

Assume that a citizen of South America has had deposits, for example in the Chase National Bank in certificates of deposit in the amount of \$1 million. The interest rate now on this type deposit I think, is 5½ percent.

Secretary FOWLER. Yes, sir.

Senator TALMADGE. The interest on the \$1 million over a period of 1 year would be \$55,000, would it not?

Secretary FOWLER. That is right.

Senator TALMADGE. Now, if this bill passes in its present form it would be subject in 1971 to a 30-percent flat tax rate, would it not?

Secretary FOWLER. In 1972, it would be subject to a 30-percent U.S. tax rate. That is correct, sir.

Senator TALMADGE. That would be \$16,500 he would pay on his certificate of deposit.

Assuming a citizen did not want to pay that tax, what would prevent him from withdrawing his money in the New York bank and transferring it to the same bank in Paris, France?

Secretary FOWLER. Nothing whatsoever.

Senator TALMADGE. In other words, that would mean if he were wise enough and had foresight enough and wanted to avoid this tax he would simply withdraw the \$1 million he has on deposit in New York and transfer it to the Paris bank, thereby avoiding the tax and getting the same return, would he not?

Secretary FOWLER. That is correct, and I think I should add to that that most banks in Europe do accept dollar deposits from foreigners and pay about the same rate as is paid in the Euro dollar market, as it is called. The interest rate over the past year there has been ranging about a half percent higher than in the United States.

Senator TALMADGE. In other words, he would earn \$5,000 more and escape the tax.

Secretary FOWLER. That is right, and to carry out the mathematics of your questioning, according to our computation the net return on deposits in these countries, if it is equal to the gross interest rate currently payable would be about 6½ percent on 3-month Euro dollar deposits compared to a gross yield in the United States of about 5½ percent and a net yield to a foreigner after application of the withholding tax, of about 3.85 percent.

Senator TALMADGE. Doesn't it seem to you logical that this particular foreigner would choose this course of action and increase his income by escaping the tax?

Secretary FOWLER. From my own simple knowledge of the situation I think it does present a case.

Senator WILLIAMS. Would the Senator yield at that point?

Senator TALMADGE. Yes.

Senator WILLIAMS. Assuming that the individual did that and deposited it in France, would he be subject to a tax in France, and would he have the same privileges of withdrawal and convertibility as he would have in this country or would he lose some of those advantages?

Secretary FOWLER. Insofar as the tax goes, Senator Williams, my earlier comments indicated that in France, Germany, and the Netherlands, he would not be subject to a tax in the source country. Insofar as convertibility goes, that is a much more complicated question. I do not want to hazard a comment on that, although my impression is that there is fairly free movement insofar as bank deposits are concerned.

Senator TALMADGE. Assuming, Mr. Secretary, that he made that transfer from the New York bank to the Paris branch of the same bank, would not that \$1 million certificate of deposit be a factor in the further drain of our gold supply?

Secretary FOWLER. That is one of the consequences. There is a possibility of a gold impact from shifted dollar deposits.

Senator TALMADGE. Mr. Secretary, I listened to your testimony very carefully, and I think the main thrust of this bill would accomplish desirable ends, to increase investment in this country, and curtail our dollar drain. However, it seems to me that this particular provision of the bill which we have been discussing is calculated to do just exactly the opposite. Bank deposits are highly mobile in character. People are going to look for the highest possible short-range return, and if they can get a better return elsewhere and escape the tax, it is unquestionable that most foreigners would immediately transfer their deposits elsewhere to avoid the tax and get the higher return.

This probability is fraught with very grave danger, and so far as our dollar deficit is concerned, I would hope the Treasury would look into that aspect of it very carefully and be prepared to recommend to this committee, one way or another, what we ought to do about it.

Secretary FOWLER. Well, I think Senator, it is a question of weighing the balance-of-payments consideration with the tax equity consideration—two very valid considerations. The House Ways and Means Committee gave a preeminence to considerations of tax equity as between domestic citizens and the other—

Senator TALMADGE. I would agree with that aspect of it completely. Certainly I would hate to see the United States of America grant preferential treatment to foreigners that is not given its own citizens. But the fact remains we have jurisdiction over American citizens and we do not over foreigners.

Secretary FOWLER. That is the observation I was going to make. The foreigner has an

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option—he can leave his money here or he can take it someplace else.

Senator TALMADGE. An American does not.

Secretary FOWLER. The American has a much lesser option, shall we say and, therefore, looking at it from a balance-of-payments standpoint, I think one views this provision with a considerable amount of concern.

Senator TALMADGE. Then you would have the further inequity that results from some American banks having foreign branches and some not.

Secretary FOWLER. That is another aspect of the problem.

Senator TALMADGE. So the American bank with foreign branches might not lose any deposits. It would merely shift from the American branch to the foreign branch. The foreigner would get increased income on his deposit, and escape the tax at the same time. But if the American bank had no foreign branches it would lose the deposit, which would also further complicate the dollar deficit crisis.

Secretary FOWLER. I think that is true. And I would imagine that one of the considerations that led the House to defer the effective date of this provision until 1972 was