

We have made a careful check of the position of foreign companies who represent our principal competition in the Western Hemisphere. By all odds the severest competition comes from the Canadian companies and we are definitely advised that these companies do not withhold on the gain realized on the surrender of life insurance policies, on the maturity of endowment policies, or on annuity payments and periodic payments of policy proceeds.

The Canadians do withhold on interest—at the rate of 15 percent as against 30 percent for U.S. companies—when policy proceeds are left on deposit with the company and they do withhold at the 15 percent rate on gains when annuity contracts are surrendered prior to maturity.

These two exceptions both represent very unusual situations and even in the area of these exceptions the rate of withholding is one-half that applicable to American companies. The point is that in the typical and usual situation there is no withholding and the competitive advantage of the Canadian companies is complete.

Neither the British nor Swiss companies withhold on ordinary life insurance proceeds paid on surrenders and endowment maturities. They do withhold on annuity income.

The business we are talking about is U.S. source business on which, typically, the policy is issued in the United States and the premium is paid out of dollar funds.

The insureds are nonresident aliens or foreign corporations not doing business in the United States, with U.S. funds at their disposal. In the case of group pension annuities the insureds may be U.S. corporations wishing to fund in U.S. dollars plans for their alien employer.

Under the present law, bank deposits are the only tax-free investment available to such aliens and foreign corporations with dollar funds in hand. Surely it makes sense to give them the alternative investment of U.S. life insurance policies and annuities which earn interest and which also afford insurance protection.

From the point of view of dollar conservation, the alien with dollars who wants insurance today will buy it from non-U.S. companies, and in so doing drain the dollars out of the United States.

Futhermore, the amendment we propose can only help, not hurt, the tax revenue position. Especially since the 1964 revenue ruling, U.S. life insurers are effectively barred in most cases from this non-resident alien market, since they cannot meet foreign competition. The amendment would open up this market to our domestic insurers and thereby increase their taxable revenue income.

It is difficult to estimate what the premium volume might be on this alien business if U.S. life insurance companies could compete for it on equal terms with Canadian and other foreign companies. Because of the present withholding handicap, the premium volume of the U.S. companies is small, and since the 1964 revenue ruling, may be expected to decline in the future.

The relevant premium figures of the Canadian companies are not available to us, but we believe their volume on this business to be substantial. We also believe that if the U.S. companies could compete for this business on an equal footing they would realize many millions of dollars of additional premiums which now go to non-U.S. companies.

It may be argued that to extend the exemption to life insurance companies necessarily opens the door to a further extension to mutual