withholding returns and payments to the Internal Revenue Service. Instead of one annual return, a withholding agent will presumably be faced with the prospect of preparing and filing withholding returns four times each year.

It should also be noted that with respect to nonresident alien trust beneficiaries, withholding is initially accomplished on the basis of remittances made to them. Since principal account deductions enter into the computation of "distributable net income" the total amount of taxable income from U.S. sources is not known until after the close of the taxable year. In most cases there will be an excess withheld which, under present procedures, is refunded to the beneficiary before the tax is paid to the Internal Revenue Service on March 15. If the full amount of tax is to be paid currently, the beneficiaries will be required to file U.S. income tax returns and claims for refund to obtain the excess amounts withheld. Accordingly, both nonresident alien taxpayers and the Internal Revenue Service will be put to additional labor and expense.

Furthermore, tax treaties that are negotiated and finalized within a given year often provide that the new rates are retroactive to the preceding January 1. Regulations have usually authorized withholding agents to refund any excess withholding. If the tax had already been paid to the Internal Revenue Service, any adjustments would have to be made by the Service after application by the nonresident alien.

Having stated our principal objections to H.R. 11297 as introduced, we should add one favorable comment coupled with a recommendation for further improvement. The bill introduces a long-needed change in the source of income rules by including as foreign source income interest paid on deposits in foreign branches of American banks, regardless of the nationality or business connection with the United States of the recipient. However, the change is limited to deposits payable in foreign currency; interest on dollar deposits remains subject to the same source rules as deposits in the United States.

It is recommended that the treatment as foreign source income of interest paid by foreign branches of American banks be extended to include interest paid on dollar deposits, as well as on foreign currency deposits as proposed in H.R. 11297. Interest received from a foreign bank is foreign source income, whether paid on foreign currency or dollar deposits. Any provision of U.S. law which places a foreign branch of an American bank at a disadvantage in competing for deposits with its foreign bank competitors is likely to result in a net loss of revenue to the U.S. Treasury, and more important to U.S. balance-of-payments considerations, will drive deposits from the U.S. banking system into foreign banking systems where among other things, they could become a claim on our gold, as noted above.

To summarize, it is our view that there are serious imperfections in H.R. 11297 if its purpose is to benefit the U.S. balance of payments. We believe it would not only fail to encourage foreign investment in the United States; it would actually deter such investment and increase the likelihood of gold withdrawals. Accordingly, we strongly urge a return to the basic recommendations of the Presidential task force under the chairmanship of Secretary of the Treasury Fowler, then Undersecretary of the Treasury, one of which was the elimination of