

One may well object that our income-based tax does not accomplish one objective of the Treasury's proposal. It cannot induce the traveler to cut his daily spending (save insofar as he must do so to pay his higher income taxes). This is admittedly a defect. If our analysis is right, however, the administration's proposal may not cut actual daily expenditures. It may, instead, cut into reported expenditure. It may encourage evasion rather than frugality.

A few additional points should be made:

1. Effective implementation of our tax proposal, or, for that matter, the Treasury's proposal, requires an accurate check on the number of days spent abroad. This, we believe, could be accomplished by two devices: First, authorizing the Internal Revenue Service to ask any holder of a U.S. passport to present that passport for inspection; second, negotiating an agreement with the Canadian, Mexican, and Caribbean Governments that their officials would stamp the passports of U.S. residents leaving or arriving from third countries.

2. As in the case of the Treasury's proposal, our own income-based travel tax could be subject to tentative declaration and prepayment at the time of departure, this as an added deterrent to travel. The declaration of estimated tax could be based on adjusted gross income for the most recent past tax year.

3. We endorse and would incorporate into our proposal the 120-day exemption suggested by the Treasury.

We very much hope that this alternative, along with our other suggestions, will receive your careful consideration. We thank you, Mr. Chairman, for the opportunity to testify today.

Mr. HERLONG. Thank you, Doctor. Are there questions? Mr. Gilbert will inquire.

Mr. GILBERT. Thank you, Mr. Chairman.

Dr. Kenen, I appreciate your appearance here today. I notice in your first paragraph you say:

Although ADA and myself are in general agreement concerning the matter stated, not everything included in my testimony should necessarily be construed as ADA policy.

What I would like to know from you, Doctor, is where do you depart from ADA policy and where does ADA policy depart from you?

Dr. KENEN. I really cannot answer that question, sir, because I do not know where we might depart on details. That statement was included to hedge against the possibility of differences on detail. In fact, I know of none.

Mr. GILBERT. Thank you very much. I have no further questions.

Mr. HERLONG. Mr. Collier will inquire.

Mr. COLLIER. Just one question at the moment, Dr. Kenen. On page 8 of your testimony you suggest a plan whereby the tax would be imposed based upon adjusted gross income on form 1040. You go on to elaborate.

Then in the next to the last paragraph on that page you say:

We fully sympathize with the plight of these travelers,—

Meaning the low-income group—

but must point out that their travel spending is no less costly to the balance of payments, dollar for dollar * * * .