For these reasons, therefore, we are opposed to H.R. 13103 as it passed the House of Representatives. We urge that the provisions imposing income and estate taxes on foreign-owned deposits in domestic offices of U.S. banks be eliminated from the bill. In our opinion, the present exemptions from these taxes are in the national interest and should be continued.

Respectfully,

WACHOVIA BANK & TRUST CO.
JOHN F. WATLINGTON, Jr.,
President.

INTERNATIONAL ECONOMIC POLICY ASSOCIATION,
Washington, D.C., August 5, 1966.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: We submit this statement for the consideration of your Committee's hearings on H.R. 13103, the Foreign Investors Tax Act of 1966. We wish to speak particularly to section 2(a)(1)(A) which extends the exemption from U.S. taxation on interest earned on foreign-held deposits in U.S. banks to savings and loan institutions and insurance companies, but provides that the exemption will cease to apply after December 31, 1971. We are concerned about the balance of payments implications of removing this exemption.

The International Economic Policy Association has made a detailed study of the United States balance of payments problem which was published June 13, 1966. The United States has had a deficit in its balance of payments in every year since 1950 with the single exception of 1957. These continuing deficits reached serious proportions in 1958 and have averaged more than $3 billion a year through 1964. Early in 1965 the Administration took steps to correct this problem which involved a program of voluntary restraints on U.S. private investment abroad. This resulted in some improvement in 1965 when the deficit was reduced to $1.3 billion. However, there is every reason to believe that the deficit this year will exceed the 1965 figure.

This serious problem results from the fact that the United States Government has assumed substantial commitments of an economic and military nature throughout the world. Meeting these obligations under those commitments requires the United States Government to expend huge sums abroad. These have consistently over the years exceeded the net amounts of foreign exchange earned by the private sector by substantial amounts. Given the long-range character of these commitments abroad, one cannot readily assume that this situation will change at an early date and our balance of payments improve. Any action suggested which may further aggravate the balance of payments deficits should be considered in this light.

The United States Government has, under the voluntary restraint program, asked U.S. companies with affiliates abroad to have the deposits of such affiliates brought back to the United States. The United States is also attempting to attract foreign capital to the United States. This is the original purpose of H.R. 13103. The proposal to tax foreign-held deposits in U.S. institutions would discourage efforts to attract foreign capital. Some capital might be withdrawn even prior to December 31, 1971. Certainly, thereafter, there will be a powerful disincentive to foreigners to hold their capital in U.S. banks.

In view of the seriousness of the balance of payments problem, and its long-range nature, we respectfully submit that this is not an appropriate time to withdraw the tax exemption from foreign-held deposits even prospectively after December 31, 1971. If, by 1970 or 1971, our balance of payments deficits should have been eliminated and we can anticipate no further serious difficulty, that would seem to us the time to consider such action.

Respectfully yours,

N. R. DANIELIAN, *President.*

STATEMENT SUBMITTED TO THE SENATE COMMITTEE ON FINANCE BY JACQUES APPELMANS, VICE CHAIRMAN, FOREIGN INVESTMENT COMMITTEE OF THE INVESTMENT BANKERS ASSOCIATION OF AMERICA

The Investment Bankers Association of America is comprised of approximately 717 organizations which underwrite, deal and act as brokers in all types of securities. The business of its members is primarily the raising of capital