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President



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May 12, 2003

The Honorable Bill Frist
Majority Leader
United States Senate
Washington, DC 20510

Dear Mr. Majority Leader,

The American Chamber of Commerce in Hong Kong, representing over 2,000 members, strongly urges you to oppose the repeal of the foreign income exclusion for individuals (Section 911, Internal Revenue Code) currently under consideration as a tax cut 'offset' in legislation before the Senate.

Our particular concern is the equitable tax treatment of individual Americans working overseas, whether for U.S. or foreign employers. In proposing to repeal Section 911, we urge lawmakers to consider the following facts:

- The U.S. is the only major industrial nation that requires its non-resident citizens and legal residents to pay taxes on their foreign earnings. This regressive practice puts American companies and American workers at a serious competitive disadvantage in foreign markets. The principal rationale for the exclusion - to make the tax treatment of Americans working abroad more competitive with foreign nationals and, thereby, to promote exports of U.S. goods and services - is as valid today as it was in 1926, when Section 911 was first implemented to boost America's access to global markets.
- U.S. employers throughout Asia recognize that the provision of housing allowances, educational expenses, emergency home leave and medical insurance are routine costs of attracting and maintaining a competitive workforce. Few Americans would be able to afford overseas employment without these benefits, yet among foreign nationals competing for these jobs only U.S. citizens are required to report these benefits as "income." Without Section 911, Americans working abroad would pay much higher taxes than U.S.-based workers with the same base pay. This higher tax burden upon overseas Americans would not pass the "fair and reasonable" test.
- Income of Americans working abroad for non-U.S. employers does not count toward Social Security or Medicare. Nor do these taxpayers have access to tax-deferred or tax-exempt retirement plans. Contributions they make to foreign pension plans are not tax deductible and vested contributions made by their foreign-based employers are taxable. The repeal of Section 911 means a much higher tax bill for overseas Americans than for comparably employed U.S. residents. No amount of foreign tax credit will 'off-set' this inequity.

- Overseas Americans working for U.S. corporations and therefore able to participate in 401Ks and contribute to Social Security find their housing allowances, travel expenses, and subsidies provided for their children's educational fees subject to FICA withholding, on top of the U.S. and foreign taxes they pay.
- Many American-owned small businesses and entrepreneurs will be forced to exit the international market entirely, thereby further eroding our presence and influence. This would undo the efforts of the federal and state governments to increase small business participation in international trade and investment.
- American teachers, missionaries, and employees of NGOs would be hard hit by the loss of Section 911 and many could no longer afford to remain overseas. America needs more, not fewer, such ambassadors of good will.
- Section 911 is based on the simple tenet that Americans working overseas promote and sustain the export of U.S. goods and services to a global market and thereby make a significant contribution to the health of the U.S. economy. A 1995 study by Price Waterhouse LLP analysts projected that a repeal of the foreign income exclusion would, at a minimum, result in a 2% reduction in U.S. exports, which translates to a significant loss of U.S.-based jobs. The inter-dependence of American jobs and the success of U.S. enterprises overseas has considerably increased since 1995, which means that the impact of a Section 911 repeal would be even more deeply felt today.

American citizens working abroad promote U.S. exports of goods and services, as well as American interests and values. The repeal of Section 911 will have a detrimental impact upon U.S. competitiveness in global markets. We respectfully request that repeal of Section 911 be removed from the Senate tax bill.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "J. [unclear]", is positioned below the text "Yours sincerely,".