

WHO BAFT REPRESENTS

The Bankers' Association for Foreign Trade includes among its membership 128 American banks from all parts of the United States as shown on the attached list (Appendix A). Our organization was founded in 1921 by a small group of bankers from Buffalo, Cleveland and Detroit, and now has grown to include nearly every bank in the United States having a fully organized foreign or international department.

The purposes of the BAFT, as stated in its by-laws, are "to promote international banking and foreign trade by doing all things appropriate to the stimulation of public interest therein and to the improvement of existing practices and the development of new techniques thereof."

COOPERATION OF BAFT WITH GOVERNMENT AGENCIES

The BAFT has cooperated closely with the representatives of the various government departments and financing agencies concerned with international trade and financing. As examples of this cooperation, for some time the Export-Import Bank has appointed our President to serve on its Advisory Committee during his term of office and, more recently, our President has also been named to the National Export Expansion Council. Many of the officers of our member banks have served as chairmen or members of the various Regional Export Expansion Councils.

BAFT RESOLUTION AT ANNUAL MEETING RE H.R. 13103

At the annual meeting of our Association on April 27, a resolution was adopted unanimously opposing certain sections of H.R. 13103 as passed by the House of Representatives (see Supplement B). While generally endorsing the objectives of H.R. 13103, our membership is concerned about the sections of this Bill which impose an income and estate tax on foreign owned bank deposits held in the United States. We believe (1) that these provisions are contrary to one of the stated objectives of H.R. 13103, namely, to attract foreign investment in the United States, (2) that they will affect unfavorably the ability of American banks to do a foreign business and, (3) they will not accomplish the revenue purposes for which they were designed; business will merely be shifted from American banks to their foreign competitors and the payment of an important part of the proposed taxes will be avoided.

We, therefore, urge that H.R. 13103 be amended by dropping the provisions that would tax foreign owned bank deposits so that the law would continue as at present, namely:

- (a) that interest on such deposits would continue to remain exempt from Federal income tax and withholding;
- (b) that such deposits would continue to remain exempt from Federal estate taxation.

FORTY-FIVE YEAR HISTORY OF TAX EXEMPTIONS FOR FOREIGN-OWNED BANK DEPOSITS

To fail to accord such exemptions would be to reverse a long-standing policy of the United States established in the Revenue Act of 1921. In considering the merits of this exclusion from taxable income over 40 years ago, the House Ways and Means Committee recognized that the loss of revenue which would result if this deduction were allowed would be relatively small in amount, while the exemption of such interest from taxation would be in keeping with the action of other countries and would encourage non-resident alien individuals and foreign corporations to transact financial business through institutions located in the United States. In our opinion, the reasons which were persuasive to the Congress in 1921 are equally valid today.

PRACTICE OF OTHER COUNTRIES

Furthermore, it is our understanding that many leading foreign countries including England, Germany and the Netherlands, do not impose a withholding tax on interest paid on deposits of non-resident aliens so that our domestic banks would be placed at a disadvantage with respect to competition on this point in these important financing countries. It is instructive that Germany, when concerned over an excessive inflow of capital, took a step that was some-