TAX RULES AFFECTING FOREIGN CONVENTIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON TOURISM AND SUGAR

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 589, S. 749, and S. 940

JULY 20, 1979

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

50-758 O WASHINGTON : 1979 HG 96-31

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TAX RULES AFFECTING FOREIGN CONVENTIONS

FRIDAY, JULY 20, 1979

U.S. SENATE,
SUBCOMMITTEE ON TOURISM AND SUGAR,
COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m. in room 2221, Dirksen Senate Office Building, Hon. Spark Matsunaga (chairman of the subcommittee) presiding.

Present: Senators Matsunaga and Dole.

[The press releases announcing this hearing and the bills S. 589, S. 749, and S. 940 follow:]

Press Release #H-26

PRESS RELEASE

FOR IMMEDIATE RELEASE
May 4, 1979

UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON TOURISM AND SUGAR
2227 Dirksen Senate Office Bldg.

SUBCOMMITTEE ON TOURISM AND SUGAR ANNOUNCES
HEARINGS ON TAX RULES AFFECTING FOREIGN CONVENTIONS

The Subcommittee Chairman Spark M. Matsunaga (D., Hawaii) announced today that the Subcommittee on Tourism and Sugar will hold a hearing on June 15, 1979, on proposed changes in the tax rules affecting foreign conventions.

The hearing will be held on June 15, 1979, in Room 2221, Dirksen Senate Office Building. It will begin at 9:30 A.M.

Prior to the Tax Reform Act of 1976 (Public Law 94-455), taxpayers could generally deduct the ordinary and necessary business expenses incurred in traveling to and from a foreign convention and while attending the convention, as well as any registration fees. The determination of what was an ordinary and necessary business expense was made on a case-by-case basis. The 1976 Act added a number of specific rules for the deductibility of these travel and subsistence expenses.

The following bills have been introduced on this subject:

S. 589.--Introduced by Senator Bentsen, for himself, Senator Javits, Senator DeConcini, Senator Hayakawa, and Senator Church, which would restore the pre-1976 Act rules for conventions in Mexico and Canada.

S. 749.--Introduced by Senator Goldwater, for himself and Senator DeConcini, which would repeal the provisions added by the 1976 Act.

S. 940.--Introduced by Senator Mathias, which would repeal one of the requirements established by the 1976 Act (the requirement for written statements by the sponsors of the convention).

In announcing the hearing, Senator Matsunaga said that "the Administration and other witnesses should be prepared to discuss the actual economic effects of the 1976 Act provisions on tourism and the convention trade in this country, as well as the foreign convention trade. We need to look at what available data there may be."

Witnesses who desire to testify at the hearing should send their written requests to Michael Stern, Staff Director, Committee on Finance, Roor 2227, Dirksen Senate Office Building, Washington, D. C. 20510 no later than the close of business on June 1, 1979.

Legislative Reorganization Act.--Senator Magsunaga stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify should comply with the following rules:

(1) All witnesses must include with their written statements a summary of the principal points included in the statement.

(2) The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be delivered to Room 2227, Dirksen Senate Office Building, not later than 5:00 P.M. on the day before the witness is scheduled to appear.

(3) Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.

(4) No more than 10 minutes will be allowed for any oral summary.

Witnesses who fail to comply with these rules will forfeit their privilege to testify.

Written statements.--Persons not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearings. These written statements should be submitted to Michael Stern, Staff Director, Senate Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D. C. 20510, not later than July 20, 1979.

P. R. #H-26

Press Release #H-35

PRESS RELEASE

FOR IMMEDIATE RELEASE
June 8, 1979

UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON TOURISM AND SUGAR
2227 Dirksen Senate Office Building

SUBCOMMITTEE ON TOURISM AND SUGAR RESCHEDULES HEARINGS ON TAX RULES AFFECTING FOREIGN CONVENTIONS

Subcommittee Chairman Spark M. Matsunaga (D., Hawaii) announced today that the Subcommittee on Tourism and Sugar hearing on June 15, 1979, on proposed changes in the tax rules affecting foreign conventions has been rescheduled.

The hearing will now be held on Friday, July 20, 1979, in Room 2221 Dirksen Senate Office Building. It will begin at 9:30 a.m.

In a previous press release, witnesses desiring to testify were to submit requests by June 1, 1979. This time has now been extended. Written requests to testify should be sent to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510 no later than the close of business on July 9, 1979.

Witnesses scheduled to testify should comply with the following rules:

(1) All witnesses must include with their written statements a summary of the principal points included in the statement.

(2) The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be delivered to Room 2227 Dirksen Senate Office Building no later than 5:00 p.m. on the day before the witness is scheduled to appear.

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P.R. #35

96TH CONGRESS
1ST SESSION

S. 589

To restore the deductibility of expenses for attending certain conventions in Mexico and Canada.

IN THE SENATE OF THE UNITED STATES

MARCH 8 (legislative day, FEBRUARY 22), 1979

Mr. BENTSEN (for himself, Mr. JAVITS, Mr. DECONCINI, Mr. HAYAKAWA, and Mr. CHURCH) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To restore the deductibility of expenses for attending certain conventions in Mexico and Canada.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SEC. 1. IN GENERAL.—Section 274(h) of the Internal Revenue Code of 1954 (relating to foreign conventions) is amended by—

(1) striking out "outside the United States" in paragraph (2) and inserting in lieu thereof "outside the North American area",

(2) amending subparagraph (A) of paragraph (6) to read as follows:

"(A) FOREIGN CONVENTION DEFINED.—The term 'foreign convention' means any convention, seminar, or similar meeting held outside the North American area and the Trust Territory of the Pacific.", and

(3) adding at the end of paragraph (6) the following new subparagraph:

"(E) NORTH AMERICAN AREA.—The term 'North American area' means the United States, its possessions, Mexico and Canada.".

SEC. 2. EFFECTIVE DATE.—The amendments made by this section shall apply to conventions beginning after December 31, 1978.

96TH CONGRESS
1ST SESSION

S. 749

To encourage the international exchange of information and to promote friendly foreign relations by repealing the amendments made by section 602 of the Tax Reform Act of 1976.

IN THE SENATE OF THE UNITED STATES

MARCH 26 (legislative day, FEBRUARY 22), 1979

Mr. GOLDWATER (for himself and Mr. DECONCINI) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To encourage the international exchange of information and to promote friendly foreign relations by repealing the amendments made by section 602 of the Tax Reform Act of 1976.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 274 of the Internal Revenue Code of 1954 (relating to attendance at foreign business conventions and educational seminars) is amended by striking out subsection (h) and by redesignating subsection (i) as (h).

SEC. 2. The amendments made by the first section of this Act apply with respect to taxable years beginning after December 31, 1978.

II

96TH CONGRESS
1ST SESSION

S. 940

To amend the Internal Revenue Code of 1954 to repeal the requirement that officers of organizations or groups sponsoring foreign business related meetings verify certain activities of individuals attending such meetings.

IN THE SENATE OF THE UNITED STATES

APRIL 10 (legislative day, APRIL 9), 1979

Mr. MATHIAS introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To amend the Internal Revenue Code of 1954 to repeal the requirement that officers of organizations or groups sponsoring foreign business related meetings verify certain activities of individuals attending such meetings.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) paragraph (7) of section 274(h) of the Internal Revenue Code of 1954 (relating to deductions for foreign conventions) is amended to read as follows:

"(7) REPORTING REQUIREMENTS.—No deduction shall be allowed under section 162 or 212 for transpor-

tation or subsistence expenses allocable to attendance at a foreign convention unless the taxpayer claiming the deduction attaches to the return of tax in which the deduction is claimed a written statement signed by the individual attending the convention which includes—

"(A) information with respect to the total days of the trip, excluding the days of transportation to and from the site of such convention, and the number of hours of each day of the trip which such individual devoted to scheduled business activities,

"(B) a program of the scheduled business activities of the convention, and

"(C) such other information as may be required in regulations prescribed by the Secretary.".

(b) The amendment made by subsection (a) shall apply with respect to conventions beginning after December 31, 1978.

Senator MATSUNAGA. The Subcommittee on Tourism and Sugar will come to order.

Today the Subcommittee on Tourism and Sugar seeks testimony on three bills, each proposing changes to section 274(h) of the Internal Revenue Code. This section places restrictions on the deduction of business expenses incurred in attending foreign conventions. These restrictions were enacted in the Tax Reform Act of 1976.

The three bills before the subcommittee are S. 589, introduced by Senators Lloyd Bentsen and Jacob Javits, to exempt conventions held in Canada and Mexico from the restrictions; S. 749 introduced by Senator Barry Goldwater which would repeal all restrictions on foreign conventions; and S. 940, introduced by Senator Charles Mathias, which would repeal the requirement for the convention sponsors' written verification of attendance and purpose.

Section 274(h) was enacted to prevent abuses of the tax laws for business expense deductions. Prior to its enactment, expenses were generally deductible as ordinary and necessary to a business purpose, even when the taxpayer did not attend most convention functions or when no structured format for a convention existed.

Many foreign conventions, seminars, and cruises were described as "tax-paid vacations". Organizations advertised that they would find a so-called business convention in any part of the world at any given time of the year for an individual. This type of promotion eroded public confidence in our tax laws.

Prior law required a factual determination of whether the convention attended was primarily related to the taxpayer's business or whether it was primarily personal in nature. The committee reports emphasized the difficulty for the Internal Revenue Service agents in making a subjective determination into the taxpayer's motives and intention. The Internal Revenue Service manpower was inadequate for the task and the resulting proliferation of foreign conventions, seminars, and cruises, only tenuously related to a business purpose, was alarming.

The restrictions on foreign conventions, as they now stand, limit to two the number of foreign conventions for which expenses may be deducted in any one year. To correct the former abuses, strict requirements for each convention must be met, including substantial attendance at convention business activities and written statements from the taxpayer and the convention sponsors. In addition, low expense limitations are set.

However, even after passage of the 1976 Tax Reform Act, the continuance of abuses has alarmed the Treasury. A Treasury analysis last year specifically cited the example of the California Trial Lawyers Association sponsoring seminars all over the world for its members. The analysis quoted the promotional booklet as stating:

> Decide where you would like to go this year: Rome. The Alps. The Holy Land. Paris and London. The Orient. Cruise the Rhine River or the Mediterranean. Visit the islands in the Caribbean. Delight in the art treasures of Florence.

The brochure also states that: "These trips have been designed to qualify under the 1976 Tax Reform Act as deductible foreign seminar." Convention expenses related to a business purpose are rightly deductible as a business expense. However, the tax laws do not and should not permit the deduction of personal vacation expenses.

Today this subcommittee will hear testimony on the effects of the current law. The subcommittee is particularly interested in learning the effect of the 1976 restrictions on both domestic and foreign convention business in dollar terms. We would like to know who has benefited from these restrictions.

Two of our major domestic convention centers, Puerto Rico and the U.S. Virgin Islands, are very poor economic areas, and the Congress must be sure that any changes affecting convention business will not materially unbalance their economy.

We would also like to know whether any retaliatory measures on the part of other countries have occurred since the current law was enacted. Tax treatment of foreign convention business expenses by other countries varies widely, but many popular convention and vacation countries such as Canada, Ireland, West Germany, and the United Kingdom impose restrictions on their citizens which are similar to or harsher than our own. At the end of my statement, I will include for the record a list of these countries and a description of their restrictions.

It should also be noted that the United States has consistently run a deficit in its international travel accounts. In 1978, U.S. travelers abroad spent $11.4 billion. In comparison U.S. receipts from foreign travelers totaled $8.3 billion. The United States thus had a deficit of $3.1 billion. Trade and travel between countries should be two-way streets for the benefit of both parties.

There has also been some confusion caused by the law's definition of a convention. The subcommittee would like to know what should be considered a convention and whether all meetings, seminars, and gatherings should fall under the restrictions.

In reporting a bill last session, H.R. 9281, to amend the restrictions, the House Ways and Means Committee determined that private business meetings with foreign governments, businesses or individuals and nonprofit organizational meetings should not fall within the present restrictions.

The vast majority of the State governments and tourist organizations which I contacted regarding these bills advocate a change in the current restrictions. Copies of letters which I sent out and the incoming responses will be included as part of the hearing record. Major criticism of the present law has centered on the burden of section 274(h)'s provisions.

The reporting provisions, which S. 940 would partially repeal, is cited as particularly unreasonable. The per diem expense and airfare limitations are also said to be unreasonably low for American businessmen. And it is pointed out that no special consideration is given to organizations with international membership, who have numerous regular meetings in foreign countries. Finally, there is the often stated fear of retaliation by other countries in preventing conventions or tourists from coming to this country. It is my hope that today's witnesses will touch upon all of these issues.

Last year, the House Ways and Means Committee sought to address these problems in H.R. 9281. The bill would repeal the two convention rule and the reporting requirements; increase the per diem expense limits; impose a test of reasonableness for foreign conventions; and provide a North American exemption.

Under the reasonableness test, business convention expenses would not be deductible unless it were more reasonable than not to hold the convention abroad. This test would consider: one, the purpose of the meeting and the activities taking place at such meeting; two, the purposes and activities of the sponsoring organizations or groups; and three, the residences of the organization members and past convention sites of the organization.

This House bill in ending the reporting requirement and providing a North American exemption would address a number of concerns. Moreover, if the per diem limit were replaced with the general ordinary and necessary rule applicable to general business expenditures, and if the reasonableness test were reworded to require that it be as reasonable, instead of more reasonable, to hold the business convention at the foreign site than at a domestic site, considering the organization's membership, purpose and activities, the House proposal would be in harmony with and probably less stringent than the restrictions foreign countries impose on their nationals coming to the United States.

In considering these various proposals, members of the subcommittee will keep in mind the foreign, business, tax, and tourism policies which affect this legislation. We will have to look at commercial and political relations with Canada and Mexico with respect to S. 589. We will not lose sight of the original business and tax policy reasons for the current law.

Of serious concern is the National Tourism Policy Act, S. 1097, which was recently passed by the Senate and which is now pending in the House. That bill's general purpose is to encourage national and international travel and the free and welcome entry of tourists into the United States. We, of course, expect from friendly foreign countries the same consideration we extend to them. The work of this subcommittee in reconciling these various policy objectives may determine the outcome of these bills.

