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ENERGY TAXATION: POSSIBLE MODIFICATIONS IN THE TAX TREATMENT OF FOREIGN OIL AND GAS INCOME

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ENERGY TAXATION: POSSIBLE MODIFICATIONS IN THE TAX TREATMENT OF FOREIGN OIL AND GAS INCOME

In considering the tax treatment of oil and gas companies, questions have been raised not only as to the tax treatment of their domestic profits (dealt with in Study No. 1), but also the tax treatment of their income earned abroad. This study outlines possible alternative actions the Congress may desire to take regarding the tax treatment of the foreign operations of oil and gas corporations. Broadscale tax problems in the foreign area which affect many other corporations besides those in the natural resource industry are not dealt with in this pamphlet. For example, this pamphlet is not concerned with the basic issues of the allowance of the foreign tax credit, nor with the general question of deferral of the foreign income of the foreign subsidiaries of U.S. corporations.

This pamphlet explores four general areas which affect primarily the oil and gas industry. The first area is the allowance of percentage depletion for foreign oil and gas operations. Second, the excess foreign tax credits from foreign oil and gas production is discussed to the extent that such credits are presently allowed to offset U.S. tax on other foreign income. The third area relates to losses in foreign oil and gas operations to the extent that these losses can offset U.S. income. Finally, the tax treatment of income from the export of natural resources by domestic international sales corporations (DISC's) is discussed, which while not technically concerned with foreign income is generally associated with the tax treatment of foreign corporate operations.

Since the Revenue Act of 1918, the United States has allowed a foreign tax credit against income derived from foreign sources. The effect of the credit is to give precedence to the tax of the foreign host country on income producing activities by U.S. corporations in that country. The United States gains tax revenue on such income only to the extent the applicable tax in the United States is greater than that imposed by the foreign country. If the tax imposed by the foreign country on such foreign source income is equal to or greater than the U.S. tax, no net United States tax revenue is obtained on this income under the present system.

In addition, the United States generally taxes the income of foreign subsidiaries of U.S. corporations only when such income is repatriated to the United States. Thus, as long as such income is held abroad, it is taxed only by the foreign host country in the same manner as that country taxes as companies operating within its boundaries. The foreign tax credit, of course, is not available for such foreign taxes paid by subsidiaries until the foreign earnings of that subsidiary are repatriated to the United States in the form of dividends to the U.S. parent corporation.

While many countries differ in their tax treatment of their national corporations on income derived through activities outside their boundaries, most major trading nations of the world permit the foreign tax credit for foreign operations and provide for the deferral of earnings of foreign subsidiaries somewhat along the lines outlined above (although a few countries exempt foreign income from all taxation). The effect of this general treatment of foreign income by both the United States and by most other foreign countries is that income taxes are paid primarily to the foreign country in which the income is earned. Only a relatively small tax is collected by the country of the nationality of the
a few countries exempt foreign income from all taxation). The effect of
taxpayer. For example, it is estimated that the U.S. foreign source income in 1971 amounted to about $13 billion. In that same year foreign tax credits of about $5.5 billion were claimed. Given the 48 percent U.S. corporate tax rate, this indicates the U.S. tax cn foreign income after allowing credits could not be much in excess of $700 million.

I. FOREIGN PERCENTAGE DEPLETION

Questions have been raised as to whether, in view of the difficulty the United States is having in obtaining oil and gas from foreign sources, there is any reason for retaining in present law the allowance for percentage depletion on oil and gas (more technically the excess of percentage depletion over cost depletion).

Total depletion deductions claimed in 1971 by corporations amounted to approximately $6.1 billion. Of this amount approximately $1.7 billion represented percentage depletion taken on foreign income. The Treasury Department has estimated that if percentage depletion were to be denied with respect to foreign source income, the revenue gain would be only about $50 million. The staff agrees that the revenue pickup at least would not be greater than this.

Since most foreign countries do not allow percentage depletion (although some have allowances which in certain respects bear similarities to percentage depletion) oil and gas production by U.S.-owned corporations in countries where the tax rates are as high as those in the United States get no advantage from the allowance of percentage depletion. For example, a company earning $1,000 of income abroad from crude oil production will in most cases have royalty and production costs of roughly $150. It will pay a foreign tax on the net income of $850 at about 55 percent, or roughly $470. The company will have that amount available for purposes of the foreign tax credit. On the other hand, for U.S. tax purposes the company's income is $1,000 minus a $220 deduction for percentage depletion and a $150 deduction for royalties and other costs; the net amount of $630 would produce a tax liability of about $300, which is more than offset by the $470 foreign tax paid. In fact, the company has excess tax credits on that income in an amount of $170.

