

STATEMENT OF WALTER H. PAGE, FOR THE NEW YORK CLEARING HOUSE ASSOCIATION
ON H.R. 13103

Mr. Chairman, and gentlemen of the Committee, my name is Walter H. Page. I am Executive Vice President of the Morgan Guaranty Trust Company of New York, a member of the New York Clearing House Association. I have with me Mr. David A. Lindsay, counsel to my bank. We are appearing for the New York Clearing House Association which consists of ten member banks, listed at appendix A, attached to my prepared statement.

I. PROVISIONS AFFECTING BANK DEPOSITS—ESTATE AND INCOME TAX

H.R. 13103, the Foreign Investors Tax Act of 1966, contains two provisions relating to bank deposits held in the United States by non-resident aliens which:

- (1) Represent a reversal in long standing policy;
- (2) Are irreconcilable with the urgent present day international financial policies and interests of the United States; and
- (3) Are inconsistent with the purposes underlying the administration's original impetus for the Bill and are not likely to accomplish effectively their present purpose.

1. Provisions described and stated purpose

One of these provisions would be subject bank deposits held here by non-resident alien individuals to United States estate taxes on the death of such non-resident alien individuals. This provision is proposed to have immediate effect upon enactment.

The other provision would subject interest earned on bank deposits held here by non-resident aliens, individual, corporate and institutional (excepting foreign central banks and governments and international institutions) to income tax withholding, effective in 1972. The Congress deliberately exempted such interest from tax (and the bank deposits from the estate tax) in the case of non-resident aliens in the Revenue Act of 1921.

The proposed changes are made in the name of "tax equity." One can understand their appealing logic. Residents are taxed on these items. Why exempt non-resident aliens? The difficulty is that bank deposits can be readily moved out of the United States or even if kept here can be insulated (in ways beyond the control of domestic banks) from the reach of the Commissioner of Internal Revenue. The proposed new tax provisions affecting bank deposits simply will not catch the sophisticated dollar holder. They will, on the other hand, have detrimental effects on the balance of payments and the control of the U.S. authorities on our own currency.

2. Effect of provisions on dollar deposits

The estate tax provisions would have the most immediate impact. According to a confidential survey by the New York Clearing House Association its ten member banks hold almost \$1.4 billion of deposits for non-resident alien individuals of which about \$1 billion are on a time deposit and about \$400 million on a demand deposit basis. The aggregate for all banks in the United States is considerably higher. All of these deposits would be potentially affected by the estate tax provisions. Because of the threat of the present bill some such deposits have already been removed and steps have been taken to move additional ones. The removal of these deposits can be accomplished simply and quickly. It is, therefore, hard to imagine that this estate tax provision will produce significant revenue to the United States or achieve meaningful tax equity.

The proposed delayed tax on interest earned on domestic dollar deposits of non-resident aliens potentially affects all interest bearing savings and time deposits (including certificates of deposit) in the U.S. exclusive of so-called "official" accounts. As far as the ten member banks of the New York Clearing House are concerned, the total of these deposits is about \$1.5 billion and, again, the total for all U.S. banks is considerably higher. The delay was no doubt adopted in light of problems concerning our balance of payments and gold problem. The provisions, therefore, may be characterized as a red flag or warning to foreign depositors of the present intent of this country as to future action. Again, because of the fluid nature of bank deposits, the income tax provisions would probably have little or no revenue impact even if effective immediately upon enactment. The delayed impact is most difficult to measure, but certainly any movements thereby induced will be in the wrong direction, and increasingly so, as the deadline approaches.