GALLUSANLAGE 7, *July 27, 1966.*

Mr. J. WARREN OLMSTED,
Executive Vice President,
The First National Bank of Boston,
Boston, Mass.

DEAR MR. OLMSTEAD: On return from a business trip abroad I found upon my desk your letter of July 6th, 1966 pertaining to "The Foreign Investors Tax Act of 1966".

The proposed provisions (1) in the tax bill entitled "The Foreign Investors Tax Act of 1966" (H.R. 13103) would certainly not be favorably received by international bankers. The proposed 30 per cent withholding-tax to be levied on interest paid by United States banks on deposits of foreigners, I am afraid, would substantially reduce the willingness to deposit funds with American banks, of investors, such as banks, commercial enterprises and private individuals. Even though a double taxation treaty concluded with the depositor's home country may permit full reimbursement of the taxes withheld or at least a partial set off against domestic taxes, it seems to me that the necessary procedures of getting full or partial compensation for the withheld taxes would of necessity cause delays and losses of interest income to potential depositors.

In this context, I believe, the experiences gained subsequent to the enactment of the 25% withholding-tax on interest paid on German bonds held by non-residents, which became law on March 28th, 1965 and effective firstly on the July 1st, 1965 coupon, may be of interest. The main aim of this so-called "coupon-tax" was to discourage foreign money to flow at the same rapid pace as in the previous months into Germany, where the then prevailing interest level was considered internationally very attractive. While the law proved quite effective in stopping the influx of funds into Germany, it has shaken the confidence of foreign investors and thus became a contributing factor to the deterioration of the German capital market which has been noticeable in the last two years.

I would have no objection to your submitting the above opinion to the Senate Finance Committee.

Yours sincerely,

GUSTAV GLUECK.

DÜSSELDORF, *July 27, 1966.*

Mr. J. WARREN OLMSTED,
Executive Vice President, The First National Bank of Boston, International Division, Boston, Mass.

DEAR MR. OLMSTED: Your letter to Mr. G. Fuchs, Deputy General Manager, of July 6, 1966, has been referred to us for answering.

We are rather surprised that the United States Congress should consider to subject interest on foreign deposits with US-banks to United States income tax and the deposits themselves to United States estate tax.

As you are aware, banks in this country are at the present time not permitted to pay interest on foreign held deposits with the exception of savings deposits (restricted to individuals) and L/C cover accounts. No tax whatsoever is levied on these deposits and interest thereon. But the interest regulations have had a similar effect as would have had a tax. They have naturally caused non-residents—bankers as well as non-bankers—to keep their credit balances in Germany at the minimum required for their current operations and invest funds beyond this level elsewhere.

One may compare the problem with the German coupon tax, i.e. the withholding tax on interest paid by German debtors to non-resident bond owners. If the bond owner declares his income properly at home, he would normally be permitted to deduct there the tax paid in Germany. In case of the existence of a double taxation convention the German Internal Revenue would upon his producing proof of proper tax declaration at home reimburse him for the tax withheld in Germany.

The explicit purpose of the coupon tax has been to discourage foreign investors to import into Germany certain black moneys which had added to our increasing and undesired balance of payments surplus. The result has been disappointment among all foreign investors who very heavily have withdrawn from bond investments in Germany.