STATEMENT OF HARRY B. HENSHEL, PRESIDENT, BULOVA WATCH COMPANY, INC.

REASONS WHY BUSINESS TRAVEL SHOULD BE EXEMPT FROM PROPOSED TRAVEL TAX

In omitting any exemption for bonda fide business travel, the Administration's proposal for a travel tax submitted to the House Ways and Means Committee on February 5, 1968, seems to be based on policies diametrically opposed to those announced by the President in his Balance of Payments Message of January 1, 1968. In particular, they conflict with longstanding policies designed to promote and encourage the development of foreign markets and competitive operations overseas by American companies. Some specific points are set forth below.

(1) In his Message the President said: "I am asking the American people to defer for the next two years all *nonessential* travel outside the Western Hemisphere." (Emphasis supplied.) It would appear, therefore, that the Administration's travel tax proposal deems all business travel to Europe to be either deferrable as "nonessential", or else taxable on the same basis as tourist travel regardless of essentiality.

Most U.S. compaines, however, including Bulova, are cost-conscious. They do not permit "business' travel that is not for business purposes. Those purposes certainly include the promotion of a company's foreign sales and its efforts to compete abroad through its foreign branches and subsidiaries. Such overseas efforts—which we had always understood to be in the national interest—clearly require constant travel by the company's exectuives and other personnel. Is this "nonessential" travel that should be deferred for two years?

(2) In his Message the President called for "an intensified domestic effort to encourage companies to focus more of their efforts on foreign markets." Obviously, a company cannot be expect to make this sort of effort without sending its executives and salesmen abroad. Similarly, the Treasury's own White Paper, *Maintaining the Strength of the United States Dollar in A Strong Free World Economy* (January 1968), advocates the expenditure of federal funds to help small and medium-sized companies in overseas trade promotional visits and other activities calling for foreign travel of business personnel. And Assistant Secretary of Commerce Lawrence McQuade has recently urged "a doubling of our commercial exhibitions in trade fairs and our trade centers overseas," with a "three-fold increase" in the number of participating U.S. firms.

Secretary Fowler failed to mention to what extent the proposed travel tax might inhibit response to these objectives.

(3) The travel tax proposal purports to be designed not to "unduly" penalize certain specified types of travelers, including "business people." This may be laudatory, but it is hardly the same as *promoting* business travel—which seems to be the Administration's objective in other programs.

(4) The proposed burden on business travel is at odds with the Administration's over-all policy in yet another respect. The Foreign Direct Investment Regulations are designed to encourage foreign borrowing and to reduce direct transfers of capital. But while a businessman can transfer his funds abroad sitting in his own office in the United States, he rarely can obtain foreign credit without calling on foreign bankers in their home offices.

(5) Secretary Fowler testified against any specific exemptions on the ground that they "produce complexity and administrative burdens." But the sensible exemption of all business travel would be far less complex and burdensome than the arbitrary dividing lines and mountains of paper work which his proposal contemplates for all travelers, including businessmen.

(6) The very limited exemptions that are proposed—long trips of 120 days or more and establishment of residence abroad—bear no relation to the broad objective of promoting exports and foreign markets by American businessmen, who typically make frequent short trips from the U.S. and back for these purposes. Indeed, the exemptions proposed seem to run counter to the over-all objective of the Administration's emergency balance of payments program, namely, to achieve maximum foreign exchange savings *in the short run.* The many local expenditures required to set up a permanent establishment abroad for a given business operation there will have a far greater immediate negative impact on the balance of payments, than will travel for the same purpose.

(7) In essence, the proposed tax makes no sense as applied to business travel. While designed to be a deterrent to foreign travel, it will *not* deter most businessmen from making trips outside the Western Hemisphere essential to their business. At most, it will produce red-tape and a very modest amount of additional tax revenue (which is fully deductible by the business traveler).