

provided, of course, that their tax had been satisfied by withholding at source. It also recommended that foreign security dealers should be encouraged to participate in the marketing to foreigners of U.S. securities by modifying the definition of the term "engaged in trade or business within the United States." This would permit these dealers to participate in such marketing without being treated as engaged in trade or business in this country.

H.R. 11297

U.S. estate tax

As compared with H.R. 5916, this bill would increase estate tax rates on estates of nonresident aliens to a maximum of 25 percent, thus giving less incentive for foreign investment in the United States than was given by H.R. 5916.

H.R. 11297 would include in the taxable estate of a nonresident alien certain intangible personal property which is excluded from the estate under present law. Such property includes (a) bank deposits of a nonresident alien not engaged in business in the United States, and (b) debt obligations of a U.S. person (including a U.S. corporation), the United States, a State or political subdivision of a State, or the District of Columbia, even though such obligations are physically located abroad. There is no doubt that these provisions will have an adverse effect on foreign investment in the United States.

Interest paid to nonresident aliens and foreign corporations on U.S. bank deposits

Since the Revenue Act of 1921, interest on deposits with persons carrying on the banking business paid to persons not engaged in trade or business within the United States has been treated as foreign source income and consequently not subject to U.S. income tax. In considering the merits of this exclusion from taxable income, the House Ways and Means Committee report (67th Cong., 1st sess.) indicated that "the loss of revenue which would result if this deduction were allowed would be relatively small in amount, while the exemption of such interest from taxation would be in keeping with the action of other countries and would encourage nonresident alien individuals and foreign corporations to transact financial business through institutions located in the United States." H.R. 11297 would completely change this longstanding rule of law in that interest paid on bank deposits to nonresident aliens and foreign corporations after December 31, 1970, will become subject to income tax even though the recipient may not be doing business in the United States. The technical change in source definitions made by the bill affecting bank interest during the interim period 1966 through 1970 is not objectionable since it is not less favorable than existing law in its treatment of U.S. bank interest paid to foreigners.

It is submitted that the factors prevailing in today's economy are even more compelling than in the 1920's in requiring that interest 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,