

THE AMERICAN BANKERS ASSOCIATION,
New York, N.Y., February 15, 1966.

HON. WILBUR D. MILLS,
*Chairman, House Ways and Means Committee,
Longworth House Office Building, Washington, D.C.*

DEAR MR. MILLS: The American Bankers Association, on behalf of its member banks, is seriously concerned with certain provisions contained in H.R. 11297, a bill to amend the Internal Revenue Code of 1954 to provide equitable tax treatment for foreign investment in the United States, which is pending before your committee.

Section 2 of the bill would amend the Internal Revenue Code of 1954 and make interest on bank deposits received by a nonresident alien individual or a foreign corporation, if such interest is not effectively connected with the conduct of a trade or business within the United States, subject to U.S. income taxes for amounts paid or credited after December 31, 1970. Section 8(d) of the bill also amends the Internal Revenue Code of 1954 to treat bank deposits of nonresident aliens who are not engaged in business in the United States as property within the United States and thereby subject to U.S. estate taxes.

In our opinion, these changes in the present law which makes interest on U.S. bank deposits foreign source income when paid to persons not engaged in business in the United States, and which treats bank deposits of nonresident aliens not engaged in business in the United States as property without the United States for purposes of computing the estate taxes of such aliens, would adversely affect the ability of U.S. commercial banks to support international trade and would cause deterioration in the U.S. balance of payments and in our gold stock.

The overall purposes of H.R. 11297, as stated by the Committee on Ways and Means in its summary of the principal provisions of the bill, are "to modernize the present U.S. tax treatment of foreigners and to encourage foreign investment in the United States—thereby beneficially affecting the U.S. balance of payments—by removing tax barriers to such investment." These objectives are highly commendable. However, the provisions of the bill referred to above, as relates to commercial banking, would be self-defeating; since, in our view, they would cause an outflow of funds from the United States.

Deposits of private foreigners, which run into several billions of dollars, have given American banks resources for lending in support of international trade and development. Since bank liabilities to foreigners are greater than bank claims upon foreigners, it is clear that such deposits have further provided a means of financing the U.S. balance-of-payments deficit. Data of the Department of Commerce show increases in short-term dollar holdings of private foreigners (mostly deposits) since 1958 have helped finance the U.S. balance of payments on an average of \$800 million a year. Repayment of these obligations would involve shifts into official dollar holdings that would be eligible for conversion into gold. A movement of this gold out of the United States would impose unwanted pressures internationally on our country.

The importance of retaining foreign bank deposits in this country from the standpoint of our balance of payments was considered an important factor by the Banking and Currency Committee in its report on H.R. 5306, 89th Congress, 1st session (Rept. 336), a bill to continue