B.S. in Accounting, University of North Dakota 1965

An Independent Study
Submitted to the Faculty
of the
University of North Dakota
in partial fulfillment of the requirements
for the Degree of
Master of Science

Grand Forks, North Dakota
June
1967

This independent study report submitted by Ronald D. Paulson in partial fulfillment of the requirements for the Degree of Master of Science in the University of North Dakota is hereby approved by the Committee under whom the work has been done.

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ABSTRACT

In 1963, the United States balance-of-payments were very unfavorable. To try and reduce the deficit, the interest equalization tax was enacted late in 1964. It is a tax on the acquisition of foreign securities by United States persons.

The background of this tax was looked at and also why the tax was needed. Various terms used in my study are defined in Chapter I because they may have a different meaning than the casual reader would expect them to have.

The type of acquisitions or debt obligations that are taxable and which ones qualify for an exclusion are briefly described. Also, the income tax provisions for the tax are discussed.

Finally, the current legislation dealing with the tax was discussed and whether it will continue to be equitable in the future. A bill to double the tax as it stands today is currently in the Senate and is expected to be passed with little or no opposition.

CHAPTER I

INTRODUCTION

Historical Development of Tax:

In his "Balance of Payments" message to Congress on July 18, 1963, the late President Kennedy asked that a tax be levied on United States purchases of foreign securities. This proposal stemmed from a seven billion dollar depletion in the United States gold reserves, caused by continuing deficits since 1957 in the United States balance of payments.[1] As a significant contributing factor to this depletion, long-term private financing in the United States capital market on the part of foreign industrialized Nations was made a target for measures aimed at the payments gap. It was believed that relatively lower United States financing costs were attracting certain borrowings merely because of the interest cost differentials; that to this extent such borrowings unnecessarily accentuated the payments deficit. An excise tax which would equalize financing costs between the United States and foreign capital markets was seen as the remedy for this excess outflow of dollars.

In response to this request, HR 8000 was introduced

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[1] Patrick J. Murphy, "The Interest Equalization Tax," Journal of Accountancy, CXVIV (January, 1965), 38.

in Congress on August 8, 1963. The bill, as amended was enacted as Internal Revenue Code Chapter forty one.[2]

Proponents of the bill, in urging its passage, had identified private long-term capital outflows as a prime cause of the United States' worsening balance of payments position. They prophesied that, as rising production costs made it more difficult for European firms to finance expansion from retained earnings, foreign industry would increasingly resort to borrowings. Further, because European capital markets were not adequately organized to efficiently supply these imminent needs for local savings, unusually heavy demands for capital would be visited on the United States market unless capital costs were equalized. Consequently, it was argued, failure to enact the Interest Equalization Excise Tax on acquisitions of foreign stock, securities and obligations could only be expected to aggravate the United States balance of payments position. Since the need for the tax was deemed to be temporary, it was to terminate after December 31, 1965, but in order to inhibit crash buying before enactment, the tax was to be effective retroactively to July 19, 1963, the day after President Kennedy asked for it.[3]

Opposition to the Bill:

Opponents of the bill not only were cynical about the temporary nature of tax bills generally, but also viewed it

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[2] Ibid. [3] Ibid.

as a means of exercising control over the financial community by the selective approval of certain types of United States private investment abroad. Furthermore, they denied the need for such a tax, asserting that repatriations via dividends, interest and loan-principal payments exceeded amounts reinvested by the private investors. Moreover, they feared that this tax could jeopardize benefits accruing from United States ownership of foreign income-producing assets and might stunt the growth of this ownership.

Reasons for Tax:[4]

(1) A worsening in the payments deficit. It hit an annual rate close to $3.5 billion in the second quarter of 1963, partly because of short-term outflows to Canada and into the European market.

(2) A rising volume of long-term foreign borrowings in the United States at an annual rate of close to two billion dollars.

(3) Reluctance of France to buy the Treasury's new bonds that, in effect give a guarantee against dollar devaluation.

