

I submitted to you a statement which I am about to read. Under the present law, exemption from income tax and withholding is accorded interest on bank deposits paid to nonresident aliens not engaged in business in the United States.

IRC, section 861(a)(1)(A). H.R. 5916 would extend that exemption to all deposits in savings and loan associations. H.R. 5916, section 2(a), page 2, lines 4-21, amending section 861(a)(1). It is urged that H.R. 5916 be further amended to accord similar exemption from withholding tax to the interest or earnings element paid to nonresident aliens under life insurance company contracts, for the reason that to do so will (a) improve the U.S. balance-of-payments position by permitting U.S. life insurance companies to write nonresident alien business now barred to them competitively by the present withholding tax handicap, (b) increase the taxable income of U.S. life insurance companies, and (c) as a matter of fairness and equity, give purchases of U.S. life insurance company contracts the same treatment as that afforded now to purchasers of bank certificates of deposit, and as proposed with Treasury backing, to be given purchasers of certificates of mutual savings and loan associations.

This amendment can be effected by further amending section 861(a)(1) IRC (relating to interest from sources within the United States) by adding thereto the following subparagraph (at p. 2, line 21 of H.R. 5916):

“(E) interest and earnings paid pursuant to policies or contracts issued by life insurance companies.”

It is respectfully submitted that the time is long overdue to give life insurance companies equal treatment with banks by extending to them the same exemption from withholding tax which persons carrying on the banking business have enjoyed since the Revenue Act of 1921.

That the matter may not have been raised in the past four decades is probably due to the fact that U.S. life insurance companies have only in recent years been concerned with sales in the nonresident alien market, especially in less developed countries without double taxation treaties with the United States. That situation has changed.

An increasing number of American life insurance companies are now seeking such business. The success of their efforts is obviously beneficial to the United States in its present balance-of-payments squeeze.

The requirement of withholding on annuity contracts has for decades kept American life insurance companies from competing for annuity business in the nonresident alien market except where treaty exemptions applied.

For this reason, U.S. employers operating in nontreaty territories; for example, most of Latin America, have had to pay our substantial premiums to foreign insurance companies to fund U.S. dollar pension plans for their alien employees.

Very recently this competitive handicap has been compounded by Revenue Ruling 64-51, IRB 1964-6, 11 which requires withholding on the gain derived from life insurance surrenders and endowment maturities.

In effect, U.S. life insurance companies are now non-competitive in the nonresident alien market in all customary lines of life insurance except term insurance.