

might be raised as to whether only taxes demonstrating a clear and direct impact on prices should be eligible for border adjustments.

If the results of such a study cannot be used to reduce the arbitrary advantages that the European tax system enjoys in international trade, then perhaps we should argue for allowing a portion of direct taxes on business enterprise also to be eligible for border adjustment.

Assuming such authority, with or without the sanction of GATT, the United States still need not impose a uniform border tax. If the intent is to accomplish tax *neutrality* in international trade, we could deem a U.S. border tax equivalent to the tax which is rebated/imposed by the foreign country involved on similar transactions with the United States. With regard to Germany, for instance, a U.S. exporter would receive a rebate of 10% from the United States and pay 10% to Germany. A German exporter to the United States would receive a German rebate of 10% (as is now the practice) and pay 10% to the United States. With countries such as Canada and the United Kingdom, there would be no rebates or charges since these countries do not now have such taxes.

We believe that such a procedure should be considered as a last resort—that we first should make every possible effort to achieve reduction or elimination of border tax inequities without unilateral action on our part. If all attempts along these lines fail, however, at some point we should actively consider our own action to establish a more neutral international marketing environment.

A lower tax rate on exports

Unlike the tax systems of many countries which tax only domestic and not foreign source income, the United States has always taxed its citizens and domestic corporations on their worldwide income. Thus, income derived from exports by U.S. citizens or corporations is subject to immediate tax at full rates, in the same manner as if the income had been earned domestically.

An exception to this general rule, at least insofar as tax rates are concerned, applies in the case of a Western Hemisphere Trade Corporation (WHTC). A WHTC is a domestic corporation which enjoys a corporate income tax rate 14 points below the regular corporate rate, which is to say that if the corporate rate is 48%, the WHTC is taxed at 34%. In order to qualify for the reduced rate the WHTC must conduct all of its business in the Western Hemisphere, with 95% or more of its gross income being from sources outside the United States and with 90% or more of its gross income derived from the active conduct of a trade or business. The activities of WHTC's are not, however, limited to exports; many of them engage in manufacturing or extractive industries.

The NAM ordinarily looks with disfavor on the use of tax incentives to attain non-tax objectives. It is also opposed to the use of stop-gap measures and temporary expedience as solutions to basic problems. However, in an effort to achieve a better degree of market neutrality vis-a-vis foreign competition, some reduction in the U.S. tax rate on income derived from exports would appear justified by way of an offset to the many restrictions that foreign countries impose on U.S. goods and to the subsidies they confer on exports to the United States. Even if the border tax problem can be settled to our satisfaction, there remain a host of other non-tariff barriers and export incentives employed abroad which bear upon the competitive position of U.S. manufacturers.

There is considerable evidence, moreover, that the competitive condition of the United States in world markets has declined in recent years, and that much of this is attributable to non-tax factors. Nevertheless, for the reasons mentioned above, it is believed that the United States, with its almost total reliance on the income tax as its principal source of revenue, places its exporters at a disadvantage, vis-a-vis foreign competitors, as a result of its own tax system.

The NAM believes that consideration ought to be given to a lower tax rate on income derived from exports—a rate at least as low as that pertaining to a WHTC. To qualify for such lower rate, it would not be necessary to set up a separate corporation as in the case of a WHTC; it would seem that appropriate departmental accounting by an existing corporation should be sufficient to identify the amount of income qualifying for the lower rate. For purposes of qualification, source of income in a legal sense (which under existing law is based upon where title passes) would be disregarded—a destination test requiring use, consumption, or disposition outside the United States would be controlling. Furthermore, since exports often require the performance of technical, managerial, engineering, and other services directly related to the sales of export property,