With this opening statement, I would like to welcome all the witnesses here today and thank them for taking time from their busy schedule to share their views with us. I believe we have a list of very knowledgeable witnesses, whose statements will be weighed by the committee in arriving at its decision.

[The material referred to by Senator Matsunaga follows:]

THE LIBRARY OF CONGRESS,
Washington, D.C. February 9, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: In response to your inquiry of December 21, 1978, I am enclosing reports for 15 foreign countries prepared by the legal specialists of the Law Library on the subject of tax treatment, as business expense deductions, for attending foreign conventions.

Please let me know if you need any further information.

Sincerely,

CARLETON W. KENYON, *Law Librarian.*

Enclosures.

ARGENTINA

(By Rubens Medina, Chief, Hispanic Law Division)

The Argentine statutes on taxation do not address the subject of deductions with specific reference to attendance at conventions in the United States. The related provisions are general with no references to a specific event, country or countries.

Law 20,628 of December 29, 1973,[1] established the basic categories of taxable income and authorized deductions for expenditures made to obtain, maintain, preserve and collect taxable income. The pertinent passage stated that, from incomes generated in the various categories, deductions were authorized "* * *(e) for transportation or travel expenditures, per diem and other analogous compensations," provided they are duly justified and accepted by the collecting agency.

AUSTRALIA

(By Kersi B. Shraff, Legal Specialist)

The Income Tax Assessment Act, 1936-1953, § 51(1) provides in relevant part that: "All losses and outgoings to the extent to which they are incurred in gaining or producing the assessable income, or are necessarily incurred in carrying on a business for the purpose of gaining or producing such income, shall be allowable deductions * * *"

Cases interpreting this provision indicate that the expenses of attending a foreign convention relating to a taxpayer's profession or business are deductible. In Federal Commissioner of Taxation v. Finn,[2] a senior government architect visited South America during which time he devoted all his available time to the advancement of his knowledge of architecture and the development of his architectural equipment, outlook and skill. It was held that the expenses were incurred "in gaining or producing the assessable income" and were therefore allowable under § 51.

Similarly, in Paramac Printing Co. Pty. Ltd. v. Commissioner of Taxation,[4] the expenses of overseas trips taken by employees for the purposes of improving their knowledge of the printing trade and its processes and techniques were held deductible.

BELGIUM

(By Dr. Virgiliu Stoicoiu, Senior Legal Specialist)

Tax treatment of business expense deductions

Business expense deductions for attending conventions abroad are not mentioned as such in Tax Code of Belgium. However, expenses and charges related to corporation activities or events that occurred during the year are deductible, provided that they are permitted for tax purposes.[5]

Therefore, deductions for attending conventions abroad may be accepted by fiscal authorities when they can be included in the definition of "occupational expenses" as stated in article 44 of the Tax Code[6] which reads as follows:

"Art. 44. (3) Deductible occupational expenses or charges are those that the taxpayer has made or sustained during the tax period for the purpose of acquiring or conserving taxable income, and which he justifies as to the amount and reality of by means of proving documents or, when that is not possible, by any other means of proof admitted by common law, subject to oath."

Expenses or charges, the amount of which is not justified in accordance with the preceding paragraph, may be determined contractually with common agreement between the administration and the taxpayer. In default of this agreement, the administration shall evaluate these expenses or charges in a reasonable manner.

The expenses or charges which, during such period, have been actually paid or incurred or which have acquired the character of definite and liquid debts or losses and have been accounted for as such shall be considered as having been made or sustained during the tax period.

BRAZIL

(By Rubens Medina, Chief, Hispanic Law Division)

Attendance at conventions, either in the United States or elsewhere, is not directly treated in the laws and regulations on taxation in Brazil.

Decree-Law 1198 or December 27, 1971,[7] on collection of income tax includes a general provision stating that under schedule D of the statement of income, a

[1] Boletin Official, Dec. 31, 1973.
[2] 6 Acts Austl. P. 259 (1975).
[3] 106 Commonwealth Law Reports 60 (1962).
[4] 111 Commonwealth Law Reports 529 (1964).
[5] Price Waterhouse & Co., Doing Business in Belgium 65 (New York, 1978).
[6] Jean Servais et E. Mechelynk, 5 Les Codes Belges 193 (Bruxelles, 1971).
[7] Legislação Tributaria 268-69 (Editorial José Konfino, Rio de Janeiro, 1974).

deduction of expenditures incurred in relation to professional activities during the term of the pertinent year shall be allowed, provided these expenditures were necessary for the maintenance of the "productive source." The Minister of the Treasury is empowered to limit the number and amount of these deductions.

No further provisions have been found containing more detail on deductions for this category of expenditures.

CANADA

(By Krishan S. Nebra, Senior Legal Specialist)

The Canadian Income tax Act[8] allows deductions to be made for expenses of the conventions attended by professional or business people in the following terms: "20(10). Notwithstanding paragraph 18(1)(b), there may be deducted in computing a taxpayer's income for a taxation year from a business an amount paid by the taxpayer in the year as or on account of expenses incurred, in connection with the business, not more than two conventions held during the year by a business or professional organization at a location that may reasonably be regarded as consistent with the territorial scope of that organization."

Therefore, expenses for attending two conventions in a year are deductible provided these are profession or business related and within the territorial scope of the organization. Accordingly, an insurance agent was allowed to deduct the cost of attending two conventions.[9] However, where a medical convention was found to be only a minor reason for incurring traveling expenses, the deduction was disallowed.[10]

DENMARK

(By Dr. Finn Henriksen, Senior Legal Specialist)

Tax treatment of business expense deductions for attending conventions

The appended report of July 1975 on tax deductions is still up to date with respect to Denmark.[11] However, the cited American provisions have been tightened.

FRANCE

(By Dr. Takar Ahmedouamar, Senior Legal Specialist)

Business expense deductions

The average tax deduction for business expenses in France, including travelling expenses is 10 percent. However in some professions people are entitled to a supplementary tax deduction, according to article 5, annex IV of the General Tax Code. The amount of these tax deductions depends on each profession and varies from 5 percent to 30 percent. For instance newsmen and crewmen of commercial aviation are entitled to a 30 percent additional deduction. Artists and models are entitled to 25 percent to 20 percent additional tax deduction. Individual watchmakers who own their own tools and night workers in news printing jobs are entitled to a 5 percent additional professional tax deduction.[12]

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[8] 1970-71-72 Can. Stat. c. 63 (1972).

[9] Chris G. Ganggas v. Minister of National Revenue, [1964] D.T.C. 196 (T.A.B.).

[10] George Noel Cormack v. Minister of National Revenue, [1964] D.T.C. 43 (T.A.B.).

[11] Library of Congress, Law Library. Typescript report on tax deductions: Scandinavian Countries (1975). (Appendix I.)

[12] Code général des impots 1164-1168 (Dalloz, Paris, 1971). See Appendix.

15

PETITS CODES DALLOZ

CODE GÉNÉRAL DES IMPOTS

et

ANNEXES

Avec annotations et renvois

Entre deux éditions, une **Mise à jour** *est fournie, à titre onéreux, aux lecteurs qui en font la demande, d'avance, par écrit.*

JURISPRUDENCE GÉNÉRALE DALLOZ
11 RUE SOUFFLOT 75240 PARIS CEDEX 05
1977

de la consommation), des animaux — y compris les oiseaux — d'appartement ou d'agrément, des poissons et autres espèces vivantes d'aquarium, de toutes espèces vivantes pour la pratique d'un sport ou d'un agrément, des chiens, des chevaux de course, des pigeons;

Pisciculture, y compris les salmonidés;

Production de mycélium;

Production de gelée royale.

Arr. 27 mars 1973, art. 1er.

Section II

Traitements et salaires.

Déduction supplémentaire pour frais professionnels.

Art. 5. Pour la détermination des traitements et salaires à retenir pour le calcul de l'impôt sur le revenu, les contribuables exerçant les professions désignées dans le tableau ci-dessous ont droit à une déduction supplémentaire pour frais professionnels, calculée d'après les taux indiqués audit tableau. (*V. ci-dessous et pages suivantes*).

Arr. 13 mars 1941, art. 1er; 26 févr. 1947, art. 1er; 1er juill. 1947, art. 1er; 15 mai 1948, art. 1er; 12 août 1948, art 1er; L. 7 févr. 1953, art. 21; Décisions min. 31 janv. 1953, 17 juill. 1953, 13 mars 1954, 9 août 1954, 21 janv. 1956, 14 mars 1955, 14 avr. 1956, 19 juin 1956, 7 juill. 1956, 15 mars et 27 mai 1957.

DÉSIGNATION DES PROFESSIONS	POURCENTAGE de la déduction supplémentaire
	p. 100
Artistes dramatiques, lyriques, cinématographiques ou chorégraphiques	25
Artistes musiciens. Choristes. Chefs d'orchestre. Régisseurs de théâtre	20
Aviation marchande. Personnel navigant comprenant : pilotes, radios, mécaniciens navigants des compagnies de transports aériens; pilotes et mécaniciens employés par les maisons de construction d'avions et de moteurs pour l'essai des prototypes; pilotes moniteurs d'aéro-clubs et des écoles d'aviation civile.	30
Casinos et cercles :	
Personnel supportant des frais de représentation et de veillée	8
Personnel supportant des frais de double résidence	12
Personnel supportant à la fois des frais de représentation et de veillée et des frais de double résidence	20

DÉSIGNATION DES PROFESSIONS	POURCENTAGE de la déduction supplémentaire
	p. 100
Chauffeurs et receveurs convoyeurs de cars à services réguliers ou occasionnels, conducteurs démonstrateurs et conducteurs convoyeurs des entreprises de construction d'automobiles. Chauffeurs et convoyeurs de transports rapides routiers ou d'entreprises de déménagements par automobiles	20
Commis d'agent de change et commis du marché en banque (place de Paris). Sur les émoluments variables de toute nature	20
(En ce qui concerne les émoluments fixes, la seule déduction applicable est la déduction normale de 10 p. 100.).	
Couture (Personnel des grandes maisons parisiennes de) :	
Modélistes	20
Mannequins	10
Fonctionnaires ou agents des assemblées parlementaires	20
Inspecteurs d'assurances des branches vie, capitalisation et épargne	30
Internes des hôpitaux de Paris	20
Journalistes, rédacteurs, photographes, directeurs de journaux (1). Critiques dramatiques et musicaux	30
Ouvriers à domicile relevant des industries ci-après :	
Armurerie et limeurs de cadres de bicyclettes du département de la Loire	20
Bonneterie :	
— de la région de Ganges (Hérault) :	
Travaux de fabrication effectués à l'aide d'un outillage mécanique	15
Travaux de finition effectués à l'aide d'un outillage mécanique	5
— des départements de l'Aube et de la Loire :	
Travaux de fabrication sur métiers	15
— des départements du Rhône, de l'Ain et de l'Isère (ouvriers bonnetiers)	15
— du département de Saône-et-Loire	5

(1) *Les directeurs de journaux pourront prétendre à la déduction supplémentaire doivent s'entendre, exclusivement, des directeurs des publications répondant aux conditions posées par l'art. 72 de l'annexe III c. gén. imp. — Cette disposition s'applique aux rémunérations perçues à compter du 1er janv.* 1976 (Art. 13 nov. 1975, D. 1976. 4161).

DÉSIGNATION DES PROFESSIONS	POURCENTAGE de la déduction supplémentaire
	p. 100
Broderie :	
Brodeurs de la région lyonnaise utilisant des métiers pantographes	20
Brodeurs du département de l'Aisne	10
Cartonnage de la région de Nantua	5
Confection et couture en gros pour dames, fillettes et enfants	5
Cotonnade de la région du Sud-Est :	
Départements de l'Ain, de l'Ardèche, de la Drôme, du Gard, de la Haute-Loire, de la Haute-Savoie, de l'Isère, de la Loire, du Puy-de-Dôme, du Rhône, de la Savoie, de Saône-et-Loire et du Vaucluse : Tisseurs sur métiers mécaniques fournissant le matériel nécessaire au tissage	30
Département du Var : Tricoteurs	30
Coutellerie de la région de Thiers (Puy-de-Dôme) :	
Émouleurs, polisseurs et trempeurs	15
Diamant de la région de Saint-Claude (Jura)	10
Éponges métalliques du département de l'Ain	15
Galoches de la région de Laventie (Pas-de-Calais) :	
Piqueurs non propriétaires de leurs machines, monteurs	10
Piqueurs propriétaires de leurs machines	15
Lapidairerie du Jura et de l'Ain :	
Lapidaires	25
Limes de la Loire	20
Lunetterie de la région de Morez (Jura) :	
Monteurs en charnières et monteurs en verre	15
Polisseurs ponceurs	25
Matériel médico-chirurgical et dentaire et coutellerie de la région de Nogent-en-Bassigny (Haute-Marne) :	
Forgerons, mouleurs, monteurs et polisseurs employant un outillage mécanique	15
Matières plastiques de la région de Saint-Lupicin (Jura) :	
Monteurs, ébarbeurs, petites mains	5
Polisseurs, éclaircisseurs	10
Tourneurs, fraiseurs, guillocheurs	20
Métallurgie :	
— de la région de Hautes-Rivières (Ardennes) :	
Forgerons à domicile	20
Tourneurs, fraiseurs, presseurs, limeurs ébarbeurs à la meule, outilleurs	15
— de Saint-Martin-la-Plaine (Loire) :	
Ouvriers chaînetiers et ouvriers ferronniers	15
Ouvriers bottiers de la région parisienne	5

