DIGEST OF ORAL TESTIMONY PRESENTED TO THE COMMITTEE ON WAYS AND MEANS WITH RESPECT TO THE ADMINISTRATION'S BALANCE-OF-PAYMENTS PROPOSALS

PREPARED FOR THE USE OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

BY THE STAFF OF

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I. THE ADMINISTRATION'S PROPOSALS

The administration proposed that the present 5-percent transportation tax applicable to domestic air travel be permanently extended to airline transportation between the United States and foreign countries, if the tickets are purchased in the United States. It was also recommended that this tax be temporarily made applicable to ship transportation from the United States to a point outside the Western Hemisphere.

The administration also proposed a graduated tax on expenditures incurred in connection with trips outside the Western Hemisphere. Generally, the first $7 of expenditures per day would be exempt from the tax, expenditures between $7 and $15 would be taxed at a 15-percent rate and expenditures in excess of $15 per day would be taxed at a 30-percent rate. The tax would be applicable to trips undertaken after the legislation is enacted and before October 1, 1969. The proposed exemptions from the tax include the following:

(1) Individuals who remain abroad for more than 120 days in connection with their trade, business, profession, or education;

(2) Individuals who establish residence outside the United States; and

(3) All U.S. Government travel.

Prior to departure, a traveler would estimate the tax he expects to owe and would deposit the estimated tax with the Internal Revenue Service. A 10 percent underestimation penalty would be imposed if the estimated tax payment was less than 80 percent of the tax actually due. The tax would be computed on a net worth basis; that is, the tax would be imposed on the excess of the funds the traveler departs with over the funds he returns with plus amounts received while abroad, which funds and amounts the traveler will declare upon departure and return. A formal expenditure tax return would be filed with the Internal Revenue Service within 60 days after the traveler's return. The expenditure tax return would be associated with the person's income tax return and would be subject to audit by the Revenue Service. A flat $200 penalty would be imposed for failure to make an estimated tax declaration or a statement of cash on hand upon departure from the United States, unless the failure was due to reasonable cause.

The administration further proposed that the present $100 duty-free exemption granted to returning U.S. residents be reduced to $10 for persons returning from countries other than Canada, Mexico, and the Caribbean area. In addition, it is proposed that the $10 duty-free gift provision for articles mailed from abroad be reduced to $1. It is also proposed that a simplified duty assessment procedure be adopted in connection with the exemption reductions.

II. COMMENTS ON THE ADMINISTRATION'S BALANCE-OF-PAYMENTS PROPOSALS

A. OPPOSITION

(*a*) *Reasons for opposition.*—The reasons advanced for opposition in whole or in part to the administration's travel tax program and the proposed changes in the customs rules were as follows:

(1) The proposal falls with unusual effect on persons of varying means and is regressive to the extent that it will penalize the lower income people the hardest.

(2) The $7 a day exemption from the expenditure tax is unrealistic in light of the standard costs of travel abroad and the 30-percent tax on expenditures above $15 is unduly harsh.

(3) The filing of an estimated statement of expenditures and a payment of a deposit prior to departure, with a provision for a penalty if the estimated tax payment is less than 80 percent of the tax actually due, is unfair since a traveler usually will not have knowledge in advance of what his total expenses will be.

(4) The proposed collection procedures are complicated and would create administrative burdens as well as present a problem for tourists in recordkeeping and verification, which could induce falsification.

(5) The proposals are too costly and complex.

(6) The expenditure tax could cause retaliatory measures by other countries and certain American export industries (especially aircraft manufacturers) might suffer.

(7) The changes in the customs rules are undesirable and will have adverse effects on the economies of certain foreign countries.

(8) It was suggested that temporary measures to alleviate the balance-of-payments problem might adversely affect the long-range advantage to be derived by increasing the volume of foreigners visiting the United States.

(9) The travel tax program threatens the livelihood of small retail travel agents and will damage the entire travel industry.

(10) A curtailment of travel would adversely affect the economies of many friendly countries we are seeking to aid.

(11) A positive approach should be taken rather than these negative proposals since the intended result of such measures is relatively small in the balance of payments.

(12) There has been a misstatement of figures and consequently misinformation as to the size of the travel gap.

(13) The 5-percent domestic transportation tax should not be extended to international flights outside the Western Hemisphere since the "user tax" justification for the domestic ticket tax does not apply to international travel. In addition, a ticket tax on international air travel would be difficult to administer, especially as to foreign-flag ships.

(14) Application of the 5-percent transportation tax, in the form proposed, to transportation outside the United States is both complicated and unfair since the tax applies to the cost of transportation "to the first" and "from the last" scheduled stop outside the Western Hemisphere of more than 12 hours and subjects the balance of the cost of transportation to the expenditure tax. A tax on air fare should not depend on the number of hours in a stopover.

