

Article III, Italy—Article III). The U.S. Treasury Department Regulations applicable to those few tax treaties whose provisions allow Federal taxation on all income allocable to a U.S. "permanent establishment", limit this rule to income from sources within the United States, thus evidencing the intent of even these treaties not to tax foreign source income. (e.g., Canada—Regulation Section 519.104, France—Regulation Section 514.105). Since Section 10 of the Bill provides that no amendment made by H.R. 13103 shall apply in any case where its application would be contrary to any treaty obligation of the United States, this motive to tax foreign source income would not apply to those countries with whom the United States has an income tax treaty, thus discriminating severely against those nations with whom the United States has not yet concluded a treaty. Since the United States has not concluded an income tax treaty with Puerto Rico, investments in Puerto Rican or other foreign obligations would be seriously affected under the proposed Bill in a manner not contemplated at the time these tax treaties were negotiated.

In conclusion, it is submitted that the Foreign Investors Tax Act will further aggravate the present discrimination against Puerto Rican and other resident foreign banking institutions instead of providing more equitable tax treatment for their investments in the United States. If Congress wishes to fulfill its stated objective, then it should choose between either not taxing resident foreign banks on their foreign source dividends, interest and gains from the sale of securities or else extend to them the same tax privileges accorded to domestic banks.

It is recommended that this inequity be corrected by excluding resident foreign banks from Section 864(c)(4)(B)(ii) added to the Internal Revenue Code by Section 2(d)(2) of H.R. 13103. This may be accomplished statutorily by deleting the word "Banking" from the phrase ". . . and either is derived in the active conduct of a (banking), financing, or similar business . . ." set forth in Section 864(c)(4)(B)(ii).

CONCLUSION

Accordingly, it is respectfully requested that H.R. 13103 be amended to provide relief covering the taxation of U.S. interest income earned in Puerto Rico and foreign source interest income effectively connected with the conduct of a U.S. banking business by Puerto Rican banking institutions. It is also respectfully requested that, at such time as the Senate Finance Committee may hold a public hearing on the Foreign Investors Tax Act, the Banco Popular de Puerto Rico be given an opportunity to orally express its views through its representative, Richard H. Kalish, Partner in the firm of Peat, Marwick, Mitchell & Co. (Certified Public Accountants).

R. CARRION, JR.,

President, Banco Popular de Puerto Rico.

EXHIBIT A-1

Effect of the Foreign Investors Tax Act

	1961	1962	1963
Present law:			
Interest, U.S. Government obligations.....	\$827,715.54	\$1,307,024.27	\$1,855,879.96
Less: Allocable share of expenses on gross to gross ratio.....	687,559.89	1,048,591.19	1,511,361.59
Net income.....	140,155.65	258,433.08	344,518.37
Less tax thereon ¹	72,880.94	134,385.20	179,150.27
Income after taxes.....	67,274.71	124,047.88	165,368.10
Foreign Investors Tax Act:			
Interest, U.S. Government obligations.....	827,715.54	1,307,024.27	1,855,879.96
Less: 30 percent tax.....	248,314.66	392,107.28	556,763.99
Income.....	579,400.88	914,916.99	1,299,115.97
Less: Expenses.....	687,559.89	1,048,591.19	1,511,361.59
Net income (loss).....	(108,159.01)	(133,674.20)	(212,245.62)
Effective tax rate (percent).....	177	152	162

¹ Assuming other income exceeds \$25,000 used 52 percent rate.