DÉSIGNATION DES PROFESSIONS	POURCENTAGE de la déduction supplémentaire
	p. 100
Peignes et objets en matière plastique d'Oyonnax (Ain) :	
Ponceurs, mouleurs, entrecoupeurs et rogneurs ...	25
Autres professions	20
Pipes de la région de Saint-Claude (Jura) :	
Éclaircisseuses	5
Polisseurs, monteurs	20
Rubannerie des départements de la Loire et de la Haute-Loire	20
Textile :	
— de la région de Lavelanet (Ariège)	25
— de la région de Vienne (Isère)	30
— de Sainte-Marie-aux-Mines (Haut-Rhin)	30
Tissage de la région de Fourmies, de Cambrai et du Cambrésis :	
Ourdisseurs, bobineurs et canetiers	25
Tissage de la soierie de la région du Sud-Est (départements de l'Ain, de l'Ardèche, de la Drôme, du Gard, de la Haute-Loire, de la Haute-Savoie, de l'Isère, de la Loire, du Puy-de-Dôme, du Rhône, de la Savoie, de la Saône-et-Loire et du Vaucluse) :	
Dorure	20
Passementiers et guimpiers :	
Non propriétaires de leur métier	30
Propriétaires de leur métier	40
Tisseurs à bras de gaze de soie à bluter de la région de Panissières (Loire)	20
Tisseurs à bras de la soierie lyonnaise	40
Tisseurs non propriétaires de leur métier :	
Tissus façonnés	30
Tissus unis	20
Tisseurs propriétaires de leur métier :	
Tissus façonnés	40
Tissus unis	30
Tissage mécanique des départements de l'Aisne, du Nord, de la Somme :	
Tisseurs à domicile utilisant des métiers mus par la force électrique lorsque les frais de force motrice restent à leur charge	25
Tissage sur métiers à bras dans les départements de l'Aisne, du Nord et de la Somme	10
Ouvriers d'imprimeries de journaux travaillant la nuit.	5
Ouvriers du bâtiment visés aux paragraphes 1er et 2 de l'article 1er du décret du 17 novembre 1936, à l'exclusion de ceux qui travaillent en usine ou en atelier	10
Ouvriers forestiers	10

DÉSIGNATION DES PROFESSIONS	POURCENTAGE de la déduction supplémentaire
	p. 100
Ouvriers horlogers, lorsqu'ils sont personnellement propriétaires des outils et petites machines nécessaires à l'exercice de leur métier	5
Ouvriers mineurs travaillant au fond des mines	10
Ouvriers scaphandriers	10
Représentants en publicité	30
Speakers de la radiodiffusion-télévision française	20
Voyageurs, représentants et placiers de commerce ou d'industrie	30

Art. 6. Le revenu brut à retenir pour l'application de la déduction supplémentaire prévue à l'article 5 s'entend, lorsqu'il n'en est pas disposé autrement, du montant global des rémunérations acquises aux intéressés, y compris les indemnités versées à titre de frais d'emploi, de service, de route et autres allocations similaires.

Art. 12 mars 1941, art. 1.

SECTION III

Revenus des capitaux mobiliers.

I. . . . . .

Art. 6 *bis.* *(Disposition périmée.)*

I *bis.* Revenus des obligations.

Art. 6 *ter.* La liste des valeurs assorties d'une clause d'indexation auxquelles ne s'appliquent pas les dispositions de l'article 158-3, troisième alinéa, du code général des impôts, est fixée comme suit :

1° Fonds d'État.

Emprunt national 5 p. 100 1950.

Bons d'équipement industriel et agricole 5 p. 100 1950.

2° Valeurs françaises du secteur public et semi-public.

Société nationale des chemins de fer français (S.N.C.F.) :
Bons indexés 1950 à 20 ans 5 ½ p. 100 minimum.
Bons indexés 1957 à 20 ans 5 ½ p. 100 minimum.
Bons indexés 1958 à 20 ans 6 p. 100 minimum.

Caisse nationale de l'énergie :
3 p. 100 indemnisation E. D. F., G. D. F.
3 p. 100 indemnisation E. G. A.

Électricité de France :
Parts de production 1958 à revenu variable.
Parts 1959 à capital variable.
Emprunt 6 p. 100 1957 à prime indexée.

Gaz de France :
Parts de production 1953-1955 à revenu variable.
Parts de production 1957 à revenu variable.
Emprunt 6 p. 100 1958 à capital et intérêt indexés.

Compagnie financière franco-marocaine d'études et d'équipements E. N. E. I. E. F. I. (anciennement Energie électrique du Maroc) :
Parts de production 1953 à revenu variable.

Compagnie nationale du Rhône :
Emprunt 6 p. 100 1957 à bonification supplémentaire en intérêt et capital variable.

Charbonnages de France :
3 p. 100 à intérêt complémentaire variable remboursables avec prime.
Bons 5 ½-6 p. 100 1957 à 5, 10 et 15 ans remboursables avec prime.
Bons 6 p. 100 1958 à 5, 10 et 15 ans remboursables avec prime.

Régie nationale des usines Renault :
5 ½ p. 100 1955 remboursables de 105 à 110 F minimum à bonification supplémentaire en intérêt et capital variable.
6 p. 100 1957 remboursables de 105 à 120 F minimum à bonification supplémentaire en intérêt et capital variable.
6 p. 100 1958 remboursables de 210 à 250 F minimum à bonification supplémentaire en intérêt et capital variable.

3° Autres valeurs françaises :

Caisse foncière de crédit pour l'amélioration du logement 6 p. 100 1958.
Pétrofigaz 6 p. 100-6 ½ p. 100 mars 1958 à bonification supplémentaire en intérêt et capital.
Compagnie française des produits Liebig 6 p. 100 1957 à intérêt et remboursement variables.
Motobécane 5 °/₀ p. 100 1956 à intérêt supplémentaire et prime de remboursement variables.
Saviem 5 p. 100 1956 à intérêt supplémentaire et prime de remboursement variables.
Sablières de la Seine 5 ½ p. 100 1956 à intérêt supplémentaire et prime de remboursement variables.
Manufacture française des pneumatiques Michelin 5 ½ p. 100 1955 à intérêt et prime de remboursement variables.
Compagnie des compteurs 5 °/₀ p. 100 1956 à intérêt supplémentaire et prime de remboursement variables.
Papeteries de France 6 p. 100-6 ½ p. 100 minimum 1959.
Groupement des industries de la construction électrique 6 p. 100 minimum 1957.
Groupement des industries de la construction électrique 6 p. 100 minimum 1958.
Compagnie industrielle des piles électriques C. I. P. E. L. 6 p. 100 minimum 1958.
Compagnie radio-maritime C. R. M. 6 p. 100 mars 1957.

FEDERAL REPUBLIC OF GERMANY

(By Dr. Edith Palmer, Senior Legal Specialist)

Tax treatment of business expenses deductions for attending conventions

In the Federal Republic of Germany, expenses for a trip aboard which serves the purpose of attending a professional convention can be deducted as a business expense only if the trip was undertaken solely or at least predominantly for professional reasons. If a private purpose for the trip cannot be totally excluded, the travel expenses are not tax-deductible.[13] Strict requirements are imposed to prove the professional character of a convention. The demonstration of a general professional interest is not sufficient. A professional reason is recognized only if the convention is organized in a structured manner, and the participation in professional meetings is documented. If the participation in a convention meets these strict criteria, then the expenses incurred in connection with it can be deducted as business expenses in accordance with section 4 of the Income Tax Code.[14]

REPUBLIC OF IRELAND

(By Kersi B. Shraff, Legal Specialist)

Provisions concerning the deductions allowable for tax purposes are similar to those in the United Kingdom. No sum is deductible in computing profits or gains unless it is expended wholly and exclusively for the purposes of the trade or the profession.[15]

There are no decisions on the question of deduction of expenses for attendance at a convention in the United States. Since regard is had to United Kingdom cases in matters of intepretation where the law is similar,[16] presumably the same conclusion as reached in the case of the United Kingdom is applicable.

ITALY

(By Dr. Vittorfranco S. Pisano, Senior Legal Specialist)

Tax treatment of business expense deductions for attending conventions

Pursuant to article II of President of the Republic Decree No. 597 of September 29, 1973, on the Creation and Discipline of a Personnal Income Tax, "expenses for attending secondary and university level courses of instruction, in an amount not exceeding that fixed for tuition and contributions at State institutions" are deductible from the aggregate income.[17] Under similar liberal guidelines, professionals and artists may deduct expenses for professional up-dating (refresher courses) including books, reviews, and attendance at conventions.[18] It consequently appears that reasonable expenses incurred for attending conventions would be deductible.

JAPAN

(By Dr. Sung Yoon Cho, Assistant to Chief Far Eastern Law Division)

Under the provisions of the Income Tax Law,[19] payments from a present or former employer for travel expenses for a business trip are not considered income and are therefore exempt from income tax assessment. Paid travel expenses include all transportation fares (train, ship, airplane, cab, etc.), hotel charges, per diem allowances, and other ordinary fees necessary for the travel. Also included are those paid expenses for an official, overseas trip for the purpose of attending a convention.[20]

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[13] Decision of the Bundesfinanzhof of 11 October 1973 Bundesteuerblatt II p. 198 (1974): the case involved a trip to the United States undertaken by an executive of a German company. The trip of 15 days involved attendance at a 4-day seminar and numerous other professional contacts.

[14] Einkommensteuergesetz 1977 in der Fassung vom 5. Dezember 1977, Bundesgesetzblatt [BGBl., official law gazette of the Federal Republic of Germany] I, p. 2365.

[15] The Income Tax Act, 1967, § 61, 1967, Acts of the Oireachtas 861.

[16] Tolley's Taxation in the Republic of Ireland 1977-78 at 1 (1977).

[17] M. Moretti, II Nuovo Sistema Tributario 49-50 (Milano, 1976).

[18] B. Frizzera, Guida Pratica Fiscale 32 (Trento, 1977).

[19] Article 9, paragraph 1, item 4, Law No. 33, March 31, 1965, as last amended by Law No. 14, April 1, 1977.

[20] Income Tax Law Basic Circular No. 9-3; see Japan. Kokuzeichō [Tax Administration Agency], *Saishin shotokuzei tsūtatsushū* [A Collection of New Income Tax Law Basic Circulars], Tokyo, 1961, p. 41. See also Masugorō Takeuchi and others, *Kaigai torihiki no zei jitusmu* [Tax Manual for Overseas Transactions], Tokyo, Chuo Keizaisha, 1970, p. 290.

The Corporation Tax Law provides that overseas travel expenses, including those expenses incurred while attending a business convention, which are paid by a corporation to its director or employees are deductible, if they are regarded as necessary expenses to perform official business.[21] If a spouse's company is required to achieve the full benefit of attending a business convention, the overseas travel expenses paid by a corporation to the employee's spouse are also deductible.[22]

MEXICO

(By Armando E. González, Assistant to the Chief, Hispanic Law Division)

The Law on Income Tax of Mexico of December 30, 1964, as amended pursuant to the Decree of November 15, 1974,[23] effective as of January 1, 1975, does not contain a specific provision allowing Mexicans deductions as business expenses for the attendance of conventions in a foreign country. However, the law does contain certain provisions indicating that this type of deduction may be allowed under certain circumstances, in spite of the tightening up of the rules governing deductions for expenses found in the 1974 amendment. Since the enforcement of the provisions of the law as amended in 1974 has been so recent, no case construing these provisions has been located.

Pertinent provisions of the law, especially those contained in article 51, section III, subsections c) and d), are enclosed.

[21] Corporation Tax Law Basic Circular No. 9-7-6; see *Hōjinzei kihon tsūtatsushū chikujō kaisetsu* [Article-by-Article Commentary on Corporation Tax Law Circulars], Tokyo, Zeimu Kenkyūkai, 1960, p. 265.

[22] Ibid., p. 267.

[23] Diario Oficial, Nov. 19, 1974.

MEXICAN INCOME

AND

COMMERCIAL RECEIPTS

TAX LAWS

As of January 1, 1977

Spanish-English Edition

CCH Editorial Staff Publication

COMMERCE CLEARING HOUSE, INC.
PUBLISHERS of TOPICAL LAW REPORTS
4025 W. PETERSON AVE., CHICAGO, ILLINOIS 60646

g). The expenditures must be entered in the taxpayer's books and he must have supporting documentary evidence.

Article Sixth of the Decree of December 30, 1976, amended subparagraph c) of paragraph II of Article 51 by striking out the words "or he must show that he has furnished the Ministry of Finance and Public Credit with whatever data he may possess for making the omitted registration"; amended subparagraph e) by adding the last sentence to read as above; and amended subparagraph f) by adding the last sentence to read as above. The amendment is effective January 1, 1977.

Article Fifth of the Decree of December 26, 1975, amended subparagraph d) of paragraph II of Article 51 by changing the last sentence to read as above. Prior to the amendment, such sentence read as follows: "In the case of contributions, those actually paid and authorized by the Ministry of Finance and Public Credit, either individually to the donor or on a general basis to the donees, may be deducted"; and subparagraph f) by striking out the words "professional associations" and inserting in lieu thereof the words "professional organizations, associations or civil companies." The amendment is effective January 1, 1976.

Article First of the Decree of November 15, 1974, amended paragraph II of Article 51 by striking out "normal and proper expenses" and inserting in lieu thereof "expenses that are strictly indispensable in carrying out" in the first paragraph; by striking out "ordinary and necessary" and inserting in lieu thereof "strictly indispensable" in subparagraph a); by adding "actually paid and" after "those" and "either individually to the donor or on a general basis to the donees" after "Credit" in the last sentence of subparagraph d); and by redesignating subparagraph f) as subparagraph g) and adding a new subparagraph f) to read as above. The amendment is effective January 1, 1975.

Article Thirteenth of the Decree of December 29, 1972, amended subparagraph d) of paragraph II of Article 51 by striking out the last sentence which read: "Contributions must be authorized by the Ministry of Finance and Public Credit" and inserting in lieu thereof two new sentences to read as above. The amendment is effective January 1, 1973.

III. The following expenditures are not deductible:

a). Gifts, favors and other expenses of a similar nature.

b). The depreciation of investments and expenses incurred for personal residences, vacation homes, airplanes and boats and others of a like nature, whether they are part of the fixed assets or are leased, or in the taxpayer's possession by any other use-conveying act.

