

for him to define, and the safe alternative, banking with a local bank, is too easy to use.

While under some tax treaties interest is taxed at a lower rate, this consideration would not overcome the prudent corporate treasurer's reluctance to deposit funds with a foreign branch of an American bank. The United States still does not have tax treaties with many countries, and, even where it does, a lower rate of tax on interest still does not equal the absolute freedom from U.S. taxes afforded by depositing funds in a local bank.

*Strengthening competitive position of U.S. banks helps balance of payments*

The proposed amendment would permit U.S. banks operating abroad through branches to meet foreign competition engendered not by any business skill or acumen of the foreign banks but solely by the unfavorable U.S. tax laws. Strengthening the competitive position of the U.S. banks operating abroad not only comports with the expressed purposes of the Foreign Banking Act, but also expresses a policy reflected elsewhere in the Internal Revenue Code and Regulations. For example, Executive Order 1198 (February 10, 1965) issued by the President under the interest equalization tax (IRC 4931(a)) specifically exempts from the tax foreign branch loans made in a foreign currency by a commercial bank at a branch located outside the United States. Moreover, loans of this nature arising out of foreign branch deposits do not worsen the balance-of-payments position of the United States. Indeed, even the tightly restrictive "Federal Reserve Guidelines for Foreign Lending Activities" (Circular No. 5628, March 5, 1965) recognize that the balance-of-payments program is not designed to hamper the lending activities of foreign branches insofar as the funds utilized are derived from foreign sources and do not add to the dollar outflow. This is true whether the loans and deposits are made in foreign currencies or European dollars.

The proposed amendment supports the overall purpose of H.R. 5916 in easing the balance-of-payments problem in two ways. First, it encourages foreign individuals and, more particularly, corporations to deposit funds with U.S. banks. Second, it strengthens U.S. banking in foreign areas permitting them to render important supporting functions to American export trade. Exports, it has been emphasized by the late President Kennedy, are the only ultimate solution to the balance-of-payments problem. (See President's message on balance of payments, July 18, 1963, p. 3; H. Rept. 1046, 88th Cong., 1st sess., p. 17.)

It is believed that any revenue loss arising out of the proposed amendment would be negligible, since deposits of foreign corporations or individuals who are or may be engaged in business in this country are not now being made in foreign branches of U.S. banks, so no taxes are being paid on any interest derived therefrom. Any possible revenue loss, moreover, would, in all probability, be more than made up by the increased taxes paid by U.S. banks on increased foreign branch earnings which, of course, would continue to be taxed by the United States whether repatriated in dollars or not.

The exemption which the amendment proposes is the only means to induce these foreign corporations to channel their overseas deposits