

Income from export sales could be deemed to be from sources without the United States and eligible for a reduced rate of tax. In this regard, consideration might be given to the extension of the Western Hemisphere Trade Corporation provisions of the Code on a worldwide basis.

IV. INDUCEMENT TO FOREIGN INVESTMENT IN THE UNITED STATES

Elimination of withholding

While the council does not have pertinent statistics, it does appear that the U.S. withholding tax currently imposed upon interest paid by the U.S. Government and interest and dividends paid by U.S. corporations to foreign investors deters investment in the United States by such persons.

Under existing law, interest paid by U.S. banks and similar institutions will, until 1972, be considered to be non-U.S. source income under section 861(a)(1)(A) and (c) of the Internal Revenue Code of 1954. Therefore, if paid to foreign investors, such interest is not subject to withholding under section 1441 and 1442 of the code. However, interest paid on U.S. Government obligations as well as dividends and other interest paid by U.S. corporations to foreign investors are generally withheld upon at the rate of 30 percent, unless subject to a reduced rate of or exemption from tax pursuant to an income tax treaty.

While the deterrent effect of U.S. withholding on foreign investment in U.S. securities was commented upon in the "Report of the President's Task Force on the Promotion of Increased Foreign Investment in the United States," chaired by the then Under Secretary of the Treasury, Henry Fowler, that report made no specific recommendation regarding the elimination of such withholding. However, in view of the present balance-of-payments situation, the council recommends that the Treasury restudy the possibility of increasing the flow of foreign investment into U.S. securities by removing the present withholding requirements on income derived from such investments.

That concludes my statement, Mr. Chairman. Thank you.

(Attachment A referred to follows:)

ATTACHMENT A

NATIONAL FOREIGN TRADE COUNCIL, INC.,
New York, N.Y., January 15, 1968.

HON. ALEXANDER B. TROWBRIDGE,
Secretary of Commerce,
Washington, D.C.

MY DEAR MR. SECRETARY: As you know, the membership of the National Foreign Trade Council comprises a broad cross-section of highly diversified interests engaged in international trade and investment including manufacturers, exporters and importers, companies engaged in rail, sea and air transportation, bankers and insurance underwriters.

The Council for some time has been concerned about the restraints on the flow of capital for direct investment abroad, as well as restrictions placed on bank lending abroad. The reasons for this concern were recently reiterated in the Declaration of the Fifty-Fourth National Foreign Trade Convention, which stated that the need fundamentally is for the United States to orient its balance of payments policies to expansion of both world trade and investment, with remedial measures to be derived basically from an overall integration and consistency of monetary, fiscal, taxation, export financing, trade promotion, and investment policies. With respect to United States investment abroad, the Declaration stated: