

H.R. 11297—Proposed Foreign Investors Tax Act

The balance-of-payments problem requires corrective measures along many fronts. One of these is to make it more attractive for foreigners to hold U.S. dollar investments in the United States. Toward this end, beginning in 1962, the Congress authorized exemption of foreign official time deposits from interest rate ceilings under the Federal Reserve's Regulation Q, the Treasury increased Treasury bill offerings to help lift their yields, and the Federal Reserve successively raised discount rates. On April 27, 1964, the Fowler Committee submitted to President Johnson a report, originally requested by President Kennedy, on the subject of "Promoting Increased Foreign Investment in U.S. Corporate Securities and Increased Foreign Financing for U.S. Corporations Operating Abroad." President Johnson's balance-of-payments program dated February 10, 1965, recommended new legislation to increase the incentives for foreigners to invest in U.S. corporate securities.

The proposed Foreign Investors Tax Act, H.R. 11297, has the purpose of encouraging foreign investment in the United States by removing tax barriers to such investment. A number of provisions in the bill will contribute to that end. Some other provisions, losing sight of the essential purpose, would make investments in the United States less attractive and hence damage the balance of payments.

The bill would make subject to U.S. income taxation interest paid to nonresident aliens¹ and make immediately subject to U.S. estate taxation bank deposits of nonresident aliens when held in dollars with American banks and their branches. These discriminations against American banks, and against dollar deposits, are certainly uncalled for. There are many competitive foreign institutions eager to take on the business of American banks and to shift funds into foreign currencies or Eurodollars as required to relieve themselves and their customers of U.S. tax liabilities. Foreign jurisdictions, like the United Kingdom and Canada, which carry on an international banking business, as a matter of course exempt from income taxation interest on deposits paid to nonresident aliens.

It needs to be understood that the United States has financed past balance-of-payments deficits by encouraging foreigners to place and keep dollar deposits with U.S. banks. Apart from deposits of tax exempt foreign official institutions, the amount involved is approximately \$10 billion. If private holders of dollars in New York moved these dollars into foreign currencies, there would be an increase in foreign official holdings of dollars convertible into gold. The result might be the same if the dollars were moved into Eurodollar deposits with foreign banks. All the other benefits of the legislation could be quickly undone.

It is inappropriate to the role of the dollar as the world's key currency to remove existing exemptions from taxation of bank deposits of nonresident aliens. It is incredible that such a step should be seriously considered at the present moment with effects of under-

¹ The latest available form of the bill would make this provision apply after Dec. 31, 1970, with exemptions in favor of foreign central banks of issue and otherwise as may be provided in tax treaties.