Such treatment would provide a reasonable solution to this inequitable situation, especially in view of the contribution made to the U.S. business community by foreign banking institutions as expressed in "Economic Policies and Practices—Paper No. 9—Foreign Banking in the United States" which is part of the materials prepared for the Joint Economic Committee Congress of the United States (Joint Committee Print, 89th Congress, 2nd Session):

"The recommendation for free entry and equal access for foreign banks appears to be supported by past performance. Especially in the States whose foreign banking laws are most liberal, both bankers and supervisory officials argue that the advantages gained by the States and the country as a whole far outweigh the disadvantages. The foreign banks have contributed to the development of New York and San Francisco as centers of international finance and trade. A by-product of this development has been the expansion of trade in which U.S. firms have been important participants and which several domestic banks have financed to an increasing degree. The foreign banking institutions have introduced new financial instruments in the trade financing field, and, thus, have complemented the activities of domestic banks. There has been little evidence or complaints of competitive developments unfavorable to the domestic banks, and most banks report improved correspondent relations since the establishment of foreign banking institutions here. In certain instances, the foreign banks have provided personal banking services to ethnic groups who otherwise would have been denied these services and who probably would have held some of their money outside the banking system. Finally, it has been noted that the existence of foreign banks here and branches and subsidiaries of U.S. banks overseas probably has had favorable payment effects."

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

It is respectfully requested that, at such time as the Senate Finance Committe may hold a public hearing on the Foreign Investors Tax Act, Barclays Ban D.C.O. be given an opportunity to orally express its views through it representa tive, Richard H. Kalish, partner in the firm of Peat, Marwick, Mitchell & Co (Certified Public Accountants).

Senator ANDERSON. Mr. Seath.

STATEMENT OF JOHN SEATH, VICE PRESIDENT AND DIRECTO OF TAXES, INTERNATIONAL TELEPHONE & TELEGRAPH CORP.

Mr. SEATH. Mr. Chairman and members of the committee, my nam is John Seath. I am vice president and director of taxes of the Inter national Telephone & Telegraph Corp.

I appreciate this opportunity to appear before you to express m views on certain aspects of H.R. 13103.

The initial bill proposed by the Treasury Department as the fore runner of H.R. 13103 had as its primary objective the encouragemen of foreign investment in the United States. This was, and is, a objective that merits the full support of your committee. To the ex tent that the United States can create a favorable climate for foreig investment within its shores, to that extent can we expect foreig countries to create a favorable climate for American investmen abroad.

It seems to me that the original purpose of the bill, to encourag foreign investment in the United States, has become obscured in a attempt to extend U.S. income taxation to foreigners who have n U.S.-source income under the rules long established by the Congress This can have little or no effect on our balance-of-payments situation

My company has one of the largest U.S. investment abroad. It i deeply concerned with the U.S. balance-of-payments problems.