Upon prior reasonable request by the taxpayer, the Ministry of Finance and Public Credit may authorize the deductibility of these items if they are directly related to his activity.

c). Per diems and representation expenses, by whatever name they may be designated, except those for lodging, meals, transportation, automobile rentals and mileage allowance, provided it is shown that those expenses were incurred outside a radius of 50 kilometers from the taxpayer's premises and also that the taxpayer shows that he has business relations in the place concerned and that the individuals to whom payment is made have a work relationship with the taxpayer, in the terms of paragraph I of Article 49 of this law or are rendering professional services pursuant to a written contract.

d). The expenses incurred for trips abroad will only be deductible if they meet the requirements of the preceding subparagraph.

UNITED KINGDOM

(By Kersi B. Shraff, Legal Specialist)

In computing the amount of profits or gains which are subject to tax, the rule is that only those expenses that have been incurred wholly and exclusively for the purposes of a trade, profession or vocation are deductible.[24]

In applying this provision it has been held that the expenses incurred by an attorney on a visit to a foreign law conference to meet foreign lawyers were not deductible.[25] The rational of the decision was that the expenses were incurred for a dual purpose—the advancement of the attorney's profession and the enjoyment of a holiday. The expenses were, therefore, not incurred wholly and exclusively for the purposes of his profession.

Under the same principle, an accountant's expenses in going abroad solely to attend an international conference of accountants were allowed as a deduction.[26] The decision was based on evidence showing that the taxpayer stayed abroad for the shortest time possible, he had made no arrangements for visiting any other part of the country, he had made useful contacts and was thus better able to advise his clients who had interests in other parts of the world and he had learned about other methods of accounting which were considered to be an advantage to his firm.

These cases warrant a conclusion that, provided a United Kingdom taxpayer comes to the United States solely for the purpose of attending a business or profession related convention, the expenses so incurred would be deductible for tax purposes.

THE NETHERLANDS

(By Joyce Darilek, Senior Legal Specialist)

Tax treatment of business expense deductions for attending conventions

The Dutch Income Tax Law does not spell out what is deductible and what is not. This is left to doctrine and case law. The Supreme Court[27] has decided that within reason all expenses incurred in the course of improving the effectiveness of the performance of one's job may be deducted. Therefore, expenses incurred in attending conventions in the United States by residents of the Netherlands may be deducted as long as they are reasonable.

VENEZUELA

(By Armando E. González, Assistant to the Chief, Hispanic Law Division)

Under the laws of Venezuela, business expenditures for attending conventions in the United States are not tax deductible. This kind of expenditure, if allowable, must meet two basic requirements: it must be made within the country, and it must be made for the purposes of producing revenue. Thus article 15, section 21 of the Income Tax Law provides:[28]

"*Art. 15.* To obtain net income the deductions following hereunder shall be made from gross income, and same, unless otherwise provided, shall correspond to the normal and necessary expenditure incurred in the country for producing income:

"* * *

"(20) All the other normal and necessary expenses occasioned within the country with the purpose of producing revenue."

Evidently, attendance at a convention in the United States fails to meet the requirements for expense deductions allowable under Venezuelan law.

SCANDINAVIAN COUNTRIES

(By Finn Henriksen, Senior Legal Specialist)

General

The American law on tax deductions for attending conventions, educational seminars, and similar meetings is based on court decisions and especially on the regulations[29] to Section 162 of the Internal Revenue Code of 1954, which allows tax deductions merely for ordinary and necessary business expenses, including reasonable travel expenditures.

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[24] The Income and Corporation Taxes Act, 1970, c. 10, § 130(a).
[25] Bowden (Inspector of Taxes) v. Russell and Russell, [1965] 2 All E.R. 258 (1965).
[26] Edwards (Inspector of Taxes) v. Warmsley Henshall & Co., [1968] 1 All E.R. 1089 (1968).
[27] Beslissingen in belastingzaken 9286 (15 October 1952).
[28] Gaceta Oficial, Jan. 25, 1975.
[29] Tres. Reg. Sec. 1.162 of which 1.162-5 deals with educational expenses, in 26 CFR.

The corresponding laws of Denmark, Norway, and Sweden are based directly on court decisions without any intermediate layer of regulations on travel and educational expenditures. As may be expected from case law, the Scandinavian rules are somewhat uneven and there are differences between the countries which are discussed individually below. Denmark and Norway have statutory provisions which are interpreted in a way rather similar to those of Section 162 of the Internal Revenue Code even though the Danish-Norwegian provisions are worded differently; they allow deductions for "all costs which are considered to have been incurred for the purpose of earning, securing and maintaining the income."[30] Sweden, on the other hand, distinguishes between different kinds of income, and allows business expenses to be deducted only from business income, whereas a separate provision permits wage earners to deduct expenses necessary to maintain or secure their income.

Professor Thoger Nielsen in his article, "Working Expenses and Working Losses," 4 Scandinavian Studies in Law 151-176 (1960), has discussed the different approaches to the concept of business expenses, and he comes out strongly in favor of the German-Swedish approach which distinguishes between business expenses and wage earners' expenses. Although it must be admitted that there are differences between these two groups of expenses, it must also be stated that the differences between the two groups are minor when the actual court decisions are compared. The Scandinavian courts have often been less generous to the taxpayers with respect to deductions for educational expenditures than has the American, but the right to deduct certain expenditures for convention travel and for certain educational expenditures has been established throughout Scandinavia.

The conceptual difference may be more important for the computation of the tax. It has been held in the United States that a wage earner may deduct travel expenditures for going to a convention directly from his gross income in accordance with Section 62(2) of the Internal Revenue Code, and that after this deduction he still may elect to take the standard deduction for wage earners.[31] A similar practice is not possible in Sweden because business expenses have to be deducted from business income, and it is doubtful that the American practice would be allowed in Denmark or in Norway.

Scandinavian law does not make any principal distinction between travel to domestic conventions and domestic studies as opposed to traveling to conventions and to studies abroad. However, this law is based on individual court decisions, rather than on generally applicable regulations, and among the equities considered by the courts (or the tax authorities) are the costs of the activities as compared to their presumed benefits. Hence, one may assume that it would be easier to obtain deductions in Scandinavia for domestic convention travel and studies than for similar activities in a faraway country.

Denmark

The Danish law on tax deductions for attending conventions, educational seminars, and the like is well covered by a standard text on taxation which discusses the individual court decisions.[32] Tax deductions are allowed if the purpose of the course or the studies is to keep the taxpayer abreast of the developments within his profession or trade, but not if the purpose is more general studies. The distinction is well illustrated by a decision which allowed a barber a partial deduction for a tour to the United States to study the latest developments within his trade.

The court found the expenditure necessary for the taxpayer in order to keep his future income at a level similar to that of the previous years. On the other hand, a beautician was denied deductions for travel in order to learn to work with wigs. The requirements that the studies should be aimed at keeping a jour with the developments within the trade of profession is interpreted rather narrowly, and it could definitely not be extended to more inclusion studies such as the completion of a university degree or a teacher's desire to be able to teach additional subjects.

That a course is required or recommended by an employer plays a subordinate role in Denmark as compared to the practice in the United States. The fact that an employer actually contributes to the educational activities does play a role in Denmark, but there are also decisions denying deductions because it was found, for example, that the employer's contribution in reality was a salary increase. Another

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[30] Andreas Arntzen and others, Doing Business in Norway 192 United States 2d ed. Oslo, 1971). See also the Danish Statute No. 149 of April 10, 1922, on income and capital taxes to the State which has very similar working in its Section 6(a).

[31] Internal Revenue Ruling 60-16 in Martems, The Law of Federal Taxation. 1958-1960 Rulings, p. 777.

[32] Carl Helkett, Opgorelse af den reinstate skattepligtige indkomst. (11th ed., Copenhagen, 1974). pp. 221-226 and 458 ff.

decision denied deductions in a situation in which the employee was a major shareholder of the employing corporation.

Participation in the yearly meetings of trade associations, professional associations, and trade unions in Denmark is considered a deductible business expense. The justification given for this deduction is that decisions relating to the financial interests of the trade or the profession are made at these meetings.[33] In addition, such meetings very often have an educational aspect and thus a substantial number of domestic conventions, domestic educational seminars and the like may be covered by this deduction for yearly meetings.

The leading Danish cases on travel to conventions abroad are two Supreme Court decisions reported in Ugeskrift for Retsvaesen 1965 p. 648 and 1966 p. 215. The 1965 decision allowed a professor in forensic medicine deductions for those expenditures he incurred at a convention and while attending studies in the United States that had not been covered by a fellowship he had been granted. The purpose of the studies was to plan and to prepare for a new Institute for Forensic Medicine at the University of Aarhus. The 1966 decision denied deductions to a professor of dentistry for convention travel to and studies in the United States even though these expenditures were claimed to be necessary for the taxpayer's additional income as a consultant and as an author of textbooks on dentistry. Several attempts have been made to distinguish between these two cases, but none has been entirely successful. The cited Danish text is probably correct when it claims that the decisive point for granting the professor of forensic medicine the deduction was the fact that his employer had contributed substantially to his studies abroad.[34]

Norway

A standard text on Norwegian taxation contains a rather detailed discussion of the Norwegian practice which resembles the Danish with respect to deductions for educational expenses.[35] Deductions are allowed for courses, seminar, and the like which are necessary to keep the taxpayer à jour with the developments within his trade or profession, but definitely not for expenses for studies which have a more general or more ambitious aim.

From a survey of the sources available in the Law Library, one can say that Norway seems not to allow deductions for the participation in yearly meetings of trade associations, professional associations or trade unions, but it does recognize that participation in conventions and the like may be a legitimate educational expense. However, the Norwegian tax authorities have expressly instructed their officers to take a critical attitude when they are faced with claims for deductions for travel to conventions abroad during the usual tourist season or when the subjects dealt with at the convention, or the educational seminar, are more of general interest to the trade or profession than directly aimed at the specialty of the individual taxpayer in question.[36]

Sweden

The Swedish law on tax deductions for convention travel, participation in educational seminars, and the like, is well covered by a handbook published by the Swedish tax authorities that includes citations and very brief summaries of the relevant court decisions.[37]

Sweden grants wage earners deductions for participation in courses to keep à jour with the developments within their trade or profession similar to those granted in Denmark and Norway. Deductions for courses having the purpose of improving a person's academic record are denied. From the decisions that might be considered borderline cases, one of interest concerned a police officer who was allowed deductions for additional expenses because of an obligatory course at the police academy, even though the passing of this course was a condition for his promotion as a sergeant, while teachers were denied deductions for participation in summer courses at the university level which courses were considered general education.

Judging from all available sources, one can say that Sweden does not allow deductions to cover participation in yearly meetings of trade associations, professional associations, or trade unions, and the Swedish courts have been consistent in their denial to permit deductions by individuals for membership in such associations.[38] However it is recognized that convention travel, educational seminars, and

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[33] Id., at 224.
[34] Id., at 223-224.
[35] J. E. Thomle, Skattelov for byerne 348-353 (13th ed. Oslo, 1972).
[36] Id., at 349.
[37] Sweden, Riksskatteverket, Handledning for taxering 1974 74-77 and 86 (Stockholm, 1974).
[38] Id., at 78.

the like may have a bona fide educational purpose and that expenses for such activities hence become deductible.

The Swedish handbook expressly states that a basic condition for deductions for (such) travel for study purposes is that the study has been ordered by the employer and/or that the employer has made finanacial contributions to the travel in question.[39] Many of the cases in this field have dealt with medical doctors, and there is an interesting case on a group of surgeons attached to a hospital who came to the United States to participate in two meetings and to visit modern hospitals here and in Canada. One of the group, who was also a teacher at a teaching hospital, was allowed to deduct his expenditures while deductions were denied to the remainder of the group. Swedish radiologists have been allowed deductions for participation in meetings in Swedish cities, but deductions were denied a professor of medicine and radiology for participation in a world congress on tuberculosis in New Delhi, India. A language teacher was denied deductions for language studies in England, while a university professor of English was allowed to deduct expenses for library and archival studies in England.

As explained in the introduction above, Sweden distinguishes between deductions for business expenses and wage earners' deductions. The handbook's discussion refers only to wage earners' deductions, but it does discuss a group of cases in which the deduction is close to being a business deduction and practice seems to be more generous to the taxpayer. Among these cases was a high executive officer and major shareholder of a corporation who went to the United States to participate in meetings and to study the manufacture of a product that his Swedish corporation planned to take up. These expenses seem closely to resemble a capital investment which is not deductible. However, the Swedish tax authorities placed especially the emphasis on the fact that the taxpayer and his wife in fact had spent a substantial part of their time visiting with friends and relatives, but the court found a bona fide study purpose and granted the taxpayer a partial deduction. On the other hand, a shareholder and director of an automobile dealership was denied deductions for travel to study in the United States although the tour has been arranged by the Swedish Association of Automobile Dealerships. The Swedish practice described makes it reasonable to assume that a Swedish taxpayer in similar circumstances as the previously discussed Danish professor of dentistry would have been granted deduction for travel expenses to the extent that these were reasonable in comparison to his projected business income.

THE LIBRARY OF CONGRESS,
Washington, D.C., June 13, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: In response to your request of June 7, 1979 for additional countries to be researched in connection with tax treatment for attending foreign conventions related to taxpayer's profession or business, we are sending you the additional reports. No provision has been located under either Spanish or Portuguese income tax laws on this subject. For the Federal Republic of Germany, a more comprehensive report is being furnished to replace the February 1979 report. The report on Yugoslavia will follow as soon as possible.

If the Law Library can be of further service in this, or any other matter, please call on us.

Sincerely,

CARLETON W. KENYON, *Law Librarian.*

Enclosures.

AUSTRIA

(By Dr. Edith Palmer, Senior Legal Specialist)

Overview

Generally in Austria the cost of travel abroad for the purpose of attending conventions is deductible as a business or income-related expense when the professional or business purpose is clearly preponderant, and the expenditure is reasonable compared to the professional or business benefits achieved thereby. The rules for evaluating such expenses have been developed by court interpretations of the rather general statutory provisions, and, in judging the deductibility of such expenditures, the courts scrutinize the facts of the particular case.

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[39] Id., at 75.

Statutory provisions

For business entrepreneurs and self-employed persons, the deductibility of business-related expenditures is regulated in section 4, paragraph (4), of the Income Tax Code, which provides merely as follows: [1]

"Business expenses are expenditures occasioned by business.