(15) A tax in effect sets up restrictions which constitute a violation of an American's right to freedom of travel.

(*b*) *Witnesses in opposition.*—The witnesses expressing the views summarized above are as follows:

(1) National Association of Travel Organizations, Clarence A. Arata, president.

(2) American Travel Association, Wallace J. Campbell, president.

(3) American Society of Travel Agents, Irvin M. Frankel, immediate past president.

(4) American International Travel Service, Harold S. Low, president.

(5) Harvey S. Olson, Chicago, Ill.

(6) John J. B. Miller, College Park, Md.

(7) Machinery and Allied Products Institute, Charles W. Stewart, president.

(8) Committee for a National Trade Policy, John W. Hight, executive director.

(9) Air Line Pilots Association, AFL–CIO, International, Capt. John Nevins.

(10) Diners Club, Inc., and Diners-Fugazy Travel, Inc., Alfred Bloomingdale, chairman of the board.

(11) Society of American Travel Writers, Robert S. Kane, president.

(12) Travel Trade magazine, Joel Abels, editor and publisher.

(13) Pacific Area Travel Association, Warren Titus, director.

(14) American Heritage, Inc., Thomas H. Woods, president.

(15) Air-Res Travel Service, George A. Marucci, president.

(16) American Friends Service Committee, George W. Marshfield, director, summer projects abroad.

(17) Prof. James Weeks, College of Law, Syracuse University.

(18) Passenger Ship Committees of the Committee of American Steamship Lines and the American Merchant Marine Institute, Albert Keenan.

(19) Hon. Claude Pepper, Member of Congress (Florida).

(20) Hon. Donald M. Fraser, Member of Congress (Minnesota).

(21) Donald N. Martin, New York City.

(22) Discover America, Inc., Robert E. Short, national chairman.

(23) Mr. Daniel Blatt, Brooklyn, N.Y.

(24) Overseas Press Club of America, Ansel E. Talbert.

(25) Paul J. C. Friedlander, Travel Editor, New York Times.

(26) American Federation of Teachers, AFL–CIO, Carl J. Megel, director of legislation

(27) National Foreign Trade Council, Inc., Robert T. Scott, vice president.

(28) International Telephone and Telegraph Corp., John Seath, vice president and director of taxes.

B. OPPOSITION IN PART

A number of witnesses, who were opposed to the proposed expenditure tax and expressed views summarized in Part A, were not opposed to the proposed 5-percent transportation tax and/or the proposed customs changes.

(*a*) Those witnesses who were not opposed to the proposed customs changes were as follows:

(1) Creative Tour Operators Association, Morton L. Meyer, president.

(2) Gateway Holidays and Globus Tours, Donald E. Streicher.

(3) Holiday magazine, Caskie Stinnett, editor.

(4) Air Transport Association, Stuart G. Tipton, president (recommends substantially increased inspectional staffs to prevent a further worsening of the existing congestion problem at international airports).

(5) American Association of Retired Persons and National Retired Teachers Association, Ernest Giddings, legislative representative.

(6) Association for Academic Travel Abroad, Prof. Emmet V. Mettlebeeler.

(7) Americans for Democratic Action, Dr. Peter Kenen (but objects to the proposed simplified duty assessment procedures).

One witness supported the proposed customs changes if goods purchased at duty-free shops at airports are exempt from the changes or if the duty-free allowance is reduced to only $50 for purchases made in countries which provide similar duty-free allowances for their nationals returning from the United States: Ireland-United States Council for Commerce and Industry, Bernard B. Smith, secretary.

(*b*) Those witnesses who were not opposed to the 5-percent transportation tax were as follows:

(1) Association of Retail Travel Agents, Peter Grimes, president (but only if the tax revenues are used to increase the budget of the U.S. Travel Service or to promote America abroad).

(2) Creative Tour Operators Association, Morton L. Meyer, president.

(3) First National City Bank, New York City, Thomas R. Wilcox, vice chairman (recommends use of the tax revenues to encourage foreign travel to the United States).

(4) Gateway Holidays and Globus Tours, Donald E. Streicher (recommends use of the tax revenues by the U.S. Travel Service).

(5) Ireland-United States Council for Commerce and Industry, Bernard B. Smith, secretary (recommends elimination of the 12-hour stopover rule because it would deter visits to countries on the perimeter of Europe).

(6) American Association of Retired Persons and National Retired Teachers Association, Ernest Giddings, legislative representative.

