These time deposits, interest on which would become subject to income tax, according to our information, amounted to $2.5 billion at the end of May 1966. Of that amount, about $1.3 billion was held by Latin American residents. About half the Latin American holdings are in three countries—Argentina, Mexico, and Venezuela—which have free foreign exchange systems allowing residents to hold deposits in the United States or elsewhere.

Senator ANDERSON. Thank you.

Senator CURTIS. May I ask one question?

Senator ANDERSON. Surely, Senator Curtis.

Senator CURTIS. If these foreign deposits, deposits by foreigners in American banks become subject to tax, and as a result the depositors remove their money to other countries to have it free of the tax, in what countries could they make their deposits?

Secretary FOWLER. What are the other countries?

Senator CURTIS. Yes. Venezuela deposits money in Switzerland. Will the interest be subject to a tax?

Secretary FOWLER. The treatment varies. Our information indicates that in France they would be exempt from French tax if payable in a currency other than francs; in Germany, they would also be exempt; in Italy they would be taxable; in the Netherlands they would be exempt; in Switzerland they would be taxable. In the United Kingdom they would be——

Senator WILLIAMS. May I ask at what rate would they be taxed?

Secretary FOWLER. In Italy and Switzerland at a 27-percent rate.

Senator WILLIAMS. What rate would be proposed under the House bill?

Secretary FOWLER. Sir?

Senator WILLIAMS. What rate would the House bill propose?

Secretary FOWLER. Thirty percent unless the rate was reduced by treaty. In some countries with which we have treaties, Senator Williams, the interest would be exempt from tax.

Senator ANDERSON. Just a minute. What countries are principally treaty countries, then? Is Great Britain one?

Senator WILLIAMS. Those are the exempt treaty countries you are speaking of?

Senator ANDERSON. He put that in the answer so I thought it might all go in the answer at one time.

Secretary FOWLER. If I may, I would like to complete the answer to Senator Curtis' question giving the tax rates in three other countries and then answer the treaty question. In the United Kingdom, interest from bank deposits of foreigners are taxable at the rate of 41¼ percent, and in Canada at 15 percent—but I should note that in Canada when the deposit has been made in a foreign currency, and the interest is payable in a foreign courrency, no tax is withheld. The last country is Japan where bank interest of foreigners would be taxable at a 20-percent rate. So there are three major countries in which they are exempt, and five in which they are taxable.

Now, as to the countries with which the United States has treaties. Interest on U.S. bank deposits would be exempt in the case of payments to residents of the United Kingdom and taxed at 5 percent in the case of payments to residents of Switzerland under our treaty with Switzerland.