The principal effect of the repeal of foreign percentage depletion will be to reduce excess foreign tax credits which arise with respect to foreign income derived from the extraction of oil and gas and which presently can be used to offset income from the refining, shipping, wholesaling, or retailing of gas and oil products. (See sec. 901(e) of the Code.) As suggested above, the repeal of foreign percentage depletion would have only a relatively minor revenue effect. There may, however, be some advantage in the repeal of this provision and in this manner showing that foreign percentage depletion is not reducing the taxes on the multinational oil companies. In addition, if the Committee desires to impose limitations with respect to the foreign tax credit as outlined in the next section below, the repeal of foreign percentage depletion on oil and gas production would have the effect of facilitating this to some degree.

It is difficult to point out many disadvantages to the repeal of foreign percentage depletion on oil and gas production because its revenue effect is so slight. However, to the extent that it does have a revenue impact, it will make the production of oil abroad somewhat less attractive than it is at the present time (although this, of course, may be offset by price changes and possibly some nonmarket effects).

II. USE OF EXCESS FOREIGN TAX CREDITS ON INCOME FROM OIL AND GAS PRODUCTION TO OFFSET U.S. TAX ON OTHER FOREIGN SOURCE INCOME

It is important in the tax treatment of foreign income to distinguish between the effect of a tax deduction (for example, a deduction allowed for royalty payments) and the effect of a tax credit (for example, the foreign tax credit). A deduction has a much smaller effect in reducing taxes than does a tax credit. For example, a deduction of $100 (assuming the taxpayer's tax rate is 48 percent) reduces the tax on other income by $48. However, a tax credit of $100 offsets completely $100 of tax on other income.

In the area of foreign oil and gas operations, the difficulty in distinguishing between deductions and credits arises from the fact that in foreign countires the sovereign usually has the rights to natural resources in the ground. Therefore, if a U.S. corporation drills an oil well in a foreign country, the sovereign can demand a royalty payment from the U.S. corporation, or alternatively can impose a foreign tax. In computing the income subject to U.S. tax, the royalty payment offsets income and reduces tax at the rate of 48 percent. The foreign tax credit directly reduces tax at the rate of 100 percent. When U.S. corporations began their foreign oil operations they usually paid the sovereign only a royalty payment (since there frequently was no generally applicable income tax in that foreign country). However, when the foreign sovereigns later sought to increase the payments that they derived from the U.S. oil companies, it was concluded that the additional payments, if they were in the form of income taxes rather than additional royalty payments, would be less injurious to the U.S. oil companies. As a result, the foreign soverigns involved have imposed generally higher and higher foreign income taxes retaining relatively modest royalty payments. For a period of time this had the effect of substantially decreasing the net after-tax cost of these payments to the American petroleum companies. However, as these taxes have gone higher and higher—now in many of the foreign oil countries the rates are imposed at a rate of 55 percent or 60 percent—the U.S. oil companies have generated foreign tax credits which are in excess of the income derived from the extraction and refining of oil. Table 1, below, shows the maximum general tax rate and special tax rate for oil companies in most of the OPEC nations.

The oil countries have also found other ways to impose higher taxes on U.S. oil companies. On the one hand they generally do not allow a deduction from income for percentage depletion. On the other hand they often in effect overstate the income subject to tax by basing the tax on an artificially high posted price rather than on the market price for the oil. It is understood that at the present time the posted price commonly used by Middle Eastern countries is approximately 140 percent of the market price. The result of the factors described above has been to accumulate foreign tax credits in excess of those which can be used to offset the U.S. tax on the oil production as well as on other foreign income. Table 2 shows the increase in excess tax credits available to oil companies between the years 1968 to 1971. The excess of unused foreign tax credits of the major U.S. oil companies of the world total approximately $3.7 billion for 1972. Approximately $1.7 billion of this amount was generated during 1972 and the remainder was carried over from prior years. It is estimated that total excess credits which can be carried forward from 1973 will exceed $4 billion, and the Treasury has expressed the view that given the substantial increases in the posted price of oil, the excess credits generated in 1974 may exceed $16 billion.