(7) Americans for Democratic Action, Dr. Peter Kenen (recommends elimination of the 12-hour stopover rule).

C. RECOMMENDATIONS OF WITNESSES

(*a*) *General.*—It was generally recommended by the witnesses listed in parts A and B above, as well as others who commented on the balance-of-payments generally, that the tourist deficit in the balance-of-payments problem should be improved by increasing travel to, and within, the United States. The suggested means of achieving this increased travel included Government and industry cooperation to increase promotional efforts, accepting and putting into effect the recommendations of the McKinney Industry-Government Special Task Force on Travel, and improving and expanding the U.S. Travel Service, especially by increasing its budget.

(*b*) *Specific recommendations.*—A number of witnesses recommended that counterpart funds owned by the United States be sold to Americans for use while traveling abroad and be used to promote travel to the United States.

Those making such recommendations were:

(1) American Society of Travel Agents, Irvin M. Frankel, immediate past president.

(2) Harvey S. Olson, Chicago, Ill.

(3) Pacific Area Travel Association, Warren Titus, director.

One witness recommended that commissions paid travel agents on the sale of domestic air transportation be increased to equalize them with commissions on the sale of international air transportation. It was suggested that this equalization will facilitate the promotion of travel within the United States by Americans.

This was suggested by: Association of Retail Travel Agents, Peter Grimes, president.

One witness recommended that the Government encourage U.S. residents to fly on American-flag airlines and to voluntarily restrict purchases abroad. It was also recommended that several bilateral air transportation agreements be renegotiated to increase U.S.-flag airline services abroad.

This was suggested by: Air Line Pilots Association, AFL–CIO, International, Capt. John Nevins.

One witness recommended that certain U.S. tariffs, such as the tariff on the importation of automobiles, be increased. This witness also recommended that U.S. savings bonds be sold to Americans living abroad and to foreign nationals.

This was recommended by: Diners Club, Inc., and Diners-Fugazy Travel, Inc., Alfred Bloomingdale, chairman of the board:

One witness recommended the passage of his bill, H.R. 3934, to strengthen the U.S. Travel Service.

This was: Hon. Claude Pepper, Member of Congress (Florida).

One witness suggested that the proposed 10 percent surcharge should be passed in order to halt inflation, which in turn would aid the balance of trade.

This was: Hon. Donald M. Fraser, Member of Congress (Minnesota).

One witness recommended the stimulation of travel on American-flag ships and movement of export cargoes on American-flag freighters.

This was suggested by: Passenger Ship Committees of the Committee of American Steamship Lines and the American Merchant Marine Institute, Albert J. Keenan.

One witness, who supported a travel tax in principle but opposed the Administration's proposal, suggested a per diem tax with the per diem amount set at the greater of a specified minimum or a percentage of adjusted gross income or tax liability.

This was: Americans for Democratic Action, Dr. Peter Kenen.

D. SPECIFIC TYPES OF TRAVEL WHICH SHOULD BE EXEMPT FROM THE TRAVEL TAX

(*a*) *Business travel.*—A number of witnesses were opposed to the inclusion of business travel in the travel tax program and recommended that this type of travel be exempt from the expenditure tax. It was generally stated that business travel contributes favorably to the balance-of-payments problem and is necessary to improve the position further. These witnesses were as follows:

(1) International Telephone and Telegraph Corp., John Seath, vice president and director of taxes.

(2) National Foreign Trade Council, Inc., Robert Scott, vice president.

(3) Export expansion project "Countersurge," New York City, Collingwood J. Harris, chairman.

(b) *Academic travel.*—A number of witnesses opposed the travel tax program as applied to students and teachers traveling for academic purposes and recommended substantial liberalization of the exemption for students and teachers. Suggested changes in the exemption include a shortening of the required length of stay abroad, and a broadening of the types of educational activities qualifying for the exemption.

It was recommended that there be an exemption from both the transportation and expenditure taxes for trips in connection with overseas educational activities which are sponsored, administered and supervised by U.S. colleges, universities and secondary schools and nonprofit organizations whose status is recognized by the Internal Revenue Service.

It was commented generally that international travel and study is extremely beneficial and that the exemption for trips of over 120 days in length is inadequate to exempt many educational programs sponsored by American institutions, especially the 6- or 8-week intensive study programs abroad during the summer months. It was recommended that these students, as well as other students who go abroad to engage in educational activities related to their course of study at a U.S. educational institution, should be exempt from the tax.

