

Senator ANDERSON. That would take them all, would it not?

Mr. FINCHELL. Yes. That would take virtually all of them.

The CHAIRMAN. Thank you very much.

Mr. FINCHELL. Thank you, sir.

(The letter dated August 8, 1966, referred to above, follows:)

STONE, BITTEL, AND LANGER,
Miami, Fla., August 8, 1966.

Re hearings on H.R. 13103.

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

DEAR MR. CHAIRMAN: Some of the provisions of the proposed *Foreign Investors Tax Act of 1966* (H.R. 13103) are inconsistent with President Johnson's balance-of-payments program. These provisions deal with the taxation of deposits by foreign investors in U.S. banks and savings institutions. As presently written, they are likely to drive away existing funds now on deposit in the U.S. and to discourage foreign investors from making new deposits.

The Bill would broaden the income tax exemption granted foreign investors on their deposits in U.S. savings institutions by increasing the number of institutions whose interest payments are income tax-free. The exemption would now apply to dividends and interest paid on accounts in virtually all savings and loan associations. In the past it applied only to earnings paid by a limited number of such associations.

However, the Bill eliminates, effective immediately upon enactment, the estate tax exemption which has historically been accorded to such deposits.

We have several overseas clients who maintain substantial amounts on deposit in U.S. savings institutions. Often, in making deposits totaling hundreds of thousands of dollars, they deposit only \$10,000 each in numerous different savings institutions so as to make certain that all such deposits are fully insured by either the FDIC or FSLIC. We believe that many of such deposits will be withdrawn if they might become subject to a potential U.S. estate tax. Many foreign investors will not be willing to keep money on deposit in the U.S. in the face of an estate tax which will take from one to five times the amount of the annual earnings from such deposits.

It is not likely that substantial revenue can be raised by such a provision. A knowing investor could legally avoid the estate tax on such deposits by making them through a foreign corporation whose shares would not have a U.S. situs for estate tax purposes.

We believe that consideration should be given by the Congress to the following suggested changes in the Bill:

1. The estate tax exemption for deposits by foreign investors in U.S. savings institutions should be continued concurrently with the income tax exemption. Thus, if the income tax exemption expires in 1972, the estate tax exemption should expire at the same time.

2. The estate tax exemption, as in the past, should cover all deposits and accounts in banks and savings institutions which will be covered by the income tax exemption.

3. The scheduled elimination in 1972 of the income tax exemption for deposits by foreign investors in U.S. savings institutions appears unwarranted. This exemption has been in force for 45 years, since the Revenue Act of 1921. It was enacted in the first place to discourage foreigners from withdrawing their bank deposits from the U.S. Such a goal is even more important now than it was then. The proposed elimination of such exemption is therefore directly contrary to the avowed purpose of this Bill, which is to remove tax barriers to foreign investment in the U.S. Moreover, it represents a premature guess that the U.S. balance-of-payments problem will have been completely solved by 1972. Many foreign investors may begin pulling out their deposits long before the scheduled termination date rather than worry about keeping track of the situation. Even if the Congress feels inclined to remove this exemption in 1972, we believe it should wait until at or near that time to take such action.

4. The present version of the Bill would give a monopoly with respect to bank deposits and savings accounts to those few U.S. banks with overseas branches. Interest paid to foreign investors on deposits in a foreign branch of a U.S. bank would be exempt from income tax even after 1971. Moreover, the foreign investor could get tax-free interest from a foreign branch of a U.S. bank whether or not such interest is effectively connected with the conduct of