



美國商會

Frank Martin, SBS
President

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The Honorable Charles Grassley
United States Senate
Washington, DC 20510
USA

Dear Senator Grassley:

We were pleased to read your 15th July 2003 comments at the hearing on the International Competitiveness of US Tax Policy, in which you stated that “it is critical that our international tax laws keep pace with new business realities” and “reform of our international tax laws is necessary for US businesses to remain competitive in the global marketplace”.

We write to request that this argument also be made against any possible proposal to scale back or repeal Internal Revenue Code Section 911. Section 911 allows US citizens living and working abroad to exclude up to USD80,000 in foreign earnings from gross income, as well as deduct a portion of their housing expenses.

The principal rationale for Section 911, when first implemented in 1926, is similar to US companies operating overseas: to make the tax treatment of Americans working abroad more competitive with foreign nationals, which thereby promote exports of US goods and services.

Thus, whether a US business or individual overseas, the interdependence of the two and their success requires international tax rules so each can compete against their non American counterparts on a level playing field.

Ms. Pamela Olson, Assistant Secretary for Tax Policy, US Treasury stated at the 15th July 2003 hearing: “In today’s competitive environment, we must write tax rules that take into account what other countries are doing, so US companies and workers are not in a less competitive position”.

Mr. Michael Gaffney, on behalf of the US Securities Industry Association testified: “the securities industry should compete under a tax regime that is comparable to those under which non-US competitors operate in those same foreign centers”.

Also emphasized at the hearing was how critical foreign operations are for a US company to succeed. Mr. Hahn of Dow Chemical stated that both his and other multinationals “rely on foreign operations to carry out operation, distribution, marketing, and or other export-related activities”.

Mr. Daniel Kostenbauder of Hewlett Packard stated, “to be successful in the US, HP must be able to compete successfully outside of the US. A significant presence to sell and support HP products/services outside of the US is required, which in turn creates more jobs in the US to support and manage the global customer base.”

At the individual level, the above statements are just as relevant. If we examine American presence overseas first, we would argue that by their very presence, U.S. citizens help to promote America's national interests, serving as unofficial Ambassadors of our country, strengthening international relations through daily, personal interaction with host country nationals.

Also, Americans who have lived and worked abroad or whose companies rely on overseas markets are well aware that U.S. citizens abroad are prone to *buy American, sell American, specify American, hire American, and create opportunities* for other Americans overseas.

An example is a manager who acquires a bid from three companies for its foreign subsidiary, and notes bids only received from non-American firms. If that manager was an American manager, he would at a minimum, enquire as to why no American firm had been contacted to tender a bid.

However, the ability of US firms to continue to hire Americans to fill overseas positions would be curtailed if Section 911 were repealed, as unlike their counterparts from other industrialized nations, Americans abroad must pay U.S. income tax on income, benefits, allowances, and overseas adjustments. This puts U.S. companies and American employees working overseas at a significant competitive disadvantage because U.S. employers must pay American workers abroad more than they would pay other nationals.

So what happens if fewer Americans are hired due to their high cost? Mr. Kostenbauder of Hewlett Packard, at the 15th July 2003 hearing, remarked, "If HP reduced its global presence, it would probably receive fewer contracts with foreign based or with US based multinational companies. Instead those contracts might go to foreign based-competitors". At the individual level, the result would be the same: fewer jobs to Americans, while non- Americans continue to expand their global presence.

This outcome is why international tax reform to put US companies on the same footing as their non-US competitors is critical, and why international tax reform should mean that Section 911 is maintained for individuals.

Our chamber was shocked to learn in a recent poll we conducted that if Section 911 was repealed, 26% of respondents said they would terminate their overseas employment and return to the U.S. A further 47% said they would reconsider their overseas employment and the option of repatriating. Multiply this percentage by the number of overseas Americans. The result would be more Americans competing for US domestic jobs, in a fragile economy.

Thus, as the Senate Finance Committee contemplates what legislation to propose to ensure the "international competitiveness" of US foreign owned businesses, we strongly urge the committee to apply the same "international competitiveness" rationale towards individuals working overseas. Retention of Section 911 should be integral to overall international tax reform, in order to help US companies maintain the same level playing field as their foreign counterparts, as well as continue to expand their overseas presence.

Yours sincerely,