

Senator TALMADGE. Mr. Secretary, would you yield at this point for a question or would you prefer to finish your statement?

Secretary FOWLER. Whatever the committee wishes.

Senator TALMADGE. I have received several letters from individuals both inside and outside my State strenuously objecting to this particular portion of the bill on the theory that at the end of 1965 we had some \$13 billion worth of bank deposits in the United States, and they claim that if we imposed this tax it will have a very adverse effect on our balance of payments which this bill is supposedly designed to correct. They say particularly since an inheritance tax would be imposed immediately that many of them would withdraw their funds immediately. As I understand this provision, these funds would be taxable under the House bill in the year 1971 which would result in a most serious effect on our balance of payments. I would like to hear your comment on that.

Secretary FOWLER. Well, Senator Talmadge, as I indicated, the decision to terminate in 1972, the income tax exemption in the present law for bank deposit interest derived by foreigners not engaged in trade or business in the United States was made by the House Ways and Means Committee. It was not dealt with in the task force report.

The Ways and Means Committee felt, in effect, that no valid tax reason existed for continuing the exemption in the case of foreigners when U.S. citizens and residents are required to pay U.S. income tax on such interest.

As a matter solely of tax equity, I think the House Ways and Means conclusion appears to be correct.

However, because that decision may have current balance-of-payments implications—and recognizing that—the Ways and Means Committee postponed the effective date of the income tax until 1972, and said that at that time it would have an opportunity to reconsider the balance-of-payments situation. It is our understanding, Senator, that representatives of the banking community will appear before your committee and testify on this provision of the bill. They are, of course, much closer and much more familiar with the actual impact of this 1972 provision, and the current impact of the estate tax provision, than we are. Therefore, we are going to listen very carefully to their testimony. I am sure that it will be helpful to all of us in considering just what the effect is of this change in the law.

I do not have a concrete response to your question, except to urge that the committee give careful consideration to the testimony to be given by those who are more intimately familiar and directly concerned with this matter.

Senator TALMADGE. If I understand your reply correctly, you are neither for nor against the House provision.

Secretary FOWLER. Precisely.

Senator TALMADGE. Thank you.

Senator ANDERSON. Since there has been a pause here, where does this money come from in these banks?

Secretary FOWLER. It comes from all over, Senator Anderson.

Senator ANDERSON. Principally South America?

Secretary FOWLER. I was going to give you what information we have on this. I am now speaking of interest on deposits in U.S. banks paid to private foreigners as distinct from foreign central banks and foreign governmental institutions.