(4) Worries about the steady decline in the United States gold stock, probably the most pressing concern of all. Financial men suspected that the London "gold pool" was masking a drain on gold that would soon creep into official figures.

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[4] "Keeping U. S. Dollars at Home," Business Week, July 27, 1963, p. 21.

Treasury officials felt that they could wait no longer. The trade surplus was improving, but any improvement was being overwhelmed by the tide of foreign borrowings. Treasury officials could see no limit to them. A three billion dollar deficit in 1963 would show no improvement over 1962, and the way things were going, deficits would be the order of the day for at least another three years. By then, said Under Secretary of Treasury Robert V. Roosa: "Our balance of payments would have gone to pieces."[5]

The choice of an Equalization Tax on interest rates was Roosa's; he assumed responsibility, and considered it merely an influence on long-term interest rates, much as the discount rate affects short-term rates.

As the Treasury saw it, the tax, which would effectively boost borrowing costs by about one per cent, would keep marginal borrowers out of the United States market--those who come here not for the availability of credit, but because interest rates are lower than abroad.

In general terms the Interest Equalization Tax was designed to bring the cost of capital raised by foreigners in the United States market into closer alignment with the costs prevailing in the markets of most other industrialized countries. This is achieved by means of an excise tax on the acquisition from foreigners of foreign securities with maturities of three years or more.

Its specific purpose is to reduce the immediate

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[5] Ibid.

Although the Interest Equalization Tax was enacted on September 2, 1964, it applies to taxable acquisitions of stock of foreign issuers and debt obligations of foreign obligors made after July 18, 1963.[8]

Definitions of Tax Terms Used:[9]

Many of the terms, in this paper, have a technical meaning that is broader than would be expected; others have a meaning which is quite different than that which the casual reader might think they mean. Therefore, some of the terms which frequently appear in this paper must be defined:

(1) The United States includes all of the fifty states, the District of Columbia, the Commonwealth of Puerto Rico and the possessions of the United States.

(2) A United States Person includes any United States citizen or resident, any domestic partnership or corporation, any United States government agency, any state or political subdivision or agency thereof, and any domestic estate or trust. Certain foreign partnerships and corporations which participate as underwriters in public offerings may also elect to be treated as United States persons.

(3) A Debt Obligation includes any indebtedness whether or not it is represented by a written instrument, whether or not it is secured, and whether or not it bears interest. The term debt obligation also includes any interest in or option or right to acquire any such indebtedness.

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[8] Ibid. p. 3. [9] Ibid. p. 4.

due upon its acquisition.

When a debt obligation is subject to retirement before maturity through the operation of a mandatory sinking fund, the period remaining to maturity is determined on the basis of the average remaining life of the obligation.

(5) Stock includes any share or other capital interest in a corporation, any interest of a partner in a partnership, and any interest in an investment trust. It also includes an indebtedness which is convertible into stock of the obligor, if the election to convert is exercisable only within a period of five years or less from the date on which interest on the obligation first begins to accrue.

(6) A Foreign Issuer or Obligor includes any international organization, unless the United States is a member; any foreign government, or political subdivision or agency thereof; any foreign corporation, foreign partnership, foreign estate or trust; and any nonresident alien individual. A domestic corporation which is a management company under the Investment Company Act of 1940 may elect to be treated as a foreign issuer or obligor provided it meets certain specific requirements.

However, a foreign corporation (other than a company registered under the Investment Company Act of 1940) is treated as a domestic corporation with respect to any class of its stock if more than 65% of such class of stock was held of record by United States persons as of the latest

record date before July 19, 1963, or if such class of stock was traded on national securities exchanges (registered with the Securities Exchange Commission) which trading constituted the principal market for such class of stock during 1962, provided that as of the latest record date before July 19, 1963, more than 50% of such class of stock was held of record by United States persons.

