

Shanghai Banking Corporation 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).

BARCLAY'S BANK D.C.O.,
New York, August 9, 1966.

H.R. 13103—Foreign Investors Tax Act of 1966.

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

DEAR SENATOR LONG: As a resident foreign bank, you can appreciate our interest and concern with the provisions of The Foreign Investors Tax Act which will affect the taxability of agencies and branches in the United States. Our primary concern is the provision of the Bill which would tax foreign source interest income attributable to a United States place of business under the "effectively connected" concept. Initially, it seemed quite equitable to tax foreign banking institutions on such foreign source interest income where it is earned through an office in the United States since a domestic bank is taxed on its world-wide income including that derived from sources without the United States. Upon a closer analysis of this proposed legislation in the light of other provisions of the U.S. tax law, however, it became quite evident to us that to tax a U.S. branch or agency of a foreign banking corporation would not, in fact, achieve the stated objective of the Bill "to provide more equitable tax treatment for foreign investment in the United States." While a domestically incorporated U.S. bank is taxed on its foreign source income, it nevertheless enjoys certain tax privileges regarding the deductibility of additions to reserves for bad debts, capital losses and expenses related to the purchase of state and municipal securities which are not available to resident foreign banks. Furthermore, where the country of organization or primary residence of the foreign banking corporation doing business in the U.S. does not permit a foreign tax credit for income which is taxed in the United States but not sourced here, the foreign bank will be subjected to a multiplicity of income taxes without tax credit relief. This would be true for any foreign nation which has a per-country limitation similar to that in the United States.

Accordingly, we requested our tax accountants, Peat, Marwick, Mitchell & Co., to prepare a statement for submission to your Committee outlining in detail the reasons for which we feel a resident foreign bank should not be taxed on its foreign source dividends, interest, and gains from the sale of securities which might be attributed to a U.S. branch or agency.

It is, therefore, respectfully requested that the Senate Finance Committee give careful consideration to the views expressed in the Statement which we are submitting herewith.

We should also be pleased to have Mr. Richard Kalish, Partner in the firm of Peat, Marwick, Mitchell & Co. (Certified Public Accountants) discuss this matter with you and other members of your committee and staff as you may see fit in the circumstances.

Yours very truly,

E. W. BITHELL,
Local Director.

STATEMENT OF BARCLAY'S BANK D.C.O.

INTRODUCTION

Barclay's Bank D.C.O. is a corporation organized under the laws of the United Kingdom in 1836, with its head office located at 54 Lombard Street, London E. C. 3, England. It is engaged in the commercial banking business with offices located throughout the world. In the United States it maintains branches in New York City at 300 Park Avenue and at 120 Broadway in addition to an office at 111 Pine Street, San Francisco, California. The bank is licensed to do business in New York State and the State of California. The stock of the corporation is widely held by foreign persons. Its banking business consists of servicing export and import operations, providing the necessary financing thereof, and offering many of the general banking services of a domestic bank. Since it operates through branch offices, it is permitted to accept deposits from customers whereas an agency cannot do so, although it may solicit them for its head office.