

In presenting H.R. 13103 to the House of Representatives for its consideration, the chairman of the Committee on Ways and Means reported that the original purpose of this legislation was to improve the U.S. balance of payments, but the committee concluded that the tax laws needed change. The bill as modified by the Ways and Means Committee was primarily designed to treat nonresident aliens and corporations generally on a basis which is consistent with the tax treatment of American citizens and domestic corporations.

We believe that enactment of the two provisions in the act referred to above will do irreparable injury to the economic position of the United States. If these provisions are enacted, undoubtedly there will be a widespread withdrawal of foreign dollar balances from this country. This will add to the problems brought on by our balance-of-payments position and will result in substantial additional outflow of gold from the United States. Any assumption that delay in the effective date in the imposition of income taxes until after 1971, postpones immediate concern is erroneous. I think I would like to emphasize that, that the very passing of that act will trigger a reappraisal of banking relationships by the nonresident aliens affected. This reappraisal will lead to near-term action in many cases. As a matter of fact, commercial banks already are receiving inquiries from their foreign depositors concerning the pending legislation. Also, the estate tax on foreign held deposits would be effective at once, that is, with respect to taxable years beginning after December 31, 1966. Consequently, if the legislation is enacted there could possibly be a massive outflow of funds before the end of the year which could seriously affect our international financial position for this year. On the basis of transactions during the first half of this year, our payments position, without taking into consideration any movement of funds that may result under this legislation, will be much more unfavorable than originally anticipated at the beginning of the year. I might add too any outflows triggering from the passage of this act would take effect immediately, whereas the benefits from the other parts of the act would take some time to affect our position.

The action proposed in the pending legislation is inconsistent with previous action by the Congress in dealing with foreign bank deposits in this country. The importance of retaining such funds in this country from the standpoint of our balance of payments and U.S. gold position was considered an important factor by the Banking and Currency Committee in its report on H.R. 5306, 89th Congress, 1st session (Rept. No. 336), a bill to continue the authority of domestic banks to pay interest on time deposits of foreign governments at rates differing from those applicable to domestic depositors. The committee, in recommending passage of H.R. 5306, stated that "the object of the bill is to extend existing provisions of law designed to encourage foreign governments and monetary authorities to maintain dollar accounts in this country rather than convert these dollar accounts directly into gold or to transfer the funds to other financial centers, whereupon they could be acquired by official institutions of other countries and be converted into gold."

Bringing our international payments into balance is difficult, particularly in light of the present magnitude of U.S. Government commitments in support of world peace and development. As an emer-