

NATIONAL FOREIGN TRADE COUNCIL, INC.

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March 31, 2005

The Honorable John W. Snow
Secretary of the Treasury
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Secretary:

The NFTC is writing to you, as a matter of urgency, to express our members' concern about proposed legislation in the United Kingdom which we understand may be passed in the next week. Many of our members invest in the UK, owning many hundreds of billions of dollars of assets and employing tens of thousands of employees.

Section 104-110 of the recently published Finance Bill seeks to prevent arbitrage in certain circumstances involving "hybrid" debt and "hybrid" entities. We completely understand the desire to prevent some of the abusive structures which may have been used. However, our members believe that the legislation as currently drafted might, if read broadly, affect longstanding straightforward debt-financing into the UK. Our members are already subject to agreements with the UK tax authorities on the allowable amount of debt. Any further reductions of debt below these agreed limits - which this legislation could bring about - will result, effectively, in increased UK tax.

Because of a combination of the US entity classification rules (check-the-box) and the US deferral rules (subpart F), US multinationals, *as fully allowed by US law*, use hybrid entities in their straightforward debt funding structures. Competitors in most other countries can achieve these advantages without the use of hybrid entities. Thus, this provision, in effect, specifically disadvantages US multinationals investing in the UK. Because of the heavy reliance on debt, this is particularly true for financial services businesses.

This measure will adversely affect the position of US investors in the UK. Our members tell us that this legislation may affect future investment in the UK by US corporations. They also tell us that it may affect current investment, with a potential effect on UK employment.

Mr. Secretary, we would ask you, as soon as possible, to express concern to the UK government, and ask them to ensure that this legislation does not discriminate against US investment in the UK.

Sincerely,

A handwritten signature in black ink, appearing to read "W. A. Reinsch", is written over a light blue horizontal line.

William A. Reinsch
President