

NATIONAL FOREIGN TRADE COUNCIL, INC.

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March 14, 2005

The Honorable Jim Nussle
Chairman
Committee on the Budget
309 Cannon Office Building
Washington, DC 20515

The Honorable John M. Spratt
Ranking Member
Committee on the Budget
B-71 Cannon Office Building
Washington, DC 20515

Dear Chairman Nussle and Congressman Spratt:

I am writing to express our concern about proposals to eliminate deferral of U.S. tax on foreign income for companies investing abroad. As you move forward with your consideration of the 2006 budget resolution, we ask that you avoid requiring any changes in the international tax rules that would hinder the ability of U.S. companies to compete in the global marketplace.

Schemes to eliminate the deferral of U.S. tax on income earned in a foreign country (that remains in that country) would subject U.S. multinational companies to potential double taxation and significantly impair their ability to participate in international markets. U.S. companies without a local presence cannot compete against their foreign counterparts, particularly when subject to onerous home country tax rules.

Contrary to the current "outsourcing" argument that investing abroad drains jobs and production from the United States, economic evidence points to the opposite conclusion—U.S. investment abroad increases economic activity at home. This complementary relationship between the foreign and domestic operations of U.S. multinational corporations is discussed in the *NFTC Foreign Income Project: International Tax Policy for the 21st Century* ("NFTC FIP"). In fact, as noted in the NFTC FIP, academic studies support the hypothesis that U.S. investment abroad promotes U.S. exports. An OECD study that is cited found that a dollar spent on foreign investment resulted in two dollars of additional exports. As demand for U.S. exports increases there is an associated increase in the demand for U.S. headquarters support services creating additional jobs. There is also evidence that workers at U.S. companies with foreign operations earn higher wages than their counterparts in purely domestic companies in the same industries.

We strongly urge you to preserve the U.S. tax deferral system and maintain the competitive position of U.S. firms abroad thereby safeguarding American jobs. If we can provide additional information, please contact me or Judy Scarabello, Vice President for Tax Policy, at 202 887 0278.

Sincerely,

A handwritten signature in black ink, appearing to read 'W. A. Reinsch', is written over a light blue horizontal line.

William A. Reinsch
President

Cc: The Honorable William M. Thomas
The Honorable Charles B. Rangel