(7) An Acquisition means any purchase, transfer, distribution, exchange, or other transaction by nature of which ownership is obtained. It also included a transaction where ownership is obtained through a nominee, custodian or agent.

CHAPTER II

MECHANICS OF TAX

Imposition of Tax:

Acquisitions of debt obligations are taxed at graduated rates increasing with the length of the period remaining to maturity at the time of the acquisition, the percentage rates being applied to the actual value of the obligation.[10] The table below shows the tax rates:

TABLE I[11]
Debt Schedule
(Section 4911 Tax Rates)

If the period remaining to maturity is:	The tax, as a percentage of actual value, is
At least 3 years, but less than 3½ years	2.75%
At least 3½ years, but less than 4½ years	3.55%
At least 4½ years, but less than 5½ years	4.35%
At least 5½ years, but less than 6½ years	5.10%
At least 6½ years, but less than 7½ years	5.80%
At least 7½ years, but less than 8½ years	6.50%
At least 8½ years, but less than 9½ years	7.10%
At least 9½ years, but less than 10½ years	7.70%
At least 10½ years, but less than 11½ years	8.30%
At least 11½ years, but less than 13½ years	9.10%
At least 13½ years, but less than 16½ years	10.30%
At least 16½ years, but less than 18½ years	11.35%
At least 18½ years, but less than 21½ years	12.25%
At least 21½ years, but less than 23½ years	13.05%
At least 23½ years, but less than 26½ years	13.75%
At least 26½ years, but less than 28½ years	14.35%
28½ years or more	15.00%

[10] "The Interest Equalization Tax," Tax Ideas Report, 1964, p. 26501.

[11] Patrick J. Murphy, "The Interest Equalization Tax," Journal of Accountancy, CXVIV (January, 1965), 41.

If the period to maturity is less than three years, no tax is imposed upon the debt obligation.

Acquisitions:

Generally, an acquisition will be considered as having been made on the date the consideration is paid for the stock or debt obligation is acquired.[12] Where a lender agrees to make a series of loans over a period of time, each loan is treated as a separate acquisition of a debt obligation and each acquisition is deemed to occur on the date the particular loan is made.

Transaction Which Are "Deemed" Acquisitions:[13]

(1) Converting debt obligations to stock--Where a United States person acquires a debt obligation after July 18, 1963 which is convertible into stock of a foreign issuer, the exercise of the right to convert is deemed an acquisition of stock from a foreign issuer by the person exercising such right. This rule applies whether or not the debt obligation was originally acquired from a foreign obligor. The legislative draftsmen recognized, however, that under certain circumstances this provision could result in double taxation. Therefore, they drafted a limitation to the tax that could be imposed upon the "second" acquisition. Under this limitation the amount of tax imposed upon the

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[12] Marshall J. Langer and Benjamin S. Schwartz, "The Interest Equalization Tax," The Monthly Digest of Tax Articles, April, 1965, p. 5.

[13] Ibid.

conversion is limited to the amount which would have been due if the original acquisition of the debt obligation had been treated as an acquisition of stock from a foreign seller, less the amount of tax actually paid by the person exercising the right upon acquisition of the convertible debt obligation. If the acquisition of the convertible debt obligation was not originally subject to the interest equalization tax, you nevertheless deduct the amount of tax which would have been imposed if the debt acquisition had been subject to tax.

(2) Extensions of existing debt obligations--Any extension or renewal of an existing debt obligation which requires affirmative action of the obligee is deemed an acquisition of a new debt obligation. However, there is a limitation on the tax imposed in such instances. From the amount of tax imposed upon the acquisition of the "new" debt obligation, the obligee is credited with the amount of tax which would have been imposed if the extended debt obligation had been acquired in a taxable transaction immediately prior to its extension.

