



ASIA-PACIFIC COUNCIL OF AMERICAN CHAMBERS OF COMMERCE

June 23, 2005

Honorable Connie Mack III
Chairman
President's Advisory Panel
On Federal Tax Reform
1440 New York Ave., N.W.
Suite 2100
Washington, D.C. 20220

Dear Chairman Mack:

We are writing to bring to your attention an aspect of tax policy affecting international competitiveness that relates directly to your deliberations as the President's Advisory Panel on Federal Tax Reform. I am the chairman of the Asia-Pacific Council of American Chambers of Commerce, an organization of over 10,000 members of the American business community working in the Asia Pacific region.

We are deeply concerned about the lack of understanding of the implications of proposed changes to current law affecting taxation of Americans abroad. As you may know, the US is the only major industrialized country that does not completely exempt the foreign earned income of its citizens working abroad. Under Section 911 of the Internal Revenue Code, there is provision of a modest \$80,000 tax exclusion, which has been in place in some form since 1926, to make the tax treatment of Americans more competitive with that of foreign nationals.

The Section 911 exclusion has a number of important policy implications that are highlighted in the attached study by PriceWaterhouseCoopers, which was done in 1995, and is currently in the process of being updated for 2005. There have been recent attempts to reduce the exclusion, which we believe are misguided.

The study showed that if Section 911 were repealed or significantly modified it would raise the cost of hiring Americans to work abroad for US companies and would thereby reduce the market for US exports. The study concluded that US exports would decline by 1.89 percent causing an \$8.7 billion drop in exports, in 1993 dollars. The updated study is likely to show a greater effect in today's dollars. Additionally, repeal of Section 911 would cause an even greater loss of US jobs domestically because Americans working abroad tend to source from US suppliers.


One of the reasons the Section 911 provision has been targeted is that it is referred to as a "tax expenditure" when in fact there would be an offsetting revenue loss should the section be repealed. The 1995 study estimated that the magnitude of the revenue loss would be as much as 20 percent of the expenditure estimate if Section 911 were repealed.

We understand that the Advisory Panel is looking at various territorial tax systems and we believe that this issue is related to that discussion because it was intended to equalize to some extent the fact that we do not operate under a territorial tax system.

We encourage you to take into consideration the sometimes overlooked and misunderstood implications of tax policy affecting Americans working abroad as you formulate your recommendations. Absent a territorial tax system that would apply to individuals, Section 911 contributes to our competitive position vis-à-vis other countries because it equalizes to some extent the greater expense of hiring Americans abroad, compared to hiring foreign nationals, and contributes to US exports.

We would be happy to discuss this with you and your staff.

Sincerely,



GEORGE M. DRYSDALE
Chairman

Attachment: October 1995 Study and APCAC Directory

cc: Jeffrey F. Kupfer, Executive Director