"Travel expenses incurred by the entrepreneur for himself or for his employees fall into this category."

For wage earners, the deductibility of income related expenditures is regulated by section 16, paragraph (1), of the Income Tax Code. It provides as follows: "Income-related costs are expenditures incurred for the generation and maintenance of receipts."

Both section 4(4) and 16(1) list various types of permissible deductions; however, these enumerations are not exhaustive and travel costs for the attendance at conventions are not mentioned therein. Section (1) No. 9 and Section 4(5) specify the extent to which the costs of meals and lodgings of income-related travel are deductible. In both instances, the amounts expended for these purposes when one is traveling abroad are limited by the daily allowances granted to federal civil servants in their official travel.[2]

The distinction between permissible deductions and nondeductible personal expenses is drawn, for both categories of taxpayers, by section 20, paragraph (1) of the Income Tax Code, in particular by its subparagraphs 1 and 2:

"*Sec. 20(1):* The following [items] are nondeductible, whether from the individual types of income or from the total receipts:

"1. Amounts expended by the taxpayer for his household or the support of his dependents,

"2. Cost of living expenditures incurred by the taxpayer due to his economic or social position, even though they are incurred to promote the profession or activity of the taxpayers.

Within this statutory framework, the courts have drawn the lines between deductible and nondeductible travel expenses.

Court interpretations

While no cases dealing specifically with the attendance at conventions abroad have been reported in recent years, several decisions have been issued on the deductibility of educational trips to foreign countries. It may be safely presumed that the attendance at conventions would follow the same rules as educational travel in general.

In 1976, a decision was issued by the Administrative Court [3] in which the criteria for the deductibility of travel expenses were summarized [4] as representing the rules developed by the Court during recent years. Thus, unless the following criteria are met, the deduction is to be denied:

(1) The planning and the carrying out of the trip must have been undertaken by an instructional organization, or otherwise in a manner which clearly indicates that the trip is at least preponderantly professional in character.

(2) Both from its planning and from the actual carrying out of the trip, the trip must have allowed the taxpayer the possibility to acquire knowledge that affords him a somewhat practical utilization in his occupation.

(3) The travel program and the actual trip must be so focused on the needs of a professional group that the trip would be of no interest to other persons.

(4) Activities not business related but provided in the travel program may not occupy more time than would be usual for recreation while carrying out a profession. However, such recreational expenditures must be excluded from the deductible expenses.

(5) These criteria apply to travel undertaken by an entrepreneur and equally for travel undertaken by his employees but paid by the entrepreneur. For travel undertaken by employees related to the taxpayer, the usual scrutiny of the actual employment relationship takes place.[5]

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[1] Einkommensteuergesetz 1972 [EStG.] Bundesgesetzblatt [official law gazette of Austria] No. 440/1972.

[2] Sec. 26, No. 6, letters b and c, EStG.

[3] Verwaltungsgerichtshof; this court grants judicial review for the tax decisions issued by the tax authorities.

[4] Decision of the Verwaltungsgerichtshof of 6 October 1976, 31 Erkenntnisse und Beschlüsse des Verwaltungsgerichtshofes No. 5024 (F) (1976).

[5] Summarized translation by Dr. Edith Palmer.

A case in 1972[6] involved travel to the United States. The taxpayer was an architect who undertook an educational trip to the United States. The expenses of the trip were tax-deductible because the program of the trip was focused on persons in that profession, and the trip would have been of little interest to other persons. That the trip was also an enrichment of the personal life of the taxpayer did not detract from its professional character.

A case in 1973[7] also involved travel to the United States, and in this case the deduction of the travel expenses was denied. The taxpayer was an employee of the Austrian tax authorities, and in his trip to the United States the itinerary foresaw discussions with U.S. tax offices and visits to data processing installations, but also several sightseeing trips. The deduction was denied because the expense of the trip stood in no relationship to the professional experience that could be gained thereby. The large recreational program involved made the entire travel cost nondeductible.

CYPRUS

(By Penelope Tsilas, Senior Legal Specialist)

In the Income Tax Law of Cyprus,[8] there is no specific provision referring to a tax deduction for attending foreign conventions. Nor is there in the Library of Congress collections any other source pertaining to the above question. Attached is a photocopy of sections 11 and 13 of the Income Tax Law of Cyprus, in English, dealing with deductions allowed and deductions not allowed respectively.

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[6] Decision of the Administrative Court of 10 February 1971, No. 425/70, summarized in 27 Oesterreichische Juristenzeitung 137 (1972).

[7] Decision of the Verwaltungsgerichtshof of 20 June 1973, No. 11/73 reprinted in 28 Erkenntnisse und Beschlusse des Verwaltungsgerichtshofes, No. 4555 (F) (1973).

[8] Foreign Tax Law Association Incorporated, Tax Laws of the World, "Cyprus" (Ormond Beach, Florida) (looseleaf).

Appendix

TAX LAWS OF THE WORLD*

Cyprus

Deductions allowed.

11.—(1) For the purpose of ascertaining the chargeable income of any person there shall be deducted all outgoings and expenses wholly and exclusively incurred by such person in the production of the income, including—

(a) any sum expended for repair of premises, plant, machinery or any mode of conveyance employed in acquiring the income or for the renewal, repair or alteration of any implement, utensil or article so employed;

(b) ordinary annual contributions paid by an employer to a fund approved by the Commissioner pursuant to paragraph (e) of sub-section (1) of section 19; 7 (a) of 60/69.

(c) bad debts incurred in any trade, business, profession or vocation proved to the satisfaction of the Commissioner to have become bad debts during the year immediately preceding the year of assessment and actually written off during the same year notwithstanding that such bad debts were due and payable prior to the commencement of the said year, and also the amount of any specific provision for doubtful debts in respect of which the Commissioner is satisfied that they have or will eventually become irrecoverable:

Provided that all sums recovered during the said year on account of amounts previously written off or allowed in respect of bad debts under the provisions of any previous law imposing tax on income or under the provisions of any law enacted by a Communal Chamber and imposing a personal tax in the form of income tax, or under the provisions of this Law shall, for the purposes of this Law, be treated as receipts of the trade, business, profession or vocation for that year; 7 (b) of 60/69.

(d) any expenditure on scientific research incurred by a person engaged in any trade, business, profession or vocation and proved to the satisfaction of the Commissioner to have been incurred for the use and benefit of the trade, business, profession or vocation:

Provided that no deduction shall be allowed under the provisions of this paragraph in the case of any such expenditure on plant and machinery or buildings, including employees' dwellings, in respect of which any deduction is allowable under section 12 of this Law; and

Provided further that any such expenditure of a capital nature not qualifying for any deduction under section 12 shall be spread equally over the year of assessment in which it has been incurred and the five years next following;

* Published for Members of the Foreign Tax Law Association Incorporated. P.O. Box 2187, Ormond Beach, Florida 32074.

(e) any expenditure on patents or patent rights incurred by a person engaged in a trade, business, profession or vocation and proved to the satisfaction of the Commissioner to have been incurred for the use and benefit of the trade, business, profession or vocation:

Provided that any such expenditure of a capital nature shall be spread over the life of the patent or patent rights in a reasonable manner to the satisfaction of the Commissioner; and

Provided further that any sums received or receivable from any sales of such patents or patent rights or any part thereof and all royalties or other income received or receivable in respect thereof shall be included as chargeable income;

7 (c) of 60/69.

5 (a) of 37/75.

(f) donations or contributions made for educational, cultural or other charitable purposes to the Republic or a local Authority or to any charitable institution therein approved as such by the Council of Ministers up to the amount of twenty thousand pounds and fifty per centum of any amount exceeding twenty thousand pounds:

Provided that, notwithstanding any provisions of this Law to the contrary, in the event of a loss incurred in the year in which such donation or contribution was made, any part of the loss up to the amount of the donation or contribution shall not be carried forward and shall not be set off against the income for subsequent years:

5 (b) of 37/75.

Provided further that contributions to the Relief Fund for Displaced and Stricken Persons which is under the control of the Acountant-General shall be wholly deducted without any limitation whatsoever;

7 (d) of 60/69. 89 of 1962. 73 of 1965.

(g) the tax paid or payable by any person under the provisions of the Immovable Property (Towns) Tax Law, 1962;

2 of 21/66.

(h) such other deduction as may be prescribed.

(2) The method of computing or calculating or estimating the sums deductible as provided in this section shall be as may be prescribed.

Deductions not allowed.

13. For the purpose of ascertaining the chargeable income of any person no deduction shall be allowed in respect of—

(a) domestic or private expenses including the cost of travelling between residence and place of business ;

(b) the rent of any premises owned and used in connection with the carrying on by him of his trade, business, profession or vocation ;

(c) any remuneration or interest on capital paid or credited to himself ;

(d) the cost price of any goods taken out of the business for the use of the proprietor or any partner or the family of such proprietor or partner ;

(e) any disbursements or expenses not being money wholly and exclusively laid out or expended for the purpose of acquiring the income ;

(f) any capital withdrawn or any sum employed or intended to be employed as capital ;

(g) the cost of any improvements, alterations or additions ;

(h) any sum recoverable under an insurance or contract of indemnity ;

(i) rent of, or cost of repairs to, any premises or part of premises not paid or incurred for the purpose of producing the income ;

2 of 21/66. (j) any amounts paid or payable in respect of tax under this Law or in respect of personal tax ;

(k) any payments of a voluntary nature except such payments as are allowed under section 19 ; or

9 of 60/69. 89 of 1962. 73 of 1965. (l) any expenses applicable to the income from immovable property charged under paragraph (c) of sub-section (1) of section 5 except tax imposed on such property under the provisions of the Immovable Property (Towns) Tax Law, 1962.

FINLAND

(By Dr. Finn Henriksen, Senior Legal Specialist)

The materials available at the Library of Congress are not sufficient to establish exactly the extent to which a Finnish taxpayer would be allowed to deduct expenditures for attending a convention in a foreign country as a business or as a professional deduction. A 200-page handbook for the preparation of Finnish income tax returns for 1972 does not mention convention travel or the like.[9] However, the discussion in this source seems to indicate that a salaried employee will be allowed to deduct only membership fees for trade unions and professional associations to the extent that he practically must be a member of them. Hence, a salaried employee would probably find it even more difficult to have deductions allowed for convention expenditures that he had paid on his own (as distinguished from those paid by his employer).

Section 25 of the Finnish Statute No. 888 of November 11, 1943, on Income and Property Taxes establishes the general principle that a taxpayer is allowed to deduct expenses for acquiring and maintaining income. The right of a business enterprise to make such deductions is spelled out in more detail in Statute No. 360 of June 24, 1968, on Income Taxation of Business Enterprises. According to section 8 of the 1968 Statutes No. 5 and 6, expenditures for advertising, promotion, research and the like are deductible expenditures. Hence, it seems possible that some convention travel, depending on the circumstances, may be deductible as business expenditures.

FEDERAL REPUBLIC OF GERMANY

(By Dr. Edith Palmer, Senior Legal Specialist)

Overview

For the Federal Republic of Germany, it can be stated, in general, that the cost of travel abroad for the purpose of attending conventions is deductible as a business or income-related expense when the professional or business purpose is clearly preponderant, and the expenditure is reasonable compared to the professional or business benefits achieved thereby. The rules for evaluating such expenses have been developed by court interpretations of the rather general statutory provisions, and the courts, in judging the deductibility of such expenditures, scrutinize the facts of the particular case.

Statutory provisions

For business entrepreneurs and self-employed persons, the deductibility of business-related expenditures is regulated in section 4, paragraph (4), of the Income Tax Code. It provides as follows:[10] "Business expenses are expenditures occasioned by the business."

Travel expenses incurred by the entrepreneur himself or by his employees fall into this category.

For wage earners, the deductibility of income-related expenditures is regulated by section 9, paragraph (1), of the Income Tax Code. It provides as follows: "Income-related costs are expenditures incurred for the generation and maintenance of receipts. They shall be deductible from the type of income in connection with which they were incurred."

Both section 4(4) and 9(1) list various types of permissible deductions; however, these enumerations are not exhaustive and travel costs for attendance at conventions are not mentioned therein. Section 4(5), No. 6, specifies to what extent the cost of meals and lodgings of income-related travel are deductible. The amounts expended for these purposes during travel are limited by 140% of the daily allowances granted to Federal Civil Servants in their official travel.

The distinction between permissible deductions and nondeductible personal expenses is drawn for both categories of taxpayers by section 12, No. 1, of the Income Tax Code, which prohibits the deductibility of the following: "(1) amounts expended for the household of the taxpayer or for the support of his family. Included therein shall also be living expenses which are occasioned by the economic or social position of the taxpayer, even it they are incurred to promote the profession or the activity of the taxpayer."

Within this statutory framework, the courts have drawn the lines between deductible and nondeductible travel expenses.

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[9] Finland, Skattestyrelsen, Handledning för Skatteberedare i 1972 (Helsingfors, 1972).

[10] Einkommensteuergesetz 1977, in the version of December 5, 1977, *Bundesgesetzblatt* [official law gazette of the Federal Republic of Germany] 1977, I, p. 2365.

Court decisions

One remarkable aspect of the court decisions is the extent to which the courts scrutinize all the facts of the case. The criteria for deductibility, as developed by the courts, are that the convention must have been undertaken at least predominantly in the business or professional interest, as evidenced by a tight convention schedule which may include only a reasonable amount of diversions. The distance traveled in order to attend the convention is taken into consideration in judging the reasonableness of the expenditure as compared to the professional benefit gained thereby. When the trip does not meet these criteria, the entire travel cost is nondeductible in accordance with section 12 of the Income Tax Code, which does not permit the division of expenses into their private and income-related components where this is difficult to ascertain.

A typical case for the granting of the deductibility was decided by the Federal Tax Court in 1974.[11] The taxpayer, a pharmacist, had attended a professional convention in South Tirol, Italy, together with his wife, who was also his employee. In favor of deductibility was the tight structure of the convention, which provided 22 professional sessions in 6 working days. Also in favor of deductibility was the fact that the convention took place in the month of June, which is not the peak tourist season in that area. The proximity of the convention location to the Federal Republic was also considered as establishing the reasonableness of the travel expenditure as compared to the professional benefits gained. The deduction was also allowed for the wife of the taxpayer because of her employment status.