It was also pointed out that many in the academic community travel abroad on educational missions and for other educational purposes which would not be covered by the proposed exemption for students and teachers. It was recommended that these students and teachers be allowed a $15 per day exemption from the expenditure tax and also that the 12-hour stopover rule of the transportation tax be extended for these students and teachers to 3 or 4 days if the trip is to continue for at least 1,000 miles beyond the first stopover point. The witnesses expressing these views were as follows:

(1) Prof. James Weeks, College of Law, Syracuse University.

(2) National Education Association, Stanley J. McFarland.

(3) Council on International Educational Exchange, J. Ralph Murray, chairman of the board.

(4) American Federation of Teachers, AFL–CIO, Carl J. Megel, director of legislation.

(5) Association for Academic Travel Abroad, Prof. Emmet V. Mittlebeeler.

(6) Chapman College, Orange, Calif., Eldridge R. Plowden, provost.

(7) Harker Preparatory School, Potomac, Md., Col. John E. Kieffer, headmaster.

(8) Mount Hermon Summer Schools, Mt. Hermon, Mass., Joseph R. Curry, director.

(9) Hon. Donald M. Fraser, Member of Congress (Minnesota).

(c) *Other specific types of foreign travel.*—A number of witnesses suggested exemptions from the proposed travel tax for certain specific types of trips abroad. These suggested exemptions were as follows:

(1) Foreign tours by nonprofit American Symphony Orchestras: American Symphony Orchestra League, Carlos Moseley, vice president.

(2) Athletes engaged in international competition and groups sponsoring them: Dr. Richard A. Schwartz, Washington, D.C.

(3) Persons engaging in overseas programs sponsored by schools and colleges, or by nonprofit organizations engaged in humanitarian service and/or educational programs: American Friends Service Committee, George W. Marshfield, director, summer projects abroad.

(4) Travel financed under the existing tourist-dollar exchange program and travel in countries which cooperate in a proposed debt-credit or currency-credit arrangement which would require a foreign country to redeem with dollars amounts of its currency owned by the United States at the rate of $5 for each day a U.S. citizen travels in the country: Hon. Paul Findley, Member of Congress (Illinois).

(5) All costs for necessary medical expenses incurred abroad for, and $25 per day of living expenses of, persons 65 years of age and older: American Association of Retired Persons and National Retired Teachers Association, Ernest Giddings, legislative representative.

(6) Missionary personnel on official business representing a bona fide missionary agency in the United States: National Association of Evangelicals, Floyd Robertson, assistant to general director.

III. THE COMMERCE DEPARTMENT REGULATIONS LIMITING DIRECT INVESTMENTS ABROAD AND REQUIRING THE REPATRIATION OF FOREIGN EARNINGS

A. GENERAL COMMENTS

(a) *In opposition.*—A number of witnesses commented generally on the Commerce Department program. It was stated that the restrictions on direct investment abroad weaken the capital position of U.S. foreign operations which in turn may put these operations at a serious competitive disadvantage for many years to come. This weakened competitive position, coupled with the lower level of investment abroad, will reduce future earnings inflows, which in the long run is injurious to the balance of payments. Other comments on the Commerce Department program included the following:

(1) It will adversely affect U.S. exports;

(2) It may bring retaliation by foreign governments, such as in the form of limitations on the transferability of foreign earnings to the United States;

(3) It is based on dubious legal authority;

(4) It obscures the longstanding fiscal disorder which is at the root of our balance-of-payments problems; and

(5) It imposes intolerable administrative burdens on businesses.

It also was stated that the direct investment limitations and the earnings repatriation requirements of the Commerce Department program are inequitable since they allow the smallest investments and require the highest repatriations from those businesses which cooperated most fully under the voluntary program in the past, by limiting their foreign investments and by repatriating large amounts of foreign earnings.

The witnesses expressing the views summarized above were as follows:

(1) International Telephone & Telegraph Corp., John Seath, vice president and director of taxes.

(2) Mr. Daniel Blatt, Brooklyn, N.Y.

(3) Machinery and Allied Products Institute, Charles W. Stewart, president.

(4) Mr. N. R. Danielian.

(5) National Foreign Trade Council, Inc., Robert T. Scott, vice president.

(*b*) *In favor.*—One witness suggested that the expanding amounts of U.S. investment abroad are injurious to the U.S. economy and employment, and also cause increased imports which are harmful to U.S. industry and labor. Accordingly, strong support was expressed for the Commerce Department limitations on investment abroad.

This witness was: Stone, Glass, and Clay Coordinating Committee on U.S. Foreign Investment, Howard P. Chester, executive secretary.

(*c*) *Other.*—The view was expressed that the Commerce Department program should be reexamined to determine if it could be improved and to determine whether it contains self-defeating aspects.

The witness with this view was: International Telephone & Telegraph Corp., John Seath, vice president and director of taxes.

