

Under current rulings of the Internal Revenue Service, it is our understanding that the income on all mutual and some stock savings and loan association savings accounts held by non-resident aliens not engaged in business in the United States is subject to Federal income, withholding and estate taxes. Such aliens who hold like accounts in other domestic stock savings and loan associations are not subject to these taxes under current IRS interpretations.

With reservations as noted, the National League supports the following provisions in H.R. 13103 that pertain to this problem.

Income Tax. Section 2(a)(1)(A) would amend Section 861 of the Internal Revenue Code to provide that there be excluded from the category of income from sources in the United States "interest" on deposits or withdrawable accounts in savings institutions chartered and supervised as savings and loan or similar associations under Federal or State law, to the extent the amounts paid or credited are deductible under Section 591 of the Internal Revenue Code in computing taxable income of the savings institution. The exclusion would cease to apply to amounts paid or credited after December 31, 1971.

These provisions would remove the present difference in tax treatment given earnings distributed to savers in some stock savings and loan associations, when compared with other stock savings and loan associations and all mutual savings and loan associations, as long as the word "interest" continues to have a broad enough connotation to include dividends or similar distribution of earnings on a savings account in a savings and loan association, as it has under current law. Naturally the savings and loan industry would prefer that the exemption be continued beyond 1971, in order to hold and attract more savings from non-resident aliens not engaged in business with the United States. It appears to us that this would help to increase foreign investment in the United States.

Withholding Tax. It is our understanding that until the end of 1971, the bill would require no withholding of tax by virtue of interest received by a non-resident alien from a savings account in a savings and loan association located in the United States.

Section 3(g) amending section 1411 of the Internal Revenue Code would still appear to exempt any need for withholding any tax on income that does not constitute gross income from sources within the United States.

Section 3(i) proposes to amend section 6105 of the Internal Revenue Code by adding a new subsection (i) to the effect that no declaration of estimated tax would be required from a non-resident alien for income not effectively connected with the conduct of a trade or business in the United States (other than a resident of Puerto Rico). Section 2(d) would amend section 864 of the Internal Revenue Code by adding a paragraph (c)(4) headed Income From Sources Without United States which provides, among other things, that no income from sources without the United States shall be treated as effectively connected with the conduct of a trade or business within the United States, except for situations outlined that would not normally apply to income received from a savings account in a domestic thrift institution. As previously noted, until the end of 1971, Section 2(a)(1)(A) of the bill would not include dividends from savings accounts in savings institutions in the category of income from sources *within* the United States.

Estate Tax. It is our understanding that section 8(e) of H.R. 13103 would increase to \$30,000 from \$2,000 the exemption from gross estate of a non-resident alien. This would encourage an individual non-resident to place savings with thrift institutions in the United States as well as investing in other media to the total amount of \$30,000, without incurring a Federal estate tax, and hence is preferable to a flat \$2,000 exemption. Again, of course, the potential estate tax liability for estate in excess of the \$30,000 per taxpayer would serve as a deterrent to the investment of more than that amount in the United States by a non-resident alien individual. But the provision does avoid any problem of distinction based on whether the investment is held in a particular type of savings and loan association and in that regard, is deserving of our support.

Conclusion. If our interpretations of the effect of the provisions above noted (dealing with income tax liability, withholding tax liability, and estate tax liability) agree with that of the Committee, the National League supports the provisions insofar as they treat all domestic savings and loan associations alike. As noted, it is hoped the Committee will give further consideration to the limitations of time and amount above noted in weighing whether a liberalization would be desirable in the public interest in order to attract more investment funds to the United States.

Sincerely,

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General Counsel.