TABLE 1.—GENERAL TAX RATES AND SPECIAL TAX RATES FOR OIL IN CERTAIN OPEC COUNTRIES

[In percent]

	Maximum general income tax rate	Special rate for oil companies
Abu Dhabi	50	55
Indonesia	45	45
Iran	60	55
Iraq	50	[1] 55
Kuwait	55	55
Libya	25	55
Nigeria	45	55
Qatar	50	55
Saudi Arabia	45	55
Venezuela	50	60

[1] Less royalty credits.

TABLE 2.—SELECTED DATA ON FOREIGN TAXES FOR ALL CORPORATIONS AND FOR OIL INDUSTRY—ACTUAL DATA FOR 1968, ESTIMATES FOR 1971

	All corporations		Oil industry			
					As percent of all corporations	
	1968 actual	1971 estimated	1968 actual	1971 estimated	1968	1971
Taxable income from foreign sources	8,760	13,300	3,147	4,500	36	34
Foreign taxes paid and accrued and deemed paid	4,525	6,875	2,377	3,375	53	49
Foreign tax credit claimed	3,664	5,486	1,609	2,444	44	45
Excess foreign tax credit for the year (does not include carryovers from previous years)	861	1,389	768	931	89	67

Because of these excess credits oil companies found it desirable to acquire other lines of foreign enterprise where the tax wos likely to be low. This included many operations which were wholly unrelated to the production and distribution of oil or gas. However, directly in line with the production and distribution of oil and gas, companies found it especially attractive to acquire shipping facilities for their own production. Tankers are usually incorporated in a country which imposes virtually no income tax on the income from shipping. Moreover, since the shipping income is attributable to a service performed on the highseas, no other country under present law generally imposes a tax with respect to this income. In these cases, foreign tax credits are from oil and gas production used to offset what would otherwise be U.S. tax on shipping and other foreign income (once the income is repatriated). In most cases, these credits can be used only where the company involved has elected the overall, as distinguished from the per country, limitation with respect to the foreign tax credit.

In an effort to limit the sheltering of low-tax foreign source income with excess credits arising from the production of oil or gas, the Congress in 1969 enacted a provision (sec. 901(e)) which in effect provided that to the extent the foreign effective tax rate was higher than the U.S. effective tax rate because of the fact that United States allows percentage depletion (and the foreign country does not), the excess credit would be allowed only to U.S. taxes on income from the mining, refining, shipping, wholesaling, or retailing of oil. (The provision actually applies not just to oil, but to all natural resources.)

1. *Limiting allowable credit*

Outline of proposal.—The administration proposed that the amount of the foreign income tax eligible for the foreign tax credit with respect to oil and gas production be limited to the 48 percent U.S. tax rate on income derived from foreign oil and gas production (34 percent where Western Hemisphere Trade Corporation treatment is available). Under the Treasury's proposal, the balance of the foreign income tax which could not be claimed as a credit would be allowed as a deduction against foreign source income.

In effect, the administration proposal treats the tax imposed by the foreign country only as a foreign income tax to the extent of the U.S. tax rate; any additional foreign tax is in effect treated as if it were a royalty payment—that is, it can be deducted and not claimed as a credit.

Advantages of proposal.—The administration proposal clearly has the effect of limiting the use of taxes paid from the extraction of oil to the income from this process. Under this proposal, no corporation on the overall limitation (these are the only corporations affected by this proposal) will be able to use the foreign tax credits generated from its extraction of oil and gas to offset U.S. tax on other low-taxed foreign income. This is true whether or not this other foreign source income is attributable to the production and distribution of oil or whether it is attributable to any other corporate activity. This result obtains from the fact that the credit is converted to a deduction to the extent it exceeds the U.S. tax on the same income.

The proposal deals with the problem discussed in the introductory material to this part of the report in that it draws a new line of demarcation—a much tighter line—than present law between foreign tax credits and deductions.

Disadvantages of proposal.—It should be clear that any restriction on the allowance of the foreign tax credit will have the effect of somewhat discouraging oil extraction abroad. Also, to the extent that the credit is denied, other foreign source income becomes subject to U.S. tax—but only when this other foreign source income is repatriated. The effect of imposing a U.S. tax on this other foreign source income will, of course, tend somewhat to discourage the repatriation of this other income. The disadvantages referred to up to this point are general in nature and probably apply to any restriction on the allowance of the foreign tax credit.