A typical case denying deductibility involving travel to the United States was decided by the Federal Tax Court in 1973.[12] The taxpayer, who operated a retail and a wholesale business, undertook a 15-day trip to the United States in the company of his accountant. The trip involved attendance at a 4-day marketing convention, as well as several professional contacts in various places. The court held that, in view of the itinerary of the trip, a private purpose could not be excluded, and the entire travel costs therefore were nondeductible, both for the owner of the enterprises and for his employee.

GREECE

(By Penelope Tsilas, Senior Legal Specialist)

According to the Greek Income Tax Law,[13] the gross income of self-employed professionals is the total amount of the fees they receive while exercising their profession, as reflected in their bookkeeping.

In computing the net income, one may deduct any proven professional expenses. Although the law does not specifically refer to travel expenses, they are deductible if it can be proved that they were incurred strictly for professional purposes.

With regard to the conduct of business, travel expenses, including meals and lodging, are deductible if they are incurred for business purposes and can be proved.[14]

ICELAND

(By Dr. Finn Henriksen, Senior Legal Specialist)

The materials available at the Library of Congress are not sufficient to establish exactly the extent to which an Icelandic taxpayer would be allowed to deduct expenditures for attending a convention in a foreign country as a business or as a professional deduction.

The Icelandic Statute No. 68 of June 15, 1971, on State Income and Property Taxes does allow normal business expenses to be deducted,[15] and the Statute is rather generous in the deductions it allows salaried employees to make. While the Statute does not mention convention travel, it does allow an employee who is more than 20 years old to deduct certain educational expenses.[16] Hence, it is possible that at least some convention travel, depending on the circumstances of the individual case, would be allowed as a business or as professional deduction.

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[11] Decision of the Bundesfinanzhof of January 16, 1974, Höchstrichterliche Finanzrechtsprechung 186 (1974).

[12] Decision of the Bundesfinanzhof of October 11, 1973, Bundessteuerblatt 1974, II, p. 198.

[13] Art. 46 of Legislative Decree No. 3323, August 11/12, 1955, Peri Phorologias tou eisodematos (Income Tax), as modified and supplemented by subsequent laws and decrees, in 27 Diarkes Kodix Nomothesias (Continuing Code of Legislation) 137 (th).

[14] Arthur Anderson & Co., Tax and Trade Guide. Greece 50 (1978).

[15] S. Thorbjörnsson, "Iceland, a Survey of the Tax System," 18 European Taxation 329 (1978).

[16] Id. at 334-335.

LUXEMBOURG

(By Dr. M. Tahar Ahmedouamar, Senior Legal Specialist)

According to Tax Management, travel expenses as well as entertainment expenses may be deducted under the tax laws of Luxembourg when related to a profession:

"Travel expenses are deductible if incurred in connection with a business and reasonable in amount. Excessive allowances paid by the employer for travel expenses, meals and boarding may have to be added to the gross salary.

"Reasonable expenses incurred for business entertainment are deductible. The name of the guest must be clearly stated on the bill, and the amount must be charged to a separate account."[17]

MALTA

(By Kersi B. Shraff, Legal Specialist)

Under the Income Tax act, 1948,[18] income includes any gain derived from any trade, business, profession or vocation. The expenses that may be deducted in computing this income include:

(a) * * *
(b) * * *
(c) * * *
(d) * * *
(e) debts proved to the satisfaction of the Commission (sic) to be bad;
(f) * * *
(g) * * *
(h) the amount of loss incurred during the basis year in any trade, business, profession or vocation. The extent of loss which cannot be wholly set off against taxpayer's other income for the same year is carried forward and deducted against income of the next year and so on for subsequent years;
(i) expenditure on scientific research;
(j) expenditure on patents or patent rights related to the taxpayer's business;
(k) an initial deduction in respect of capital expenditure incurred in the acquisition of plant and machinery and premises being a mill, factory or other similar premises; * * *.[19]

Expenses which may not be deducted in computing the income include:

(a) expenses of a domestic or private nature;
(b) disbursements or expenses not wholly and exclusively laid out in acquiring the income; * * *.[20]

There is no specific provision concerning the deductibility of expenses incurred for attending foreign conventions relating to the taxpayer's business or profession, nor is there a direct provision on the deductibility of business expenses generally.

There is no case law on the subject. Presumably, the onus would be on the taxpayer to show that such expenses were not of a domestic or private nature and that they were wholly and exclusively laid out in acquiring the income.

MONACO

(By Dr. M. Tahar Ahmedouamar, Senior Legal Specialist)

No sufficient sources exist in the Library of Congress to establish the kind of tax treatment provided by the laws of Monaco for people who attend foreign conventions related to their profession or business.

The laws of Monaco do provide, however, for ordinary business deductions according to Ordinance No. 2.558 of June 28, 1961[21] and Ordinance No. 1.953 of February 19, 1959.[22] These ordinances do not provide exact figures but refer to a tax instruction form distributed by the Direction des Services Fiscaux [Department of Tax Services], which is not available in the Library.

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[17] Tax Management, Inc., Business Operations in Luxembourg A-13 (1978).
[18] Income Tax, 1948, Act No. LIV, as amended.
[19] Id. § 10.
[20] Id. § 11. Stull 9-14-79—261—J. 50-758—Folios 73-77—A758A.010
[21] Journal de Monaco [J.M., official law gazette of Monaco] July 10, 1961 p. 665.
[22] J.M., Feb. 23, 1959, p. 212.

SWITZERLAND

(By Dr. Miklos Radvanyi, Senior Legal Specialist)

Pursuant to article 22[bis] paragraph 1c of the Federal Defense Tax Decree, of December 9, 1940, as amended,[23] the costs of maintaining and improving professional or vocational education (Weiterbildungskosten) are, in general, deductible income-connected expenses. However, this provision makes it clear that such costs, in order to be deductible, must be necessary and directly connected with the profession or vocation exercised. In other words, they must actually serve to maintain or improve the knowledge and skills necessary to the employee in his current job. These expenses include outlays for training courses and professional literature, contributions to professional associations, and attendance at meetings and conferences (the available interpretations make no distinction as to whether or not such meetings are held abroad). Federal practice, as well as that in most of the cantons, generally follows these rules.[24]

TURKEY

(By Edward Sourian, Assistant to the Chief, Near Eastern and African Law Division)

The Turkish Income Tax Law[25] considers the tax deductibility of travelling, lodging and board expenses during that travel in two ways: (a) Deduction of expenses from commercial profits; and (b) deduction of expenses from professional profits acquired by lawyers, doctors, engineers, professors, etc.

In commercial activities, deduction of travelling and hotel expenses is allowed only when these expenses are directly related to the business and are in proportion to its importance and size. These expenses are also limited to the duration of the trip.[26] The law does not allow the deduction of expenses for attending domestic or foreign conventions from commercial profits.

However, the law is more generous to taxpayers whose profits are derived from professional activities; e.g., doctors, lawyers, engineers and professors. All traveling, lodging and board expenses connected with their professional activities are tax deductible, provided that these expenses are limited to the period of time required for the trip. The law does not distinguish between domestic and foreign travel.[27]

YUGOSLAVIA

(By Dr. Fran Gjupanovich, Legal Expert)

The Socialist Federal Republic of Yugoslavia has for years maintained a program under which Yugoslav scholars, scientists, lawyers, and others are sent abroad to attend international conventions and other professional events. Most of these individuals are in one way or another on the public payrolls, and therefore their expenses connected with such travel are advanced or reimbursed by the government. But there is also a group of independent practitioners of these professions who benefit from this government policy.[28] As these individuals by law are entitled to the same assistance with respect to study and similar activities abroad, it may be assumed that the state will support them either through direct grants or generous tax deductions for expenses incurred on such trips, although no provisions could be located which specifically allow such tax deductions.

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[23] 6 Systematische Sammlung des Bundesrechts 2 (Bern, 1970-) (looseleaf).

[24] A. Reimann, and others, 2 Kommentar zum Zurcher Steuergesetz 369, 370 (Bern, 1963).

[25] Law No. 193 of December 31, 1960. F. Coker and S. Kazanci, Türkiyé Cumhuriyeti Kanunlare [The Law of the Turkish Republic] 6385 (1975-) (in Turkish); and 2 Gelir Vergisi Kanunu [Income Tax Law] 376 (K. Burhem et al., eds., 1967) (in Turkish).

[26] 2 Gelir Vergisi Kanunu [Income Tax Law] art. 40(4), 6402 (K. Burhem et al., eds., 1967) (in Turkish).

[27] Id., art. 68(5), 6414.

[28] Art. 100, Law No. 764 on Associated Labor of December 3, 1976 (*Službeni List* [official law gazette of Yugoslavia], No. 53, 1976): "*Art. 100.* Working people who with their personal labour independently perform, as their occupation, a scientific, literary, fine arts, musical, theatrical, film or other artistic or cultural activity, or a lawyer's or some other professional activity (in further text: professional activity) shall, in principle, have the same socio-economic status as workers in organizations of associated labour. The working people referred to in section 1 of this Article shall earn income and meet income-related obligations in conformity with the law." [English translation: *The Associated Labour Act* 108 (Ljubljana, Dopisna Delavska Univerza, 1977)].

MAY 17, 1979.

Hon. JEANNE R. WESTPHAL,
Deputy Assistant Secretary for Tourism,
Department of Commerce, Washington, D.C.

DEAR MADAME SECRETARY: On May 4, 1979, I announced hearings by the Senate Finance Subcommittee on Tourism with regard to various proposed changes to the tax rules affecting foreign conventions. I have attached a copy of that announcement for your information.

I would greatly appreciate your assistance in obtaining available statistics with regard to this issue.

First, I would appreciate learning total American travel expenditures abroad in comparison with total foreign travel expenditures in the United States over a representative period preceding and following the effective date of the Tax Reform Act of 1976. Separate categorization of nonbusiness, business, and convention expenditures would be helpful.

Second, I would appreciate learning whether our major trading partners impose restrictions on their citizens' travel into the United States for business and nonbusiness purposes, specifically, currency restrictions and business expense deductions for tax purposes.

Third, I would appreciate learning your assessment of the situation: Whether the restrictions enacted in the Tax Reform Act of 1976 has provoked any retaliation by a major country.

I greatly appreciate your help in this matter and would be receptive to any additional information you might convey to shed light on this issue.

Aloha and best wishes:

Sincerely,

SPARK MATSUNAGA, *U.S. Senator.*

U.S. DEPARTMENT OF COMMERCE,
Washington, D.C., June 1, 1979.

Hon. SPARK MATSUNAGA,
Chairman, Subcommittee on Tourism and Sugar,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Thank you for your letter of May 17th, requesting information concerning the U.S. international travel account both prior to and subsequent to the passage of the Tax Reform Act of 1976. Enclosed is a table which contains data on U.S. international travel receipts and expenditures for the period 1971 through 1978. Unfortunately, the necessary data does not exist in retrievable form to enable us to provide the separate categorization of business, non-business, and convention expenditures.

With regard to your question as to whether or not our major trading partners impose currency restrictions or restrictions on tax deductibility for business travel, the top six trading partners are identified and discussed on an individual basis. In order of descending magnitude, the major country sources of foreign visitors to the United States are: Canada, Mexico, Japan, the United Kingdom, West Germany, and France. The information below was obtained from each of the embassies of these countries.

Canada imposes no restrictions on the amount of currency which its nationals may take out of the country, and it allows full tax deductibility for business and convention travel. However, for purposes of tax deductibility, Canadians are limited to two conventions per year irrespective of location (whether the conventions are held in Canada or elsewhere). Furthermore, Canadians may only claim tax deductions for attending conventions where the venue is territorially consistent in scope with the sponsoring organization; the convention or conference must be related to the business of the attendee; and the cost incurred for attending the convention or conference must be deemed reasonable by the Canadian tax authorities.

Mexico imposes no restrictions on the amount of currency which its national may take out of the country. Furthermore, Mexican nationals enjoy full tax deductibility for legitimate business travel expenses as well as conference and convention attendance, Also, no restrictions exist on the number of conferences or conventions for which Mexicans may claim tax deductions.

Japanese travelers are currently allowed to take out of Japan 3 million yen (or approximately U.S. $14,000) in currency and an additional 3 million yen in foreign bank notes or travelers checks. Japanese business travelers are granted full tax deductibility for legitimate business travel expense including conference and con-

vention attendance. Also, there is no limit on the number of conferences or conventions for which they may claim tax deductions.

British subjects are usually restricted to taking a maximum of 100 pounds sterling out of the country and an additional 500 pounds in foreign bank notes and travelers checks. Additionally, for extended trips of two months or longer duration, British citizens may take a total of 1,000 pounds sterling out of the country. British business travelers are allowed a maximum of 100 pounds per day for travel expenses. There is no hard and fast rule as to the tax deductibility for business and convention travel; rather, eligibility for such deductions is determined on an individual case basis by the Board of Inland Revenue upon application by the business traveler.

West Germany imposes no restrictions on the amount of currency which its nationals may take out of the country. Travel expenses incurred for business travel in cases where the individual is sent abroad to a conference or a convention as an official representative of his firm are tax deductible.

French international travelers are allowed to take up to 5,000 francs out of the country as well as additional sums individually determined on a case-by-case basis, upon application to and with the approval of the Ministry of Economy. Legitimate business travel expenses are tax deductible, and there is no limit for purposes of tax deductibility on the number of conventions a French business traveler may attend in a given year.

Finally, we refer to your last question as to whether or not the restrictions enacted in the Tax Reform Act of 1976 have provoked retaliatory measures by foreign countries which are our major trading partners. We have been unable to discover in the course of conversations with these embassies any such retaliatory actions having been initiated by the governments of these six countries.

We hope that the answers are responsive to your questions. We are at your service should you need further assistance or have any other questions.

Sincerely,

LEE WELLS,
for JEANNE WESTPHAL,
Acting Assistant Secretary for Tourism.

Enclosure.

