

examining the current tax treatment of other types of passenger transportation. At that time, basic relevant features relating to equity, relative competitive positions, financial strength, etc., can be given adequate consideration within the framework of transportation facilities and needs as a whole. For this primary reason, we suggest that the Congress defer action on this proposal at the present time.

Tax on foreign travel expenditures.—Under the administration proposals, a tax would be imposed on the daily average expenditures for living, entertainment, and gifts, incurred by an American while traveling outside the Western Hemisphere. If this daily average expenditure figure exceeds \$7, a tax of 15 percent would be imposed, while any excess over \$15 would be taxable at a 30-percent rate. The tax would purport to be temporary with a scheduled expiration date of September 30, 1969, and it would not cover foreign travel of a student or businessman on a trip for more than 120 days.

The traveler would be required to make a declaration of the funds in his possession on leaving the United States. He would also have to pay an estimated foreign expenditure tax to the Internal Revenue Service at that time. On arrival back in the United States, the traveler would again report on his cash balance as he is processed through customs. Within 60 days he would be required to file a final return with the IRS, and the tax would be applied to the difference between the "departing" cash balance and the "returning" cash balance plus credit card charges and all other expenses attributable to the trip. A penalty of \$200 would be imposed for failure to make a declaration of estimated tax and a statement as to cash balance. In addition, a penalty of 10 percent of the underpayment of estimated tax would be imposed for underestimation. Any difference between the original estimated tax and 80 percent of the actual tax shown subsequently on the return would be considered an "underpayment" for this purpose.

In general, we think that the proposed foreign expenditure tax should be rejected on the grounds that it is poorly conceived, highly arbitrary, difficult to comply with, and burdensome in the extreme for persons who have legitimate reasons to travel abroad. American industry, of course, would be forced to absorb the significant part of the burden of these proposals that would result from the application of the tax to American businessmen traveling abroad in the interest of their employers for periods of less than 4 months. The implications of this fact, of course, are significant in a number of ways: it penalizes the American businessman and his corporate employer at a time when he will be compelled by the foreign direct investment control program to travel more rather than less in order to attempt to make arrangements for borrowing and deal with administrative problems which will flow from the direct investment controls program; it runs up the costs of corporate American employers whose executives will be traveling; and adds to the inflationary impact both domestically and in terms of the company's ability to compete internationally.

What these proposals would evoke in the way of foreign countermeasures is a matter of conjecture, but we believe that the foreign