

paid on U.S. bank deposits to nonresident alien individuals and foreign corporations not doing business in the United States continue to be exempt from U.S. taxation. The U.S. balance-of-payments problem would be made more acute if this interest were taxed since it seems reasonable to believe that a substantial part of the underlying deposits would be transferred to foreign banks. If this were to happen there would be an increased likelihood of these dollars shifting from private to public hands and then becoming a claim on our gold. In addition, it is evident there would be no gain in U.S. tax revenue but in fact a loss, since the shifting of these deposits to foreign banks not subject to U.S. taxation would reduce taxable income otherwise generated by U.S. banks on these deposits.

H.R. 11297 is intended to encourage foreign investment in the United States by removing tax barriers to such investment, thereby beneficially affecting the U.S. balance of payments. To quote Secretary Fowler in his report to the President of the United States from the Task Force on Promoting Increased Foreign Investment in U.S. Corporate Securities and Increased Foreign Financing for U.S. Corporations Operating Abroad, "The United States should, however, first attempt to attract foreign investment by attacking the several areas of taxation that deter investment without generating material revenues." The proposed estate tax treatment of U.S. bank deposits and the proposed income taxation of bank interest after 1970 are completely inconsistent with these purposes and will undoubtedly lead to the withdrawal of funds presently employed in our economy.

The NFTC does not object to the proposed treatment of U.S. bank interest paid to nonresident aliens and foreign corporations between January 1, 1966, and December 31, 1970, which in effect continues the exemption which has existed since 1921, and strongly recommends that this treatment be continued in respect of such interest paid after December 31, 1970.

*Interest paid to nonresident aliens and foreign corporations on foreign currency deposits with foreign branches of U.S. banks*

Under current law, interest on foreign currency deposits with foreign branches of U.S. banks is exempt from U.S. income tax only if the recipient is not doing business in the United States. The proposed bill would categorize such interest as being from foreign sources and thus exempt from U.S. tax if not effectively connected with a U.S. trade or business.

The NFTC agrees with the proposed treatment as foreign source income of interest paid on foreign currency deposits with foreign branches of U.S. banks, and strongly urges that interest paid by such branches on U.S. dollar deposits should be accorded the same treatment. Any provision of U.S. tax law which places a foreign branch of a U.S. bank at a competitive disadvantage with a foreign bank can only result ultimately in a loss to the U.S. Treasury and will drive these dollar deposits outside of the U.S. banking system. Transfer of dollar deposits from the U.S. banking system to foreign banks makes them vulnerable to a demand for conversion into gold, as noted above.