It was also suggested that:

(1) The mandatory controls be promptly abandoned and replaced with the voluntary restrictions on foreign investment, which are much easier to administer and comply with and which also avoid the gross inequities arising from the mandatory controls.

(2) If the mandatory controls must be continued, they should be completely revised to make them more equitable in concept and workable in practice.

(3) The limitations should be applied equally to all areas of the world.

(4) Incentives should be a part of the controls in order to give recognition to a company's total contribution to the balance of payments. Thus, a special investment allowance might be granted a company which improves its export position or which receives royalties and licensing fees from abroad.

The suggestions outlined above were those of: Machinery and Allied Products Institute, Charles W. Stewart, president.

Another witness suggested that amounts repatriated during a year in excess of the amount of earnings required to be repatriated for that year should be allowed as a carryover against future repatriation requirements.

This witness was: National Foreign Trade Council, Inc., Robert T. Scott, vice president.

B. TAX ASPECTS OF COMMERCE DEPARTMENT PROGRAM

Three witnesses made a number of suggestions designed to provide that taxable dividends need not be paid in order to meet the repatriation requirements and also to remove other tax effects of the Commerce Department program. The suggestions were as follows:

(1) Amounts other than dividends should specifically qualify as satisfying the earnings repatriation requirements.

(2) The repatriation requirements should also be considered satisfied if, instead of receiving a dividend, the U.S. direct investor borrows abroad from banks or unrelated third parties.

(3) Investments by affiliated foreign nationals in U.S. Treasury obligations or long-term certificates of deposit of U.S. banks should be considered to satisfy the earnings repatriation requirements.

(4) Deposits of earnings by affiliated foreign nationals in their U.S. bank accounts should be considered to satisfy the earnings repatriation requirements, if the deposits are to remain in the accounts for at least 12 months and are not to be withdrawn until the Commerce Department program ends.

(5) A U.S. direct investor should be allowed to borrow amounts representing earnings from an affiliated foreign national without the borrowed amount being considered a constructive dividend or giving rise to taxation under section 956 of the Code (relating to investments in U.S. property by controlled foreign corporations).

(6) Loans between affiliated foreign nationals should not have tax consequences for the U.S. direct investor.

(7) The 30 percent U.S. withholding tax imposed on interest on U.S. Treasury obligations which is paid to affiliated foreign nationals should be eliminated or the U.S. direct investor should be allowed a tax credit for the withholding tax.

(8) U.S. tax on earnings required to be repatriated should be deferred or reduced.

(9) A section 902 "deemed paid" foreign tax credit should be allowed for earnings repatriated pursuant to, or in excess of, the repatriation requirements, regardless of the ownership or number of tiers of foreign corporations involved.

The witnesses expressing the above views were:

(1) National Foreign Trade Council, Inc., Robert T. Scott, vice president.

(2) Machinery and Allied Products Institute, Charles W. Stewart, president.

(3) Peat, Marwick Mitchell & Co., Leon O. Stock, on behalf of a number of corporations.

IV. OTHER TAX SUGGESTIONS

A number of witnesses supported tax incentives for exports. Among the suggested forms of incentives were the following:

(1) Realistic administration of the section 482 rules, regarding the allocation of income and expenses between related taxpayers, and continuation of the rules for mitigation of the effect of allocations;

(2) Incentives to induce the repatriation of accumulated foreign earnings;

(3) Less complicated and more liberal rules regarding export trade corporations under section 970 of the Code;

(4) An additional capital allowance for equipment producing goods for export;

(5) An incentive deduction for promotion expenses in connection with export sales;

(6) Extension of the investment tax credit to U.S. equipment purchased for use abroad; and

(7) A reduced rate of U.S. tax on income from foreign sources with income from export sales being considered from foreign sources.

The witnesses expressing these views were:

(1) Dr. N. R. Danielian.

(2) Machinery and Allied Products Institute, Charles W. Stewart, president.

(3) National Foreign Trade Council, Inc., Robert T. Scott, vice president.

It also was suggested that the GATT rules regarding rebates of indirect taxes and other nontariff barriers be revised so as to reduce the disadvantages the United States presently faces vis-a-vis foreign countries.

This view was expressed by:

(1) Dr. N. R. Danielian.

(2) Machinery and Allied Products Institute, Charles W. Stewart, president.

A further suggestion made was that the Treasury Department restudy the possibility of increasing foreign investment in U.S. securities (corporate and governmental) by removing the present 30 percent withholding tax from the dividends and interest paid on these securities.

This suggestion was made by: National Foreign Trade Council, Inc., Robert T. Scott, vice president.