(3) Transfers to foreign trusts--A transfer of money or property (other than in a sale or exchange for full and adequate consideration) to a foreign trust is deemed an acquisition of stock of a foreign issuer in an amount equal to the actual value of the money or property transferred, to the extent that the trust acquires stock or debt obligations which would, if acquired directly by the transferor, be

subject to the interest equalization tax. This rule is applicable whether or not the transferor has an interest in the trust.

(4) Transfers to foreign corporations and partnerships--Any transfer to a foreign corporation or foreign partnership as a contribution to its capital is deemed an acquisition by the transferor of stock of such corporation or partnership in an amount equal to the actual value of the money or property transferred. Similarly, any transfer made to a foreign corporation or partnership in exchange for its debt obligations is deemed an acquisition by the transferor of the stock of the foreign entities, if the corporation or partnership was formed or availed of by the transferor for the principal purpose of acquiring stock or debt obligations and the direct acquisition thereof by the transferor would have been subject to the interest equalization tax.

This latter provision closes what would otherwise constitute a glaring loophole in the law. Conversely, the provision, unintentionally perhaps, creates a possible double tax burden on transferors who are United States persons.

(5) Acquisition from certain domestic companies--If a domestic company is formed or availed of for the principal purpose of obtaining funds for a foreign issuer or obligor, the acquisition of the domestic company's securities is deemed to be a taxable acquisition. In effect, the United States company making the acquisition is taxed as if it has

actually acquired stock or a debt obligation directly from the foreign issuer or borrower. This rule, however, is not applicable to a domestic corporation or partnership which obtains capital to be used by it in the active conduct of its own business, or the active conduct of a joint venture in which it participates, even though the corporation or partnership may be wholly owned by a foreign issuer or obligor.

(6) Reorganizations--Acquisitions by United States persons of securities of foreign issuers or obligors in an exchange to which the Internal Revenue Code applies are not treated as "acquisitions."

Transactions Which Are Not Acquisitions:[14]

(1) Transfers to nominees--Transfers between a United States person and his nominee, custodian or agent are not included in the term acquisition. Thus, the term is not applicable to a transfer of stock or a debt obligation by a customer to his broker, or by the broker to his customer, unless the broker is acting for his own account.

(2) Transfers by operation of law--Transfers from a decedent to his personal representative, from a minor or an incompetent to his guardian, from a bankrupt to a trustee in bankruptcy and certain other transfers by operation of law, are not considered to be within the purview of an acquisition.

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[14] Ibid.

(3) Gifts or inheritances--A transfer by inheritance to a United States person or by a gift to a United States individual is excluded from the tax. However, inter vivos transfers to trusts or other entities are not excluded.

(4) Certain corporate distributions--Receipts of stock dividends and other distributions made by a foreign corporation to its stockholders, and consisting of the securities of the distributing corporation are not acquisitions. This exclusion applies even though the transfer is in connection with a reorganization, liquidation or redemption which may be subject to federal income taxes.

(5) Corporate Liquidations--Liquidating distributions to United States shareholders of a foreign corporation, consisting of stock or debt obligations owned by the foreign corporation on July 18, 1963, are not acquisitions unless the United States shareholders acquired their shares in the liquidating corporation under circumstances resulting in an exclusion from tax under specified sections of the law.

(6) Conversion of certain indebtedness--As previously stated, any indebtedness which is convertible into stock of the obligor only within five years from the date on which interest first begins to accrue is treated as stock, not a debt obligation.

(7) Employee stock options--If a foreign corporation grants a United States individual a stock option, the grant of such option is not considered an acquisition if certain specified requirements are met. The option must be

material respect.

Where a United States person seeks to avail himself of the tax exemption on the basis of prior American ownership, but has not received a certificate or written confirmation, he may use other evidence to establish the exclusion, but only after showing reasonable cause for his inability to produce such certificate or confirmation.

(2) Direct Investments--The acquisition of stock or a debt obligation of a foreign corporation or partnership is excluded from the tax where the United States person investing has a specified ownership interest in the foreign company. The acquisition is exempt if the acquiring United States person owns 10% or more of the combined voting power of all classes of stock of the foreign corporation at any time within one year after the acquisition. The same rule applies where the acquiring United States person owns 10% or more of an interest in the profits of a foreign partnership.