Certain problems with respect to this proposal, however, do not necessarily apply to all other types of restrictions on the foreign tax credit. The administration proposal, for example, by limiting the credit to the 48 percent U.S. rate, in effect assumes that the U.S. tax rate is the highest general rate of tax appropriate with respect to oil income. As was indicated in Table 1, apart from the devices used by foreign countries to overstate the tax base, it does appear that the general tax rate on foreign oil operations is in most countries 55 percent rather than the 48 percent provided by the U.S. tax rate. As a result, it is not clear that the credits should be limited exactly to the U.S. tax rate.

In addition, questions can be raised as to the advantage in allowing a deduction for the foreign taxes paid for which a credit may not be claimed. While this appears to be consistent with the concept of a division of the payments into royalty payments and income tax payments, it is not clear that the deduction in this case has any significant value to the oil companies. Moreover, allowing a deduction for this amount reduces the foreign source income and necessitates the use of a mathematical formula in order to avoid simultaneous equations.

Finally, it should be understood that the limitation on the allowance of the foreign tax credit will affect only three or four of the major U.S. oil companies operating abroad. These are the companies using the overall limitation. The proposal has no effect on the large number of companies operating abroad which use the per country limitation. This is not intended to suggest that the committee may not want to take action in this area, but rather to point out that if it wants to distribute the impact of its provisions relating to foreign income generally on U.S. oil companies operating abroad, it is also necessary to deal with the problem of the offset of losses from foreign operations against U.S. income. (Possible suggestions in this latter area are discussed in the next section below.)

Revenue effect.—The Treasury has estimated that this proposal will result in a revenue gain of $400 million. It is understood by the staff that the great bulk of this will be derived from one company.

2. Modification of limitation on credit

Outline of proposal.—The problems referred to above in connection with the overall limitation on the credit can also be dealt with by two or three modifications in the limitation. First, instead of limiting the credit to exactly what the U.S. rate is on foreign income, the limitation could be allowed up to what appears to be the generally applicable level of rates on the foreign income in the OPEC countries—namely, 55 percent. It would be important, however, that this rate be applied to the U.S. concept of a fair market value of the oil produced rather than to the posted price of the oil. Moreover, to be sure that any excess credits generated in this manner (arising from the difference between the 55 percent and the 48 percent rates) are not used to offset other income, the excess credits generated in this manner might be applied only against related oil activities.

This is essentially the rule followed today in the case of foreign interest income. It also is essentially the effect of section 901(e) (previously referred to) which denies the credit for excess credits generated by the allowance of a deduction for percentage depletion. This provision allows certain excess credits generated in the production of oil to be used only in refining, shipping, wholesaling, or retailing of the same products. This concept might be continued in the case of the new limitation. However, since shipping represents special problems, the committee might want to exclude this from the allowable categories of income against which the excess credits could be used as an offset against the U.S. tax. Since allowance of a deduction for the excess credits has relatively little significance, it would appear desirable to simplify the proposal somewhat by disallowing the excess credits over the 55 percent maximum rate rather than converting these excess credits into deductions. The committee might also desire to except from this rule so-called nonequity oil, (*i.e.*, oil purchased in the country where the extraction occurred, but not actually representing the interest owned by the U.S. company at the time the extraction occurred).

Advantage of modification.—This modification appears to more closely deal with the problem area raised by not assuming precisely the same rate of tax in a foreign country as in the United States. In the case of many foreign operations apart from oil, the tax rates are different from those in the United States, and an averaging advantage is obtained. This proposal continues this advantage to a limited extent, but only insofar as the other income generated is closely tied in with the oil production operation. Some of the other problems with respect to the proposal outlined above are also dealt with. This modification, for example, removes the complexity in dealing with the deduction and eliminates the need for any simultaneous equation.

Disadvantages of modifications.—The modification, of course, also discourages somewhat production abroad. Also, insofar as it imposes U.S. tax on other foreign income, it tends to discourage repatriation. These problems are inherent in any restriction on the allowance of the credit. The modification also has an impact on only three or four of the oil companies and to have general application needs to be combined with a provision dealing with oil company loss offsets against U.S. income.

Revenue effect.—The modification insofar as it makes provision for use of a higher rate in the limitation will reduce the revenue gain to be derived from it. However, insofar as the excess credits can be used only against directly related income (particularly if shipping income should not be allowed) there is an offsetting effect. The staff estimates that this will result in a revenue pickup of approximately $300 million.

