NATIONAL FOREIGN TRADE COUNCIL, INC.

1625 K STREET, NW, WASHINGTON, DC 20006-1604

TEL: (202) 887-0278 FAX: (202) 452-8160

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Letters to the Editor
The Wall Street Journal
200 Liberty Street
New York, N.Y. 10281

Dear Editor:

In response to John McKinnon's article renewing interest in imposing a territorial tax regime (*U.S. Overseas Tax Is Blasted*, May 5), I would strongly caution against viewing the territorial tax system as a cure-all reform for U.S. companies with overseas operations. The additional tax collected under the territorial income tax regime referenced in the article comes not from eliminating loopholes and credits but by increasing the U.S. tax on American companies trying to compete globally. While the basis for the Joint Tax Committee estimate is not disclosed, a similar study conducted in 2001 by Harry Grubert and John Mutti that reflected similar results was based on allocating foreign source royalty income to the U.S. tax base and disallowing U.S. expenses by over-allocating them to so-called exempt foreign income -- neither of which characterize a traditional territorial tax system.

As the National Foreign Trade Council has noted time and again – most recently in a 2002 study on the issue – moving to a territorial tax system alone would not cure the problems inherent in the U.S. international tax system, which include the overly broad scope of the U.S. anti-deferral regime, the over allocation of expenses to foreign income, and the restrictive aspects of the foreign tax credit. The study concluded that improving the competitiveness of any substantial group of U.S. companies through the use of a traditional territorial tax system would require favorably resolving many of the same issues that make current U.S. rules anti-competitive. Territorial taxation, therefore, would solve nothing and instead would do significant harm to U.S. economic interests and global competitiveness.

The situation facing U.S. corporations in the global marketplace is more aptly addressed in your publication's Opinion section of the same day in *Export Tax Follies*, stating that U.S. corporate tax rates are far higher than they should be. This commentary cited a recent OECD study which showed our corporate tax rates to be the second highest in the industrialized world, effectively impeding U.S. investment and company growth. The piece correctly states that the way to retain jobs in the U.S. is to keep American companies competitive. That is the correct message to send to our law makers.

Sincerely,

Judy Scarabello
Vice President, Tax Policy
National Foreign Trade Council
1650 K Street, NW, Suite 200
Washington, DC 20006
Phone: 202-887-0278

The National Foreign Trade Council is a leading business organization advocating an open, rules-based global trading system. Founded in 1914 by a broad-based group of American companies, the NFTC now serves 300 member companies through its offices in Washington and New York.

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