

business in the United States (hereafter collectively referred to as "nonresident foreigners") to a flat 30-percent tax, beginning on January 1, 1971. Assuming U.S. bank interest rates of between 4 and 5 percent, the tax would reduce the net yield on invested principal to nonresident foreigners by between 1 and 1½ percent per annum.

In proposing to repeal the estate tax exemption for U.S. bank deposits held by nonresident foreign individuals, the bill, if enacted in its present form, would provide an added reason for such persons withdrawing their U.S. bank accounts.

It is clear that a decline of between 1 and 1½ percent in the yield on U.S. bank deposits would make most foreign investors look elsewhere for higher interest rates. The interest equalization tax itself, our prime weapon in the struggle to right our balance of payments, is based on the principle that a 1-percent change in yield has a critical effect on willingness to invest. In the words of President Kennedy, the tax is designed to "increase by approximately 1 percent, the interest cost to foreigners of obtaining capital in this country, and thus help equalize interest rate patterns for longer term financing in the United States and abroad."

Transfers of capital presently deposited in U.S. banks by nonresident foreigners would be welcomed by many foreign countries where bank interest rates are at least as high as in the United States and where bank interest paid to nonresident foreign depositors is tax exempt. Among the Western European countries offering these benefits are the Netherlands, West Germany, Sweden, Denmark, Finland, and Greece.

While there is no formal exemption from United Kingdom income tax on interest derived by nonresidents from money deposited in United Kingdom banks, United Kingdom law does not provide for withholding income tax on such interest at source, and the Chancellor of the Exchequer stated on March 9, 1965, that "it is not the general practice of the Inland Revenue to raise assessments on such interests."

If past experience is a fair guide, it can be reasonably expected that passage of H.R. 11297 in its present form will result in the transfer to banks in other countries of a large percentage of the deposits of nonresident foreigners in U.S. banks.

Any changes in the Internal Revenue Code which might lead to this result would be destructive of the stated purpose of H.R. 11297 "to encourage foreign investment in the United States—thereby beneficially affecting the U.S. balance of payments—by removing tax barriers to such investments." These changes would frustrate the recommendation of the Task Force on Promoting Increased Foreign Investment that foreign deposits be attracted to U.S. banks by raising interest rates paid to foreigners. The changes would be inconsistent with President Johnson's personal appeal to leading bankers and businessmen at the White House on February 18, 1965, to repatriate all liquid funds not urgently needed abroad. They would also be inconsistent with the directives to private business, both banking and