III. DEDUCTING FOREIGN DEVELOPMENT COSTS AGAINST U.S. SOURCE INCOME

Under present law taxpayers with foreign branch operations, as distinguished from foreign corporate subsidiaries, can elect either a per country or an overall limitation on the foreign tax credit. The per country limitation provides that the credit for taxes from each individual foreign country may not exceed the ratio of the taxable income from that country over the worldwide taxable income multiplied by the U.S. tax on worldwide income. This computation is made separately for each foreign country for the taxes from each foreign country. In the case of the overall limitation, the foreign tax credit for all foreign countries taken together may not exceed the taxable income from all foreign countries over the worldwide taxable income multiplied by the U.S. tax on the worldwide income. The overall limitation permits averaging of the taxes on income in different countries with the result that taxes in high rate countries can in effect be used up in low rate countries. This is the advantage which has led most non-mineral income corporations to use the overall limitation. However, many oil corporations with large intangible drilling expenses abroad find the per country limitation advantageous (in fact, apparently all but three or four of the major oil companies use the per country limitation). The reason for this is the fact that where they have a loss (frequently foreign intangible drilling expenses) in one country or more it can be offset against U.S. income rather than reducing foreign income from other countries for purposes of the ratio in tax credit limitation and thereby reduce the taxes which can be used as a credit in the case of these other foreign countries. The use of the losses in the foreign tax credit computation may be illustrated by the following example: Assume a U.S. oil company earns \$50 in the United States, \$75 in Country A (and pays a \$40 foreign income tax on that income) and has a \$25 loss from operations in Country B. If this company were on the per country limitation, it would not in computing its foreign tax credit subtract the loss in Country B from its income from Country A but would compute its limitation as follows:

$$\frac{\$75\text{ (income from Country A)}}{\$100\text{ worldwide income}} \times \$48\text{ (tentative U.S. tax),}$$

resulting in a \$36 foreign tax credit and a net U.S. tax of \$12 even though there was \$50 of U.S. source income. On the other hand, if this company were on the overall limitation, its foreign tax credit could be limited to

$$\frac{\$50\text{ (foreign source income)}}{\$100\text{ (worldwide income)}} \times \$48\text{ (tentative U.S. tax),}$$

or \$24 and there, in effect, would be a \$24 U.S. tax on the \$50 of U.S. source income.

1. Loss recapture provision

Outline of proposal.—The administration has proposed that where foreign losses are in fact offset against U.S. source income in computing the limitation, the tax benefits resulting from these losses are to be recaptured in subsequent years when (and if) the operations in the loss country subsequently become profitable. The recapture in this case (which would only occur if the foreign country does not allow the loss in the first place in the computation of the corporation's income under its laws) would be accomplished by reducing the foreign taxes allowable as a credit in the subsequent year.

Advantages of proposal.—The fact that the foreign losses in the situation referred to can be offset currently against U.S. income and are only subsequently recaptured can be viewed as an advantage if there is an interest in providing an incentive for intangible drilling abroad. In any event, the proposal has the advantage of ultimately reclaiming the loss out of foreign income if income is earned in the loss country in subsequent years. A proposal of this type (or of either of the other types suggested below) is necessary if the foreign tax proposals are to have an effect on more than three or four of the major oil companies.

Disadvantages of proposal.—Depending upon the individual's point of view, the offset of the foreign drilling expenses against U.S. source income can be viewed as a disadvantage if it is thought that this should not occur contemporaneously with the allowance of foreign credits for other taxes paid abroad to other foreign countries where income exists. It should also be noted that this recapture provision affects start-up losses even though they do not arise from intangible drilling expenses and even though they may be minor and perhaps the corporation's first foreign operations.

The recapture provision is also, by its nature, complicated and adds to the complexity of the tax law.

2. Repeal of the per country limitation

Outline of proposal.—Another alternative designed to deny the offset of foreign losses against the tax on U.S. source income is to repeal the per country limitation with respect to the foreign tax credit. This alternative could be limited to income of oil and gas production, although it is believed no significant advantage is obtained from the per country limitation outside of the area of oil and gas production, except possibly in the case of other natural resource production.

Advantages of proposal.—The repeal of the per country limitation as already indicated means that a foreign loss first goes to reduce other foreign income before any remaining loss can be used to offset U.S. source income. This occurs in the same year as the loss itself occurs. As a result, it has a more immediate impact than would the recapture proposal referred to above. Thus, there appears to be less of a subsidy aspect in this proposal than in the recapture proposal, especially since the recapture does not come into operation unless there is income in subsequent years in the foreign country.

