

EXHIBIT A-2

Effect of the Foreign Investors Tax Act

	1964	1965
Present law:		
Interest, U.S. Government obligations	\$1,756,823.80	\$1,589,261.14
Less allocable share of expenses on gross to gross ratio	1,423,818.11	1,299,823.60
Net income	333,005.69	289,437.54
Less tax thereon ¹	166,502.85	138,930.02
Income after taxes	166,502.84	150,507.52
Foreign Investors Tax Act:		
Interest, U.S. Government obligations	1,756,823.80	1,589,261.14
Less 30 percent tax	527,047.14	476,778.34
Income	1,229,776.66	1,112,482.80
Less expenses	1,423,818.11	1,299,823.60
Net income (loss)	(194,041.45)	(187,340.80)
Effective tax rate	158	165

¹ Assuming other income exceeds \$25,000 1964, 50-percent rate; 1965, 48-percent rate.

STATEMENT SUBMITTED IN BEHALF OF THE BANK OF CHINA AS TO EFFECT OF THE
FOREIGN INVESTORS TAX ACT OF 1966 (H.R. 13103) ON FOREIGN BANKS HAVING
AGENCIES IN THE UNITED STATES

This statement is submitted on behalf of Bank of China, a banking corporation organized in 1912 under the laws of the Republic of China with its head office in Taipei, Taiwan, and agencies in many of the major cities of the world, including two in the City of New York, one at No. 40 Wall Street and the other at No. 225 Park Row. The bank is duly authorized under the New York State Banking Law to do business in this State through these two agencies and is, of course, subject to the supervision to the New York State Superintendent of Banks.

Under the existing provisions of the Internal Revenue Code the Bank has the status of a foreign corporation engaged in the conduct of trade or business within the United States and is therefore taxed under Sec. 882 of the Code at the ordinary rates applicable to domestic corporations on all of its net income from sources within the United States including both the income of the New York agencies and the income derived from investments by Head Office in the U.S. government and corporate securities. The Bank's taxable net income for U.S. tax purposes is arrived at by deducting from the total amount of all its gross income from U.S. sources, both Agency and Head Office, all of the allowable deductions related thereto. Such deductions consist of the direct expenses of the New York Agencies and an allocation of Head Office general overhead expense prorated under Code Sec. 882(c)(2) and Treasury Regs., Secs. 1.873-1(a)(1) and 1.882-3(b)(2).

The Bank's New York Agencies also derive income from sources outside the United States, including interest on Canadian government bonds, discount of bills drawn on foreign banks, interest on loans to foreign banks and firms, and other foreign sources, mostly in Japan. This foreign-source income is not taxable under the present provisions of the Code, however, and the expenses related thereto (including both direct New York agency expenses and the allocation of Head Office overhead expenses) are not deductible.

If H.R. 13103 should be enacted in its present form, this would be drastically altered as follows:

1. Under Code Sec. 882 as amended by Section 4 of the Bill, all income from interest and dividends received from U.S. sources held in the Head Office portfolio, together with the related deductions, would be excluded from the computation of the tax based on net income as income not "effectively connected with the conduct of a trade or business within the United States."

2. Under Code Sec. 881 as amended by Sec. 4 of the Bill the income excluded from tax under Sec. 882 as income from U.S. sources not effectively connected with the U.S. business of the Bank, would become taxable at a rate of 30% on the gross amount thereof, without any offsetting deductions or credits