(3) Investments in Less Developed Countries--The tax does not apply to the acquisition by a United States person of: 1) a debt obligation issued or guaranteed by the government of a less developed country; 2) stock or debt obligations of a less developed country corporation; 3) a debt obligation issued by an individual or partnership resident in a less developed country in return for money or property which is consumed or disposed of wholly within less developed countries; or 4) stock or debt obligations of a foreign issuer or obligor required as a reinvestment within a less

developed country by the terms of a contract of sale with such country, entered into as a result of threatened or actual expropriation of property owned by the United States person.

Any country, except the following, may be designated by the President in an Executive Order as a less developed country. Therefore, for purposes of the tax, all other foreign countries including overseas territories and possessions of any foreign country not within the Sino-Soviet bloc are presently considered as less developed countries:

Australia
Austria
Belgium
Canada
Denmark
France
Germany (Federal Republic)
Hong Kong
Italy
Japan
Liechtenstein
Luxembourg
Monaco
Netherlands
New Zealand
Norway
Republic of South Africa
San Marino
Spain
Sweden
Switzerland
United Kingdom
All Countries within the Sino-Soviet bloc

(4) <u>New Securities Issues</u>--The President is authorized to issue an Executive Order excluding from the interest equalization tax acquisitions of new securities of the government or of any corporation, partnership or trust organized under the laws of a particular foreign country.

On September 2, 1964, President Johnson issued an Executive Order which excludes all new issues of Canadian securities from the tax.

(5) <u>Underwriters and Dealers</u>--Although underwriters and dealers that acquire foreign securities are subject to

the tax, they are allowed a credit against the tax or a refund of the tax under certain circumstances. If securities are acquired by an underwriter in connection with a private placement or public offering and are thereafter sold to non-United States persons as part of such placement of offering, the underwriter will be entitled to a credit against tax or refund of the tax imposed upon his acquisition of the securities. Dealers may also receive a credit or refund with respect to foreign stock which is sold to non-United States persons within two business days after its acquisition. Similarly, a credit or refund will be available to a dealer who, in the ordinary course of his business, acquires debt obligations which he sells within ninety days after purchase to non-United States persons and to certain dealers. Purchases made to cover a short sale must be made within ninety days after the sale.

(6) Commercial Bank Loans--The acquisition of a debt obligation by a commercial bank is excluded from the tax if the bank acquires such obligations in the ordinary course of its commercial banking business. This exclusion also extends to foreign stock or debt obligations acquired by a commercial bank through foreclosure.

(7) Export Credit Transactions--1) United States guaranteed loans--The acquisition of a foreign debt obligation arising out of the sale of tangible personal property or services is not subject to tax if the payment of the obligation is guaranteed or insured by a United States

Government agency such as the Export-Import Bank. 2) United States produced goods--The acquisition of a foreign debt obligation derived from the sale of tangible personal property or services is exempt from the tax, if 85% of the purchase price is attributable to property produced, grown or extracted in the United States or to the performance of services by the seller. This exclusion is applicable only to the receipt of a foreign debt obligation acquired in the ordinary course of business operations of an exporter. It does not apply to the acquisition of foreign stock by exporters. 3) Export-related loans--The acquisition of a foreign debt obligation is exempt from tax if the United States person making the loan can demonstrate that it was made to increase or maintain sales of tangible personal property produced, grown or extracted by him in the United States. 4) United States Agencies--Acquisition of securities of foreign issuers or obligors by any United States Government agency are excluded from the tax.

Filing Returns and Penalties:

Interest equalization tax returns (form 3780) must be filed quarterly by all persons who incur liability for the tax during the quarter or would incur liability but for the exemption provision relating to prior American ownership.