TABLE A.—U.S. INTERNATIONAL TRAVEL ACCOUNT 1971-78

[In millions of dollars]

Calendar year	International travel expenditures excluding transportation	Transportation expenditures on foreign carriers	Total international travel expenditures abroad	International travel receipts excluding transportation	Transportation receipts from foreign travelers on U.S. carriers	Total U.S. international travel receipts	travel balance
1971	4,373	1,290	5,663	2,534	425	2,959	−2,704
1972	5,042	1,596	6,638	2,817	494	3,311	−3,327
1973	5,526	1,790	7,316	3,412	718	4,130	−3,186
1974	5,980	2,095	8,075	4,032	813	4,845	−3,230
1975	6,417	2,263	8,680	4,839	767	5,606	−3,070
1976	6,856	2,542	9,398	5,806	937	6,743	−2,655
1977	7,451	2,843	10,294	6,164	1,025	7,189	−3,105
1978 [1]	8,364	3,053	11,417	7,070	1,209	8,279	−3,138

[1] 1978 receipt and expenditure data are based on preliminary estimates.

Source: Bureau of Economic Analysis

APRIL 13, 1979.

Mr. DOUGLAS O. BENTON,
Director, Alabama Bureau of Publicity and Information,
Montgomery, Ala.

DEAR MR. DOUGLAS BENTON: I would greatly appreciate your assistance in your capacity as the official responsible for tourism in your State.

As Chairman of the United States Senate Finance Subcommitte on Tourism, I shall hold hearings in June, 1979 on two bills, S. 589 and S. 749, which would loosen the present restrictions on foreign conventions.

As you may know, the Tax Reform Act of 1976 limited the tax deductions for attending business conventions abroad. Under prior law, there had been a proliferation of overseas conventions, education seminars, and cruises, which were ostensibly held for business or educational purposes. Many of these events had chiefly a recreational or sightseeing purpose. Furthermore, the deductibility of these travel expenses depended upon a subjective determination as to the taxpayer's motives and intentions.

To remedy the situation, the Congress sought to establish concrete guidelines and to curb the tax abuse. Under the 1976 Tax Reform Act, no deduction will be allowed for expenses paid or incurred in attending more than two foreign conventions in any taxable year. With respect to subsistence expenses incurred in attending a foreign convention, no deduction will be allowed unless: (1) a full day or half-day of business activities are scheduled on each day during the convention; and (2) the individual attending the convention attends at least two-thirds of the hours scheduled for daily business activities or, in the aggregate, attends at least two-thirds of the total hours for scheduled business activities at the convention. Parties, receptions, or similar social functions, will not be considered business activities.

Furthermore, the allowable subsistence expenses while attending a convention abroad or traveling to or from the convention, shall not exceed the dollar per diem rate for the convention site, established for United States federal employees.

With respect to transportation expenses outside the United States, the deductible amount may not exceed the lowest coach or economy rate charged by any commercial airline for such transportation. The deduction of the transportation expenses will depend upon the amount of time devoted to business-related activities abroad. If less than one-half of the total days of the trip are devoted to business-related activities, then only a proportional amount of the transportation expenses will be deductible. If one-half or more of the total days are devoted to business-related activities, then the full expense is deductible.

A taxpayer claiming a deduction for foreign convention expenses must also report certain information including the total days of the trip and the number of hours devoted to business, as well as provide a brochure describing the convention and any other information required by the Internal Revenue Service. In addition, the taxpayer must attach a statement signed by the organization's officer including the schedule of the business activities for each convention day, the number of hours of business-related activities that the taxpayer attended each day, and additional information. Through these provisions, the Congress sought to eliminate the tax abuse stemming from business conventions overseas.

Since the enactment of these provisions in 1976, a number of groups have expressed dissatisfaction with the restrictions. Senator Barry Goldwater has introduced S. 749 to repeal the restrictions enacted in 1976. Senator Lloyd Bentsen, joined by several other Senators, has introduced S. 589 to extend the liberal rule for domestic conventions to Mexico and Canada.

I have received information from the Hawaii State Department of Planning and Economic Development indicating that the 1976 restrictions on foreign business conventions, initially increased convention business in Hawaii. However, the benefit of the foreign convention limitations is now unclear.

Anticipating congressional action in the near future, I would greatly appreciate learning your assessment of the 1976 restrictions and these two proposals to repeal or loosen the 1976 restrictions. I would especially like to know whether your State has enjoyed any increase in business conventions due to the 1976 provision. I would also like to know what effect, if any, a partial repeal of the 1976 restrictions on foreign business conventions held in Mexico and Canada would have for your State, as well as the effect there would be on convention business in your State if the 1976 restrictions were completely repealed.

Aloha and best wishes.

Sincerely,

SPARK MATSUNAGA, *U.S. Senator.*

WASHINGTON AREA CONVENTION AND VISITORS ASSOCIATION,
Washington, D.C., April 25, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: I am replying to your recent letter directed to Wayne Kennedy, our former tourism director, because I am quite familiar with the provisions of the 1976 Tax Reform Act and its effect on the convention market here in Washington, D.C.

When the law first went into effect, there was a very brief flurry of activity by groups that were scheduled to meet outside the United States looking for domestic locations. The total amount of the business, however, that was actually located in domestic cities and resorts I do not believe dramatically affected the overall volume of any of us. I know this to be true in the case of Washington.

There seems to be a basic concern on the part of many of us that any restriction on the free movement of people wanting to exchange ideas is inherently a dangerous one. The United States is emerging as a principal location for international congresses, especially in light of a very favorable balance of the dollar with regard to most European and Asian currencies. If we keep our restrictions, other nations are sure to follow. In addition, the establishment of per diem mode of travel, etc. is bound to crop up for domestic meetings once the problem of overseas meetings has been dealt with. Such restrictions would radically affect the employment and tax base of the District of Columbia since we are so very dependent upon this market.

Our only caveat to the total removal of travel restrictions or the North American exemption would be that these countries receiving this exemption have exactly the same policy. Before any exemption be granted to any country, we should be assured that their national meetings are free to move outside of their country and, specifically, be able to meet in the United States without any tax consequences or special restrictions being placed on their citizens. We feel we can hold our own in a free, competitive market.

I sincerely trust that, in some way, this is helpful to you in your deliberations on S. 589 and S. 749.

Cordially,

AUSTIN G. KENNY,
Executive Vice President.

STATE OF ALASKA,
DIVISION OF TOURISM,
Juneau, Alaska, April 26, 1979.

Hon. SPARK MATSUNAGA,
U.S. Senator, Washington, D.C.

DEAR SENATOR MATSUNAGA: Thank you for your letter of April 13 in which you ask for my assessment of the Tax Reform Act of 1976 as it relates to the limiting of tax deductions for attending business conventions outside the United States.

I am not in favor of limiting tax deductions on foreign business convention travel, as I feel the long range effect of such taxation is to encourage foreign governments to establish, or sharpen, retaliatory tax measures which would do the same to their nationals as the current U.S. tax laws do to Americans. Such taxation is not in the best interest of promoting international tourism into the United States, an "invisible export" from which the United States has more to gain than from trying to "close" an alleged tax loophole which may benefit certain U.S. citizens. In essence, I subscribe to the belief that such forms of taxation are counterproductive to the overall national goals of increasing offshore tourism into the United States.

It is extremely hard to say, in the case of Alaska, whether the limitations imposed in the 1976 act actually resulted in an increase of out-of-state conventions into Alaska. It is true that there has been a gain in such conventions, but I would hold that the lion's share of this increase is due to the greater effectiveness of marketing Alaska as a convention destination on the part of various convention and visitor bureaus throughout the state.

Thank you for taking the time to write and seek my view on this matter.

Sincerely,

RICHARD W. MONTAGUE, *Director.*

STATE OF MISSOURI,
DIVISION OF TOURISM,
Jefferson City, Mo., April 30, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senator, Washington, D.C.

DEAR SENATOR MATSUNAGA: Thank you for your letter of April 13 regarding the repeal of the Tax Reform Act of 1976.

We are at this time soliciting views of various people in the State and will get back to you with a response as soon as possible.

Sincerely,

JACK PLYMPTON, *Assistant Director.*

ARIZONA OFFICE OF TOURISM,
Phoenix, Ariz., April 30, 1979.

Chairman SPARK M. MATSUNAGA,
U.S. Senator, Washington, D.C.

DEAR CHAIRMAN MATSUNAGA: Thank you for your April 13, 1979, letter.

Since we as a state agency don't involve ourself directly in convention solicitation, except to generally support our Convention Bureaus in getting as many Conventions to Arizona as possible, I've forwarded copies of your letter and the law to: Mrs. Martha Vito, Director, Tucson Convention Bureau, Tucson Community Center, P.O. Box 27210, Tucson, Arizona 85726; and, Mr. Ted Sprague, Executive Vice President, Phoenix & Valley of the Sun Convention & Visitors Bureau, 2701 East Camelback Road, Suite 200H, Phoenix, Arizona 85016.

They will, I'm sure, respond directly to you.

Thank you for asking us.

Cordially,

MONA SMITH.

STATE OF WISCONSIN,
DIVISION OF TOURISM,
Madison, Wis., May 1, 1979.

Senator SPARK MATSUNAGA,
Washington, D.C.

DEAR SENATOR MATSUNAGA: Your letter of April 13 to Jack Revoyr has been referred to me for reply. Mr. Revoyr is no longer with our agency and Mr. Green, our Acting Director, asked me to respond to your inquiry regarding the effect on our state of the 1976 Tax Reform Act.

It would be difficult for our office to assess the impact of the 1976 restrictions. We have no way of measuring whether or not a convention that came to Wisconsin did so because of the restrictions. We would have the same diffuculty with determining if a partial or total repeal of the 1976 restrictions would have an impact without actually surveying the convention planners.

It might be possible to get some idea of the impact by making inquiry of the larger convention bureaus in our state; namely, Milwaukee and Madison.

I regret not being more specific, but that kind of hard data is not available in our office. On the other hand, it would be difficult to visualize how repeal of the Tax Reform Act of 1976 would have any significant impact on convention business in Wisconsin.

Sincerely,

MILTON A. STRAUSS.

DEPARTMENT OF ECONOMIC DEVELOPMENT,
Providence, R.I., May 2, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senator, Washington, D.C.

DEAR SENATOR MATSUNAGA: Thank you for inviting my comments concerning the Tax Reform Act of 1976 and how it affects United States Citizens who attend conferences abroad.

First, to qualify Rhode Island. A sport check reveals that limitation of Americans going abroad for conference purposes has little effect upon Rhode Island. Although we have hosted countless conventions and conferences, only a small percentage would be of the type that utilizes overseas. It is understandable why those confined to the United States, seeking another location, would choose your beautiful State of Hawaii.

Anything to continue the good relationships this part of the United States enjoys with our Canadian neighbors, only a few hours away by auto, will be an improvement. As for the states that are near Mexico, my sentiments are the same for that area and their good neighbors to their south.

If the restriction must remain, I'd favor a relaxation to allow six out-of-country trips for conference purposes. As for per diem, attendance, etc., I see nothing wrong with lowest air fare rates, but as a government employee it appears that Federal per diem restrictions are unreasonable. I see nothing wrong with an attendance report.

Trusting this may be helpful.

Sincerely,

LEONARD J. PANAGGIO, *Assistant Director.*

GUAM VISITORS BUREAU,
Agana, Guam, U.S.A., May 2, 1979.

Hon. SPARK M. MATSUNAGA,
Chairman, Subcommittee on Tourism and Sugar,
Committee on Finance, U.S. Senate, Washington, D.C.

DEAR SENATOR: In reply to your inquiry on Guam's views of the tax regulations re foreign conventions dated April 13, we thank you indeed for requesting our opinion. Your consideration is much appreciated.

Actually, when the tax restrictions went into effect we gave thought to the possibility of attracting U.S. meetings to Guam—once this far on domestic convention business, extensions to the Far East would be relatively low cost.

However nothing materialized. Guam is little known in North America and, more explicitly, we have no facilities for hosting meetings with attendance in excess of a few hundred.

We find ourselves in the position of having no position on the tax restrictions—either way we are not really involved.

Sincerely yours,

MARTIN PRAY, *General Manager.*

STATE OF IDAHO,
DIVISION OF TOURISM AND INDUSTRIAL DEVELOPMENT,
Boise, Idaho, May 3, 1979.

Senator SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: In response to your letter of April 13, 1979 concerning restrictions on foreign conventions, Idaho was not affected by the Tax Reform Act of 1976 as it relates to convention business in the State. While it is a growing segment of the travel industry, the international aspects are practically non-existent.

A partial repeal for conventions held in Mexico and Canada could be helpful, particularly as it relates to Canada, in that we would be in a better position to return some meetings to their original rotating basis (one year Canada, the next in the Pacific Northwestern United States). This would give us more of the market to work on.

Frankly, I favor the removal of all restrictions. The present regulations as stated in your letter seem cumbersome and difficult to administer. In addition, it is possible that we could see restrictions by other nations to limit travel to the United States if we persist in attempts to limit our people traveling to conventions abroad.

I hope this will be helpful to you. If I can be of further assistance, let me know.

Sincerely,

LLOYD D. HOWE, *Administrator.*

WYOMING TRAVEL COMMISSION,
Cheyenne, Wyo., May 3, 1979.

SPARK M. MATSUNAGA,
U.S. Senator, Washington, D.C.

DEAR SENATOR MATSUNAGA: Wyoming's several major convention and business meeting facilities have reported no measureable effect resulting from the passage of the 1976 Tax Reform Act limiting the tax deductions allowed for delegates attend foreign conventions. For this reason, and because we believe that anything done to restrict, limit or penalize any specific type of travel will ultimately do harm to the travel industry in general, this agency would support the passage of S. 749 or, if that fails, S. 589.

Thank you for the opportunity to comment on this issue. If we can be of further assistance, please let me know.

Sincerely,

RANDALL A. WAGNER, *Director.*

STATE OF TENNESSEE,
Nashville, Tenn., May 4, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senator, Washington, D.C.

DEAR SENATOR MATSUNAGA: The tourist industry is of vital interest to Tennessee. However, I do not believe that the repeal of the 1976 restrictions would have any appreciable effect one way or another on the flow of tourist traffic to our state. A partial repeal on the 1976 restrictions to permit a greater utilization of Mexican and Canadian resorts for business conventions would have no direct adverse effect on Tennessee.

