

ure is in the national interest and should be enacted, but hopefully with the changes suggested above.

Respectfully yours,

GEORGE F. JAMES.

MERRILL LYNCH, PIERCE, FENNER & SMITH, INC.,

August 9, 1966.

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

DEAR SIR: As a member of the Task Force appointed by the late President Kennedy to investigate ways of promoting increased foreign investment in United States securities, I would like to recommend prompt and favorable consideration of the Foreign Investors Tax Act of 1966 (H.R. 13103), which I understand is now before your Committee.

Amendment of the tax inequities with respect to foreign investors was one of the several important recommendations made by the Task Force. The Foreign Investors Tax Act of 1966, in general, incorporates the recommendations of the Task Force and remedies and corrects many of these tax inequities.

The Act, in its present form, however, contains certain provisions which, in my opinion, might well serve as deterrents rather than inducements to foreign investment. I refer, among others, to the provisions regarding the imposition of estate taxes, albeit at a reduced rate, on foreign holdings of securities, the withholding of taxes on interest paid on bank deposits, and the imposition of United States income taxes on income which is "effectively connected" with the conduct of a trade or business in the United States. I do not intend to dwell upon these items, as I am certain they will receive detailed and thoughtful examination by you and your Committee.

Notwithstanding the foregoing, I feel that the Foreign Investors Tax Act of 1966 is a positive step towards righting the tax inequities in our present laws and with the reservations noted above I strongly urge its approval and endorsement.

Respectfully yours,

GEORGE J. LENESS.

The CHAIRMAN. That concludes the hearing on this part.

(Whereupon, at 12:10 p.m., the committee adjourned.)

(By direction of the chairman, the following communications are made a part of the record:)

STATEMENT OF RALPH YARBOROUGH

Mr. Chairman and members of the Senate Committee on Finance, I appreciate the privilege of submitting testimony to this distinguished committee.

I wish today to submit my views on H.R. 13103, the Foreign Investors Tax Act of 1966. In particular, I wish to direct the committee's attention to a provision in the bill which would impose a U.S. income tax on interest paid by U.S. banks to nonresident aliens on time deposits held in U.S. banks.

This provision was added by the House Committee on Ways and Means. It was not included in the original administration proposal. Nor was it a part of the report of the Fowler Task Force, which was the basis for the bill. I understand that the administration has taken no position on the provision. It is opposed by the American Bankers Association and by bankers in my State.

In an effort to arrive at an estimate of the effect of the bill, I wrote Mr. Stanley S. Surrey, Assistant Secretary of the Treasury, on August 2, 1966, asking for the amount of the deposits which would be affected, the amount of deposits that would be withdrawn if the provision were enacted, and the additional revenue that would be generated by enactment.

Mr. Surrey replied that the total amount of time deposits covered is approximately \$2,250 million.

In reply to my second question Mr. Surrey replied that "We do not feel that we are in a position to give you any such estimate because of the uncertainty as to the reaction which foreigners may have to such tax and the fact that a large number of bank deposits are held as working balances by corporations which do not bear interest and hence would not be affected by the bill."

In response to the third question Mr. Surrey replied that, making numerous assumptions, a rough estimate of the total revenue which would be derived from