



INVESTMENT COMPANY INSTITUTE

March 24, 2003

Kazuyuki Furuya
Director
Income Tax and
Property Tax Policy Division
Tax Bureau
Ministry of Finance
3-1-1 Kasumigaseki
Chiyoda-ku, Tokyo 100-8940
Japan

Tatuyoshi Otobe
Director
Financial Markets Division
Planning and Coordination Bureau
Financial Service Agency
3-1-1 Kasumigaseki
Chiyoda-ku, Tokyo 100-8967
Japan

Dear Messrs. Furuya and Otobe:

On behalf of the U.S. investment company industry, the Investment Company Institute¹ is writing to urge that any reforms to the taxation of equity investment trusts do not discriminate against foreign investment trusts. Many of the Institute's members offer Japanese investors the opportunity to invest in equity investment trusts through both domestic funds and funds that are domiciled outside Japan.

We understand that one goal of the reforms being considered may be to ensure uniform treatment for equities and equity investment trusts. We believe this is an appropriate goal for reform legislation.

An important additional goal would be to provide uniform treatment of domestic and foreign investment trusts. We are concerned that the Ministry of Finance may be considering a rule change that would cause the sale of foreign equity-type investment trusts to be treated significantly differently from the sale of domestic equity-type trusts. We understand that the sale of a foreign investment trust may be treated as the sale of unlisted shares, subject to a 26% capital gains tax, while the sale of a domestic investment trust would be treated as a redemption, and subject initially to a 10% capital gains rate, and then to a 20% capital gains rate from April 1, 2008.

We believe similar financial instruments should be treated the same for tax purposes. Consistent with this principle, we urge that foreign equity-type investment trusts be subject to the same tax rate as domestic equity-type investment trusts. Thus, if the sale of a domestic equity-type investment trust is treated as a redemption for tax purposes, we believe the sale of a foreign equity-type investment should likewise be treated as a redemption, and be subject to the same tax rate.


¹ The Investment Company Institute is the national association of the U.S. investment company industry. Its membership includes 8,929 open-end investment companies ("mutual funds"), 553 closed-end investment companies and 6 sponsors of unit investment trusts. Its mutual fund members have assets of about \$6.322 trillion, accounting for approximately 95% of total industry assets, and 90.2 million individual shareholders.

Taxing foreign investment trusts at a higher rate than domestic investment trusts would disadvantage Japanese investors in foreign investment trusts, and could ultimately result in significantly fewer funds being available to Japanese investors. The Institute believes that any reforms should encourage investment in a broad range of investment products, which will help Japanese investors meet their long-term savings and investment needs. Taxing foreign investment trusts at higher rates than domestic trusts would limit investor choice.

For these reasons, we would also urge that the current "balance collection (Sagaku Chozei)" method of calculating withholding tax on foreign investment trusts be retained. Under the balance collection method, investors effectively receive a full credit for foreign withholding taxes imposed on distributions. Eliminating this method could result in significant additional tax burdens on investors in foreign investment trusts. We believe the balance collection method should be retained because it ensures that foreign investment trusts and domestic investment trusts are taxed equally.

We support the goals of these important tax reforms and hope they will be implemented in a manner that does not discriminate against foreign investment trusts. If we can provide you with any additional information, or if you would like to discuss these matters with us, please contact the undersigned (at podesta@ici.org, 202/326-5826, or at lawson@ici.org, 202/326-5832).

Sincerely,



Mary Podesta
Senior Counsel, International



Keith Lawson
Senior Counsel, Tax