

a U.S. trade or business. Thus, beginning in 1972, a foreign investor can either get tax-free interest from a foreign branch of one of the few large U.S. banks operating overseas or fully taxable interest from any of the many thousands of other domestic banks and savings and loan associations.

An earlier version of the Bill would have allowed this exemption only to *foreign currency* deposits in foreign branches of U.S. banks. Although foreign currency deposits would be less likely to compete with U.S. Dollar deposits in domestic banks and savings institutions, such a limitation would not materially improve the situation. The limitation could be avoided too easily by a foreign investor making his deposits in a foreign branch of a U.S. bank in some foreign currency which is closely tied to the U.S. Dollar. It is even possible that the amount payable by the bank could be tied to the U.S. Dollar by insurance or hedging transactions. Thus, such a rule would also unduly favor those few U.S. banks having foreign branches. While the provision would undoubtedly strengthen the competitive position of those U.S. banks having foreign branches as against foreign banks, it would also unduly strengthen their competitive position as against all other domestic banks and savings institutions.

5. The Bill provides that for estate tax purposes, hereafter only a deposit with a foreign branch of a U.S. bank will be deemed non-U.S. property. A decedent nonresident alien will be exempt from U.S. estate tax on such a deposit whether or not he was engaged in business in the U.S. at the time of his death. Thus, the Bill would further favor the few U.S. banks having foreign branches in two additional ways. It would immediately remove the existing estate tax exemption accorded deposits by foreign investors in all other domestic banks and some other savings institutions. In addition, the exemption to be continued only for deposits in foreign branches of U.S. banks would be permitted whether or not the foreign investor was engaged in business in the U.S. at the time of his death.

This immediate withdrawal of the estate tax exemption now accorded most deposits by foreign investors in domestic banks and savings institutions may well prove disastrous to the President's balance-of-payments program. The money pulled out in fear of the potential estate tax will go to foreign banks and to the foreign branches of U.S. banks. In either case, it will no longer be subject to the guidelines limiting lending abroad and similar restrictions designed to improve our balance-of-payments situation. Most of such funds will no longer be a part of the U.S. economy.

6. A foreign investor cannot reasonably be expected to determine the income tax status of the U.S. savings institutions in which he deposits his money in order to determine his own tax status. Therefore, we suggest elimination of the words (page 5 of the Bill, lines 13-16) :

"* * * but only to the extent that amounts paid or credited on such deposits or accounts are deductible under section 591 in computing the taxable income of such institutions, * * *".

It is probably sufficient to require that the association be "chartered and supervised". If a further limitation is deemed necessary, it should be one which the foreign investor can more readily determine, for example, a requirement that the association be insured by either the FSLIC or FDIC.

We appreciate the opportunity of presenting these views on H.R. 13103 and we request that this letter be made a part of the record of the hearings on the Bill.

Sincerely yours,

MARSHALL J. LANGER.

(By direction of the Chair, the following letter is made a part of the record at this point:)

NATIONAL LEAGUE OF INSURED SAVINGS ASSOCIATION,
Washington, D.C., August 8, 1966.

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

DEAR MR. CHAIRMAN: It is respectfully requested that this letter be included in the record of the hearings on H.R. 13103, the Foreign Investors Tax Act of 1966.

The National League of Insured Savings Association is a nationwide trade association representing savings and loan associations having accounts insured by the Federal Savings and Loan Insurance Corporation. Our membership consists of some members having a permanent stock form of organization and others having a mutual form of organization.