

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.

The House Committee on Ways and Means recognized in its Report that an alteration of this source rule might have a substantial adverse effect on our balance of payments. For this reason the Report indicates that the effective date of this change is being postponed until after 1971 at which time there will be an opportunity to reconsider the balance of payments situation.

For the reasons noted above, the Council is in complete agreement that the proposed change in the source of income rules can have a substantial adverse effect on our balance of payments and that they should not be changed in the context of our present balance of payments difficulties. Indeed, the Council believes that the proposed change would be contrary to the best interest of the United States as a world financial center even in the absence of a balance of payments problem.

Furthermore, the Council does not believe that the present Congress should insert in the law a future date on which the long-standing exemption from tax will be automatically terminated, in view of its recognition that such termination can have serious economic consequences. It would seem that sound legislative procedure dictates that if this exemption is to be terminated at all, despite the continued validity of the reasons for which it was made a part of our law by the Revenue Act of 1921, it should be terminated by positive action of the Congress at the time of termination only after giving thorough consideration to the effect of the change in the light of the then current economic conditions; a situation should not be legislated by the present Congress under which a change in tax law having potentially serious economic consequences can become effective in 1972 by a combination of mere passage of time and inaction on the part of a future Congress.

Moreover, the Council believes that insertion in the law of a termination date for the present exemption will inadvertently negate at least in part the obvious intention of the Congress to reconsider the balance of payments situation *before* withdrawal of foreign-owned deposits from financial institutions in the United States is induced by taxation of the interest on such deposits. The existence of this date in the law will create a psychological barrier to further deposits and induce withdrawal of existing deposits even before the effective date of the tax, thus having a potential adverse balance of payments effect prior to essential Congressional reconsideration of the situation. Accordingly, the Council strongly