In addition, repeal of the per country limitation rather than adopting the loss recapture proposal does not affect initial start-up losses outside of the United States (since these are available to offset U.S. source income even where the overall limitation is used). Thus, the repeal of the per country limitation is less likely to interfere with a corporation's initial foreign operation than is the loss recapture proposal.

The repeal of the per country limitation would also seem from the standpoint of simplicity to have an advantage over the loss recapture proposal. It repeals an existing provision rather than adding a new one to the tax law. It also seems probable that the repeal of the per country limitation would be more closely associated with the problem of foreign oil losses reducing U.S. source income, than would the recapture proposal, which it is believed would have a much broader application.

Disadvantages of proposal.—As indicated previously, some of the factors listed as advantages may be viewed as disadvantages, depending upon the objective sought. In addition, however, it should also be realized that the repeal of the per country limitation might have some effect on other natural resource industries besides oil and gas. If this is a serious problem, the committee might desire to retain the per country limitation in the limited area of other natural resource industries.

3. Repeal of deduction for foreign intangible drilling expenses.

Outline of proposal.—Since the main impact of the loss recapture proposal or repeal of the per country limitation provision is to deny an offset against U.S. income for intangible drilling expenses taken abroad, a similar result can be achieved by denying the deduction for these foreign intangible drilling expenses. Instead, under this proposal they would be capitalized and written off over the expected life of the oil well. In the case of dry holes, the loss could be taken immediately.

Advantages of proposal.—This proposal by denying the immediate write-off of intangible drilling expenses achieves directly what appears to be the basic intent of the prior two proposals. If dry holes can be written off, this proposal probably is more attractive to foreign operations than is the repeal of the per country limitation.

Disadvantage of proposal.—The fact that dry holes in foreign operations can be offset against U.S. source income still means there would be a significant incentive under this proposal for foreign development activity. To the extent that it is desirable to remove this incentive at the present time, this alternative does not achieve this objective. Questions may also be raised as to whether this, the capitalization of foreign intangibles, would be viewed as a precedent for similar action on domestic production.

4. Revenue impact.

It is estimated that the administration's loss recapture proposal will produce approximately $50 million in new revenues after a 5 year period. It is expected that repealing the deduction for foreign intangible drilling expenses will result in an immediate revenue pick-up of slightly over $100 million. Finally it is estimated that the repeal of the per country limitation will produce approximately $150 million of new revenues.

TABLE 3.—U.S. EXPORTS, 1964–73

[Amounts in billions of dollars]

	All exports [1]		Agricultural products		Minerals and fuel		Manufactured products	
Year	Amount	Percentage charge over previous year	Amount	Percentage charge over previous year	Amount	Percentage charge over previous year	Amount	Percentage charge over previous year
1964	25.8	+14.7	6.3	+12.5	2.6	8.3	16.7	+15.2
1965	26.7	+3.5	6.2	−1.6	2.6	0	17.6	+5.4
1966	29.5	+10.5	6.9	+11.3	2.7	+3.9	19.5	+10.8
1967	31.0	+5.1	6.4	−7.3	3.1	+14.8	21.1	+8.2
1968	34.1	+10.0	6.2	−3.1	3.2	+3.2	24.1	+14.2
1969	37.3	+9.4	5.9	−4.8	3.5	+9.4	27.1	+12.5
1970	42.7	+14.5	7.2	+22.0	4.5	+28.6	29.7	+9.6
1971	43.5	+1.9	7.7	+6.9	3.8	−15.6	30.8	+3.7
1972	49.2	+13.1	9.4	+22.1	4.3	+13.2	34.3	+11.4
1973	70.8	+43.9	17.7	+88.3	6.0	+39.5	44.7	+30.3

[1] Excludes Department of Defense shipments.

Source: International Economic Report of the President, February, 1974, p. 99, tables 20–23.

IV. DISC INCENTIVES FOR EXPORT OF NATURAL RESOURCES

U.S. taxpayers are presently exporting natural resources, such as coal, oil, and gas, by using a DISC and in this way are receiving an indefinite tax deferral incentive for making these exports.

As indicated in Table 3 there has been an appreciable increase in exports in 1973 over the previous year generally. However, the largest increases have occurred in the case of agricultural products and minerals and fuels.

The present law authorizes the President by Executive Order to deny DISC benefits to products in short supply. To date, the President has not exercised this authority. As a result, the committee may want to consider denying DISC treatment in areas such as natural resources where there appears to be little reason for providing an inducement for exports.

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