

has been presented—and I share your rhetoric of the damage it is going to cause—as a little bit of a lever to try and pry more money out of the Federal Treasury through the USTS. That is why I have shown the heat I have to the witnesses.

It looks like you have used this to a degree as a gimmick to get more money in USTS, and that isn't the way to go in my judgment.

The CHAIRMAN. Mr. Betts.

Mr. BETTS. Mr. Frankel, on page 9 you refer to the possibility of tourists going into Canada and Mexico and purchasing tickets for visits abroad.

Mr. FRANKEL. Yes, sir.

Mr. BETTS. Do you think that this would be a significant loophole?

Mr. FRANKEL. Yes, quite so. As a matter of fact, they would be able to not only buy their tickets in Canada or Mexico, but even from abroad. The tickets could be mailed.

Mr. BETTS. I was just wondering since I don't know too much about passport complications they might run into, but I don't think there would be any—

Mr. FRANKEL. Unless some device would be used to plug this loophole it would be a serious matter.

Mr. BETTS. What device do you anticipate could be used? Certainly passports from Canada to some European country is where the problem would be found, wouldn't it?

Mr. FRANKEL. Yes, sir. See, within the United States I think this could be controlled by the accepting carrier on the presentation of a ticket if the traveler happens to be a U.S.—

Mr. BETTS. I didn't follow that, something about carrier.

Mr. FRANKEL. I mean the carrier that is being used by the passenger.

Mr. BETTS. For instance, if he goes to Canada on an airline—

Mr. FRANKEL. That is a problem and I don't know how it could be stopped. I have no suggestion to make here at all.

Mr. BETTS. I was interested because I have heard suggestions about this way of avoiding the tax but I hadn't heard it mentioned by a witness. I am reminded by the staff that the tax of course so far as spending overseas couldn't be avoided. What you are referring to I assume is the transportation tax.

Mr. FRANKEL. Transportation tax, yes, sir. Actually there is historic precedent for this. Years ago when the tax did apply we had that problem.

Mr. BETTS. The staff also advises me that if he buys his ticket in Canada then automatically he would have a higher expenditure tax. Is that correct?

Mr. FRANKEL. I don't follow.

Mr. BETTS. The expenditure tax would be at a higher rate, is that correct?

Mr. QUINN. Mr. Betts, my understanding is that the overall proposal is intended to add a 5 percent tax on the cost of transportation from the point of departure in the Western Hemisphere to the point outside the Western Hemisphere, so the tax rate would be the same; namely, 5 percent, but it would have to be collected on the expenditure rather than as a transportation tax.

Mr. BETTS. So the only possible loophole would actually be on the transportation tax; is that correct?