

Mr. BYRNES. Mr. Anderson, how are these funds treated under the applicable tax treaties? Are they exempt or not?

Mr. ANDERSON. I would like Mr. Lesser to answer that question, sir.

Mr. LESSER. Under most of the treaties the interest and annuity income is exempt by treaty. However, the treaties do not cover the situation which is the subject of revenue ruling 64-51 which taxes the gain on surrenders of insurance or maturities.

For example, we had a situation with a nonresident alien residing in France whose policy matures after 30 years with a very small gain and the treaty did not cover such a situation and we had to withhold 30 percent on the gain.

We asked for a ruling from the Internal Revenue to equate such a gain on maturity with annuity or income or interest under the treaty and we were advised that it is not the same and it is subject to withholding, so this type of gain is not covered under existing treaties.

Also much of this business which Mr. Anderson is talking about comes from nontreaty countries, particularly in Latin America.

Mr. BYRNES. You mentioned that. That is why I am asking whether these earnings are exempt under treaties we have with the industrial countries. Are the earnings exempt under these treaties?

Mr. LESSER. Not completely. The annuity income may be exempt.

Mr. BYRNES. Let me understand what you mean by not completely.

Mr. LESSER. As I thought I explained, annuity income is usually exempt by treaty. Interest on deposits is usually exempt by treaty, but the gain that a policyholder realizes when a policy matures or is surrendered is not covered under existing treaties.

Mr. BYRNES. I understand. Have you discussed this matter with the Treasury Department, particularly as it relates to the balance-of-payments problem and the policy to encourage greater foreign investment in the United States?

Mr. LESSER. Yes, sir. We met with the staff of the Treasury and we submitted our proposal and we explained our position at length, and we received acknowledgment from Mr. Surrey that it would be given careful consideration, but we have had no further word from the Treasury.

Mr. BYRNES. How long ago was it?

Mr. LESSER. I would say approximately a month ago.

Mr. BYRNES. In other words, it was subsequent to the submission to this committee and the Congress of a draft proposal by the Treasury Department?

Mr. LESSER. It was subsequent to that date; yes, sir.

Mr. BYRNES. Because that was sometime in March.

Mr. LESSER. Yes.

Mr. BYRNES. Thank you very much.

Mr. KARSTEN (presiding). Are there further questions?

If not, we thank you very much, Mr. Anderson, for your appearance. We appreciate the information you have given us.

Mr. ANDERSON. Thank you, sir.

Mr. KARSTEN. Our next witness is Michael Waris. Mr. Waris.