

dent aliens might well exert some indirect adverse effect on our export trade. Although it is obviously difficult to pinpoint this with certainty.

We believe that on balance, the United States has a great deal more to lose than can ever be gained from what little taxes that might be collected under the pending legislation from these sources because, as pointed out above, owners of these funds are free to move them elsewhere. Legislation of this character is apt to have an unwholesome immediate effect on investor psychology and we can look to a prompt outflow of funds seeking investment outlets in other countries. It is recognized that the act provides that the amendments made by it are not to apply where application would be contrary to any treaty obligation of the United States and that there is a 5-year period before the income tax would be effective on bank deposits. However, this is offset by the immediate imposition of the estate tax. And I would like to add it is offset by the immediate psychological effect on these foreigners who already are concerned about this and who will not wait, in our opinion, until 1971 at all to make their moves.

Accordingly, we strongly recommend that the committee amend the act and retain the present provisions of the Internal Revenue Code which exempts from the U.S. estate and income taxes deposits held by nonresident aliens in U.S. banks and the interest paid thereon.

Senator ANDERSON. Thank you, Mr. Perkins. Is there any possibility that the banks might feel differently if the estate tax provision was postponed until 1972?

Mr. PERKINS. I don't believe so, Senator. Our feeling, and we have talked to a number of bankers about this in a number of areas, our feeling is quite strong that the banking relationship is built up over a long period of years. When a new tax comes in, whether it is the estate tax or the deposit tax, the people owing the funds and their lawyers and their financial advisers and all start looking at this, start worrying about it and they don't think of waiting until that day in 1971. They start trying to analyze whether or not they ought to change their banking relationships because of this tax, and if they conclude to do that, they will go ahead and start making these moves now.

So, I don't think the idea of an effective date really has as much bearing as might seem from the date it is. In other words, we feel that this would trigger a certain amount of action immediately and not postpone action until 1971 when we could get another look. Obviously, there would be those who would wait until 1971 to make a move, I grant you that, but we think there would be some effects immediately and then over the next few years, month by month.

Senator ANDERSON. Since the House bill does not alter the present law permitting interest to be earned on income in foreign branches of U.S. banks without a tax being due, are there any large banks with foreign branches which might support this provision of the House bill? In other words, perhaps there is a divergence of opinion among your own people.

Mr. PERKINS. No; I think I can answer that unequivocally. Those who have foreign branches, the New York banks primarily, obviously they support that provision. We have foreign branches in our bank, we would not; we feel very strongly on this. I just don't see that at