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[16] Marshall J. Langer and Benjamin S. Schwartz, "The Interest Equalization Tax," The Monthly Digest of Tax Articles, April, 1965, p. 20.

Information Returns:[17]

Every United States person which is a commercial bank must file an information return with respect to loans and commitments to foreign obligors. Such return must be filed even though all of the loans made by the bank are exempt from the tax.

Every member of a registered national securities exchange or association must keep such records and file such information returns as may be prescribed by regulations with respect to acquisitions and sales of foreign securities effected by it as a broker.

Each interest equalization tax return must be filed by the last day of the month following the calendar quarter for which the return is made. Interest equalization tax returns must be filed with the district director with whom the United States person files his federal income tax return.

Penalties:[18]

A person who is required to file but fails to file a timely interest equalization tax return, with respect to a period in respect of which he incurred no tax liability because of prior American ownership, is subject to a civil penalty equal to 5% of the amount of tax which would be due but for the exemption concerning prior American ownership, unless the failure is due to reasonable cause. The penalty

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[17] Ibid, p. 21. [18] Ibid, p. 22.

cannot be less than $10 nor more than $1,000.

Any person selling foreign securities who willfully executes a certificate of American ownership containing a misstatement of a material fact is liable for a penalty equal to 125% of the amount of tax which would have been imposed on the buyer of such securities in the absence of such certificate.

A person who willfully executes a certificate of sale to a foreign person, knowing that such certificate is fraudulent or false in any material respect is guilty of a misdemeanor. Upon conviction such person may be fined up to $1,000 or imprisoned up to one year for each offense.

Income Tax Provision:[19]

The Interest Equalization Tax Act amends several Code sections relating to income tax. Section 263(a) is amended to provide that any amount paid as tax under Section 4911 shall be treated as a capital expenditure, except to the extent that any amount attributable to the amount paid as tax is includible in gross income for the taxable year. Section 1232(b) (2) is amended to provide that for purposes of computing original issue discount, and issue price as otherwise determined shall be increased by the amount of tax paid under Section 4911 (and not credited, refunded, or reimbursed on the acquisition of such bond or evidence of indebtedness by the first buyer).

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[19] "The Interest Equalization Tax," Tax Ideas Report, 1964, p. 26516.

CHAPTER III

FUTURE OF INTEREST EQUALIZATION TAX

Current Legislation:

January 26, 1967--The Treasury asked congress to double--as of January 26, 1967--the tax deterrent to foreign securities purchases by Americans, and to grant President Johnson power to alter the tax rate later.[20]

The main purpose is to permit further reductions in interest rates in the United States without risking a new outpouring of dollars in case rates in other countries don't drop as much.

Specifically, the bill is intended to add two percentage points to whatever annual interest rate foreigners pay to borrow here, up from the one percentage point that has applied since mid-1963.

To do this, the interest equalization tax rate on American purchases of most foreign securities from foreigners would be raised to 30% from 15%, retroactive to January 26, 1967, and the levy on debt obligations such as bonds and bank loans would be raised to a range of 2.10% to 30%, depending on maturity, from the present range of 1.05% on the shortest issues covered to 15% on the longest.

[20]Wall Street Journal, January 26, 1967, p. 1.

To compensate American investors for the tax they must pay on their purchases, the foreign borrower or security issuer must offer a higher interest rate than otherwise. The tax thus in effect is passed on to the foreign procurers of capital from United States sources.

The United States has a payment deficit when foreigners acquire more dollars than they return in all transactions.

To head off "accelerated purchases" while the measure to double the interest equalization tax is pending in Congress, Treasury Secretary Fowler asked that the lawmakers impose the maximum two percentage point barrier as of January 26, 1967, except for purchases "made pursuant to firm commitments in existance" January 25, 1967, the day the request was disclosed.

