

abroad to make loans taxable in the United States. That theoretical possibility has now been effectively closed by the fact that U.S. commercial banks can make advances to their foreign branches only within the restrictive limits of the Federal Reserve balance-of-payments guidelines. Frequent and periodic reports provide positive protection against any possible abuse.

In conclusion, I would like to express my strong approval of the proposed amendment to H.R. 13103 which was presented to the committee on August 2, 1966, amendment No. 717. The amendment to be proposed would permit the President to exempt from interest equalization tax U.S. dollar loans made at foreign branches of our banks. I understand that this proposed amendment would grant discretion to the President to reimpose the tax should he feel, contrary to all expectations, that the exemption is in any way abused. I feel confident that in view of the sizable potential benefits to the balance of payments, the President will in fact permit this exemption, and I respectfully urge that this proposed amendment be adopted.

Thank you, Mr. Chairman.

(The prepared statement of Mr. Barth follows:)

SUMMARY STATEMENT OF ALFRED W. BARTH, IN REGARD TO H.R. 13103

I. The provisions of H.R. 13103 which would impose income tax and withholding on bank deposit interest earned by foreigners not doing business in the United States (Secs. 2(a)(1) and 3(g) of the Bill) and estate tax on such deposits (Sec. 8(d) of the Bill) will have adverse consequences on the financial position of the United States, and should be deleted from the Bill.

II. Approval is expressed for a proposed amendment to H.R. 13103 which would authorize the President to exempt from Interest Equalization Tax U.S. dollar loans made at foreign branches of U.S. banks.

STATEMENT OF ALFRED W. BARTH, IN REGARD TO H.R. 13103

Mr. Chairman, members of the Committee, my name is Alfred W. Barth; I am an Executive Vice President of The Chase Manhattan Bank (N.A.) in New York. I am appearing here in my capacity as Chief Executive Officer of the International Department of that Bank, but I believe my deep concern over certain provisions of the proposed Foreign Investors Tax Act of 1966 on which I will comment is shared by many others with experience in international banking.

I would like heartily to urge that the provisions of H.R. 13103 relating to income taxation of bank deposit interest earned by nonresident foreigners and to estate taxation of such deposits be deleted from the bill, and, on the basis of my practical banking experience, to comment as to the adverse consequences which they would have on the financial position of the United States. In addition, I would like to invite the Committee's attention to a closely related matter involving the application of the Interest Equalization Tax to U.S. dollar loans by foreign branches of U.S. banks. I believe an appropriate amendment to the bill now before you would significantly facilitate the current efforts of U.S. businesses to finance their operations abroad, to the benefit of our balance-of-payments position.

Adverse consequences of taxation of bank deposits of foreigners in the United States (secs. 2(a)(1) and 3(g)) of the bill

My general conclusion as to the proposals on bank deposits is a simple one—these deposits can easily be withdrawn from U.S. tax jurisdiction, therefore escaping the tax burden, and such withdrawal undoubtedly will harm our international financial position, add to the strain on our gold stock, and hurt our domestic economy.

We are dealing with large amounts. The proposed change in tax treatment would directly affect \$2 to \$2½ billion of deposits. But more significant is the fact that we are dealing with an amount of funds equivalent to 15 to 18% of