

TREASURY DEPARTMENT,
Washington, D.C., April 29, 1966.

Mr. MAX A. MANDEL,
President, the Laredo National Bank, Post Office Box No. 59,
Laredo, Tex.

DEAR MR. MANDEL: This is in reply to your letter of April 14, 1966, to Secretary Fowler relating to the Foreign Investors Tax Act (H.R. 13103). Your letter expresses concern about a provision appearing in this legislation which imposes tax on interest payments made after December 31, 1971, on bank deposits of nonresident aliens and foreign corporations not engaged in trade or business in the United States.

Consideration of the proper method of taxing nonresident aliens and foreign corporations deriving income from the United States was prompted by the report of the Fowler Task Force on Promoting Increased Foreign Investment in U.S. Corporate Securities. As a consequence of this report, the Treasury Department engaged in a detailed analysis of the present system of taxing nonresident aliens and foreign corporations and submitted to the Congress legislation embodying its recommendations. This bill, H.R. 5916, was introduced on March 8, 1965, by Chairman Mills of the House Ways and Means Committee. The only change contained in H.R. 5916 relating to the taxation of bank interest received by nonresident aliens and foreign corporations was to extend the exemption now contained in the Internal Revenue Code for such interest to savings and loan associations and mutual savings banks.

The House Ways and Means Committee held public hearings on H.R. 5916 and considered the bill at length in executive sessions. In the course of its consideration, the committee was concerned with assuring the equitable tax treatment by the United States of nonresident aliens and foreign corporations. With regard to bank interest derived by foreigners from U.S. banks, the committee concluded that it was questionable whether interest income of this type, which is so clearly derived from U.S. sources, should be treated as being derived from non-U.S. sources and thereby not subject to U.S. tax. The committee, however, recognized that to eliminate the present source rule on bank deposit interest might have an adverse effect on the U.S. balance-of-payments position, and consequently, the effective date of its change was postponed until after December 31, 1971. This result is embodied in H.R. 11297 and its successor bill, H.R. 13103, which was recently reported by the committee to the House. In accordance with your request, I enclose a copy of H.R. 13103.

Thank you very much for your interest in writing on this matter.

Sincerely yours,

STANLEY S. SURREY,
Assistant Secretary.

THE LAREDO NATIONAL BANK,
Laredo, Tex., May 4, 1966.

Hon. STANLEY S. SURREY,
Assistant Secretary of the Treasury,
Washington, D.C.

DEAR MR. SURREY: I have your letter of April 29, 1966, in which you refer to the Foreign Investors Tax Act (H.R. 13103), and the fact that it results from the report of the Fowler Task Force on Promoting Increased Foreign Investment in U.S. Corporate Securities. It is my understanding that the original report did not apply to the taxation of bank interest received by nonresident aliens, and this provision was an afterthought by others.

Since 1921, Congress has recognized that it is good for this country to encourage deposits of foreign funds in U.S. banks, and this policy has continued uninterrupted during the many years when he had no balance-of-payments problem.

Now we have a real balance-of-payments problem and yet someone seems to advocate that the small amount of tax that can be generated is more important than the several billions of dollars of foreign funds that are now on deposit here. If the great majority of the funds are withdrawn, and I understand that this can be assumed, we will neither have the tax income nor the badly needed funds.

Your letter states that the House Ways and Means Committee recognizes that the new provision might have an adverse effect on the U.S. balance-of-payments position, and, for that reason has postponed the effective date of its change until after December 31, 1971. If it is admitted that the bill is harmful and its effect