The tax law itself, currently scheduled to expire July 31, 1967, would be extended for two years through July 31, 1969, if Congress approves, and the President would be able to set the effective interest cost addition anywhere between zero and the maximum two percentage points.[21]

Officials of banks and securities firms generally expressed surprise over the Administration's move, saying they thought the proposal was more drastic than conditions warranted.

"I was looking for an extension of the tax at the present rate, but nothing like this," said Andries Woodhouser

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[21] Ibid.

partner in Burnham & Company, a New York Stock Exchange member firm that specializes in foreign securities.[22]

The extra two year's life for the law, Mr. Fowler said, is needed "While pressure on our balance of payments continues," and "Capital markets abroad continue to be insufficiently responsive to the voluntary program administered by the Federal Reserve Board to restrain the flow of capital abroad."[23]

Generally, the other current features of the tax would remain intact. The tax wouldn't be extended to direct investment of corporations in foreign subsidiaries, they stressed, although that possibility has been discussed from time to time in the Administration. New issues of Canadian securities would still be exempt, as would up to $100 million a year of new Japanese obligations either issued or guaranteed by that country's government.

Loans and investments for "less developed" countries also would continue to be exempt, as would loans to pay for exports from the United States.

Other commercial bank loans of one-to-three years maturities would continue to be covered by the tax, at the new higher rates applying to bonds in the same maturity brackets. All debt obligations of less than one year maturity would remain fully exempt, the Treasury said.

Under the proposal, the tax on debt obligations of at least one year but less than 1-1/4 year maturity would be

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[22] Ibid. [23] Ibid.

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[22] Ibid. [23] Ibid.

The higher interest equalization tax would be imposed retroactive to January 25, 1967. The President would be given limited authority to vary the tax rate after the law is enacted.

Although the tax is imposed on Americans' purchase of foreign securities, in effect it is absorbed by foreigners because they have to mark up yields on securities to offset the tax. In practice, the tax has had the effect of almost drying up the market in the United States for foreign securities subject to tax.

Under the committee bill, an American buying a foreign stock would be subject to a 22.5% tax, up from 15%. The tax on a foreign debt obligation would range from 1.58% on a maturity of at least one year but less than 1-1/4 years, to 22.5% on a maturity of 28-1/2 years or more; the current range is from 1.05% to 15%. The levy on a commercial bank loan, applicable on loans of from one to three years, would range from 1.58% to 4.13%; the current range is 1.05% to 2.75%.[27]

The committee bill also broadens a number of relatively minor exemptions from the tax. One new provision would give a securities dealer purchasing foreign debt obligations from another dealer more time to dispose of the bonds before becoming liable for the interest equalization tax.

Current law gives the dealer making the purchase from another dealer only one day to resell the bonds without

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[27] Ibid.

Indonesia, Iran, Iraq, The Kuwait-Saudi Arabia Neutral Zone, Libya, Quator, and Saudi Arabia.

Technically, the move was made by striking the countries from the list of "less developed" lands exempt from the tax. While little securities business is done with them, the action puts the tax on a basis parallel with the Commerce Department's voluntary program for restraining direct foreign investment in "developed" Nations.

CHAPTER IV

RECOMMENDATIONS AND CONCLUSIONS

When the interest equalization tax was set up in 1964, it was supposed to be of a temporary nature. Everytime it has come up for renewal, it has passed again with little or no opposition.

I feel it is a very necessary part of our tax plan. It is one of the only ways of discouraging Americans from investing in foreign securities and it also provides revenue to the government. Our balance of payments deficit was not very good in 1964. It has been improving a little over the last two years, but now it appears that it is not anywhere close to where it actually should be. Therefore, the Treasury felt it was not only necessary to ask Congress to renew the tax, but to double it and give President Johnson the power to alter the tax rates if he felt it was necessary.

It looks like the tax is going to be here for a long time to come, although the Treasury stressed again just last month that the tax was just temporary to try and improve our balance of payments position.

The House passed the measure unanimously and the Senate is expected to pass it with little opposition, so Congress must feel that it is very necessary. I feel the

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