My personal belief is that the 1976 restrictions do not necessarily need liberalizing.

I trust that this is the information needed.

Sincerely,

IRVING C. WAUGH.

STATE OF MICHIGAN,
DEPARTMENT OF COMMERCE,
Lansing, Mich., May 7, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: I deeply appreciate your letter outlining the public hearings in June 1979 on two bills, S. 589 and S. 749, which would loosen the present restrictions on foreign conventions. I also appreciate the detailed rationale outlined in your letter as to how the Tax Reform Act of 1976 was implemented.

You indicated since the enactment of these provisions, a number of groups have expressed dissatisfaction with the restrictions and that Senator Barry Goldwater has introduced S. 749 to repeal the restrictions enacted in 1976. In turn, you mentioned that Senator Lloyd Bentsen, joined by several other senators, has introduced S. 589 to extend that liberal rule for domestic conventions to Mexico and Canada.

Please be advised as per your request for my opinion, Michigan opposes the two proposals to repeal or loosen the 1976 restrictions. We can document that the State of Michigan has enjoyed an increase in the convention/meeting business that is directly attributable to the restrictions themselves.

There is no question in my mind that the loosening of the 1976 restrictions would only proliferate the outflow of U.S. dollars abroad and would affect not only the State of Michigan, but other states as well. I honestly believe, Senator Matsunaga, the last thing we need at this time is additional outflow of revenue.

Again, I extend my thanks for your most informative letter and for seeking my comments on this critical issue. We greatly appreciate your interest in the travel and tourist industry of Michigan.

Sincerely,

JACK S. WILSON, *Director.*

STATE OF LOUISIANA,
TOURIST DEVELOPMENT COMMISSION,
Baton Rouge, May 7, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senator, Washington, D.C.

ALOHA, SENATOR MATSUNAGA, and thank you so much for your interest and your communication pertaining to the Senate Finance Subcommittee on Tourism hearings you will be handling in June.

Certainly, Louisiana, because of New Orleans being such an international destination, is very concerned with the present restrictions on foreign conventions and at present we really do not have a clear handle on how the present bill has affected our state.

I will be happy to look into the subject and see if we can come up with a more clear picture and will be happy to send any of our findings to you prior to your hearings.

I would like to congratulate you Senator on your interest in this area and mention that because of the many factors that make it more appealing for foreign visitors to visit the United States, it would seem to be in the best interest of the United States to loosen present restrictions as much as possible. It could be harmful to our interests if foreign nations were to impose rigid restrictions to stop their nationals from traveling to our beautiful country. Should that happen, it would certainly be a negative effort on our country's effort to achieving a better balance of payment picture.

Kindest personal regards.

Sincerely,

BOB LEBLANC, *Assistant Secretary,*

COMMONWEALTH OF VIRGINIA,
DEPARTMENT OF CONSERVATION AND ECONOMIC DEVELOPMENT,
Richmond, Va., May 7, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senator, Washington, D.C.

DEAR SENATOR MATSUNAGA: Thank you for your inquiry regarding the Reform Tax Act restrictions to convention business.

I have discussed these matters with representatives of our travel industry and all favor a lifting of restrictions on conference attendees who go to Mexico or Canada. Also, they felt that once restrictions were imposed internationally, the next step would be to impose those restrictions on a domestic basis.

I understand that the American Society of Association Executives has developed a position on this matter. Perhaps members of your staff would like to contact them at (202) 659-3333.

Best regards,

MARSHALL E. MURDAUGH.

NORTH CAROLINA DEPARTMENT OF COMMERCE,
Raleigh, N.C., May 1, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: This is to acknowledge receipt of your April 13 letter and to assure you that this office will respond to your request. A canvass of North Carolina's convention facilities is being made and that information, as it relates to your questions, will be provided to you as soon as possible.

Thank you for inviting us to participate.

Cordially,

WILLIAM ARNOLD.

NORTH CAROLINA DEPARTMENT OF COMMERCE,
Raleigh, N.C., May 9, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: As promised in my letter of May 1, we have canvassed North Carolina's convention and visitor interests and find general approval of Senator Goldwater's bill (S. 749) that the current law be repealed, with the exception of the country of Canada. See the attached correspondence.

Cordially,

WILLIAM ARNOLD.

GREATER WINSTON-SALEM CHAMBER OF COMMERCE,
Winston-Salem, N.C., May 4, 1979.

Mr. BILL ARNOLD,
Director, Travel and Tourism Division,
North Carolina Department of Commerce, Raleigh, N.C.

DEAR BILL: This is in reference to your letter of May 1 regarding your correspondence with Senator Matsunaga and the Tax Reform Act of 1976 on convention deductions.

There is a great diversity of opinion among Convention and Visitors Bureau Directors around the country concerning the deductions for attending foreign conventions. Some favor the restrictions which are now law as passed in 1976 since they feel American associations are more likely now to hold their conventions in U.S. cities. This would apply in particularly to some of the major cities which compete directly for big conventions with cities in Mexico and Canada. Some are against restrictions on tax deductions or government regulations on convention attendance of any kind saying (1) that this type of legislation could lead to regulations on our own U.S. conventions, and (2) that actually so few associations go out of the country (except for Canada) that restrictions are really unnecessary.

As you know Raleigh, Winston-Salem, Asheville, and Charlotte are members of the International Association of Convention & Visitor Bureaus (IACVB) which has over 120 member cities world wide. Since it has foreign member cities, the IACVB took no stand on this issue in 1976. None of the IACVB cities, with the exception of Honolulu has reported any major increase in conventions since the restrictions came out in 1976. We can tell absolutely no difference here in North Carolina either, since we do not compete with foreign cities and only about 5-10 percent of our conventions are large nationals, which could go to foreign cities. The real issue is Canada. Canadian law prohibits any of their associations from meeting in the U.S., and that means millions of dollars which never reach this country. On the other hand, U.S., associations do meet in Canada, even with the current restrictions (which are really very minute).

Several North Carolina Associations (N.C. Homebuilders as an example) do go out of the Country from time to time to hold meetings. The number of them, however, is insignificant to make a great deal of difference. And I seriously doubt that the current tax restrictions have changed their plans at all.

I believe that the N.C. Council of Convention and Visitors Bureaus feels that current restrictions should be lifted with the exception of Canada. It is not equitable that U.S. associations meet in Canada if Canadians cannot by law meet in our Country. We would tend to support Senator Goldwater's bill (S. 749) that the current law be repealed with the exception of the country of Canada.

I hope this information is helpful to you

Sincerely,

GARY L. SMITH, *Chairman.*

COMMONWEALTH OF PENNSYLVANIA,
DEPARTMENT OF COMMERCE,
Harrisburg, Pa., May 10, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: Your letter of April 13, concerning Senate bills 589 and 749, reached me on April 26, which accounts for much of the delay in responding to you.

In researching the effects of the Tax Reform Act of 1976 on Pennsylvania's convention business and tourism industry, I received input mainly from the Pittsburgh and Philadelphia Convention and Visitors Bureaus.

It appears that the effect of the Act in Pennsylvania has been minimal to date, and it is difficult to assess projected influences. Based on the information I did receive, however, I would like to express Pennsylvania's support for S. 589, which would lift restrictions on conventions in Mexico and Canada.

As you know, Canada and the United States, and especially Pennsylvania, are easily accessible to each other, and have indeed shared the "special relationship" noted by Senator Bentsen in his introduction of the bill.

I should like to express my personal thanks to you, Senator, for taking the time and effort to share your concerns with me, and for allowing me to make an input in behalf of Pennsylvania's travel and convention businesses.

Sincerely,

PAUL R. DECKER.

OKLAHOMA CITY CONVENTION AND TOURISM,
May 10, 1979.

Hon. SPARK M. MATSUNAGA,
Washington, D.C.

SENATOR MATSUNAGA: Ron Acree, Director of Oklahoma Tourism, who replaced Carl Clark, your addressee, has routed your letter of April 13th to me for answer. Mr. Acree's department deals less with conventions than with standard visitor travel.

Those of us in the "convention" business will welcome any slackening of the foreign convention travel restrictions and for good reason.

First, if we in the visitor business expect to substantially affect the imbalance in our balance of payments with foreign lands, then conventions held outside the United States and travel to foreign countries are necessary. Business is done at conventions and trade shows in foreign lands to sell the foreign travel industry on visiting the United States, business which is essential to the fiscal health of our nation.

Second, restrictions on foreign travel invite similar restrictions levied against us. The fact is that we are a bargain for travel in six foreign lands today. The English, Germans, Japanese, French, Canadians and Mexicans can be expected to protect themselves by similar restrictions on a growing tendency of their people to vacation and meet in the United States.

Any initial increase in domestic conventions and trade shows will ultimately by offset by travel and meeting losses if restrictive effort continues.

The transportation and so-called "social" exclusions of the 1976 law are redundant. Most of us do business at a reception, cocktail party or business lunch. To restrict business people to the Federal per-diem subsistence rate, which is generally well under actual costs, is to mix apples and oranges. After all, most business people will be on business at these affairs and their costs should be deductible against the business they do.

The reporting requirement included in the law of signed statements by association officers concerning length of time each delegate spent in meetings and business affairs each day is totally unrealistic.

Any change in this unrealistic and restrictive law will be welcomed. We would prefer the Goldwater amendment.

Cordially,

R. D. THOMPSON, *Director.*

STATE OF NEBRASKA,
DIVISION OF TRAVEL AND TOURISM,
Lincoln, Nebr., May 10, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senator, Washington, D.C.

DEAR SENATOR: I thank you for your letter of April 13 expressing concern with regard to the Tax Reform Act of 1976 and proposed bills, S. 589 and S. 749.

It is difficult to assess the impact of business conventions in Nebraska since we are such a diversified state. No doubt, however, any restrictions on overseas business conventions will certainly increase domestic conventions which is an asset to the facilities we offer here in Nebraska. I am sorry that we do not have any statistical data that we can provide you which would be more indicative of this perception.

Sincerely,

RICHARD B. GARTRELL, *Deputy Director.*

MINNESOTA DEPARTMENT OF ECONOMIC DEVELOPMENT,
St. Paul, Minn., May 11, 1979.

Senator SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: In reply to your letter regarding our reaction to the Tax Reform Act of 1976 limitations on tax deductions for attending business conventions abroad, we would like you to know we have reviewed the provisions in light of our states's interest in business travel and have communicated with members of the business community concerning their views on this issue.

From this assessment, we would like to give you our reactions:

1. The idea of reciprocity is an important one. The state of Minnesota is a business as well as a leisure travel destination state; the state is also the headquarters site of many multinational business firms. Consequentially, we are interested in seeing our facilities used when deemed appropriate by foreign company executives and professional people. Conversely, when our corporate executives and professionals deem it necessary to travel internationally for legitimate business enterprise, they should be able to go wherever and as often as the situation demands.

2. We are aware that abuses have entered into this practice, but it seems counterproductive to curtail legitimate activity by blanket and stringent regulations. It seems to us that the chief criterion for the determination hinges on whether or not the trip was taken for legitimate business reasons and if it has, the inherent business elements be subject to deductibility.

3. There is some evidence that the existing regulations have increased domestic business, but we feel that with the growth in the significance of foreign markets to the U.S. economy, and in our state's own international trade efforts these constraining factors may be competitively limiting. This seems especially true as it effects the balance of payments. It seems that travel is the one set of accounts working in our favor. It is generally apparent by now that the U.S. economy is no longer national, it is international. Being a northern border state, our interchange with Canada is especially important.

I hope you find the commentary useful, and if there is any elaboration you may want on the above points, please let us know.

Sincerely,

KIRK WATSON, *Director of Research.*

TUCSON CONVENTION & VISITORS BUREAU,
Tucson, Ariz., May 11, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senator, Washington, D.C.

DEAR SIR: Mona Smith referred to our office for response to your letter of April 13th.

Although Tucson enjoys an active convention business, we did not benefit from the 1976 restrictions on foreign business conventions that Hawaii indicated. The size of our hotels does not begin to approximate the size of many of the large hotels in Honolulu. We cannot say, with any degree of credibility, that business was increased in our area because of these restrictions. I really am not in a position to know what effect a partial repeal of the 1976 restrictions on Mexico and Canada would have, but, because they are our neighbors, I certainly see no objection to S. 589 introduced by Senator Bentsen.

I am afraid my letter has not been too informative, but if you have further questions, do not hesitate to call on us.

Sincerely,

MARTHA VITO, *Director.*

STATE OF OREGON,
DEPARTMENT OF TRANSPORTATION,
Salem, Oreg., May 14, 1979.

Senator SPARK MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: In response to your recent letter concerning the implications of the Tax Reform Act of 1976, I have held some discussions with convention bureau managers here in Oregon. Generally, we feel that the 1976 Act had very little effect on business conventions in Oregon. Most national or international conventions of any size in Oregon headquarter in Portland. Quite a number

of such conventions are held there. Portland Convention Bureau Manager Tony Raiter tells me he could see no effect on convention business in the past two years caused by the Tax Reform Act.

There are quite a number of regional conventions held in the Pacific Northwest that includes western Canadian businesses or members. Often these conventions will alternate on a year to year basis from Oregon to Washington to Idaho to British Columbia. Thus far, there seems to be little effect on those meetings.

While Oregon is not a major location for most international conventions, it is of growning interest here and, in addition, many Oregonians are attending conventions and business meetings in foreign countries as we attempt to develop foreign trade programs.

I personally feel, and I know that some of the convention bureau managers here feel, that the law should be either repealed or modified considerably. We have very good relations with our neighbors to the north and would hate to see any type of barrier thrown up to free flow of travelers of any kind. We would not like to see other countries pass laws of retribution because of the U.S. Tax Reform Act.

Even the details of the 1976 Act seem rather stringent. The forms to be filled out and the amount of subsistence expenses are allowed would seem to be prohibitive to the business convention visitor. As a government employee, I know that to restrict business convention delegates from Oregon to state employees' per diem costs would greatly hamper their ability to be active participants in the conventions.

One other concern that was expressed to me by one convention bureau manager was what the next step might be if we now limit expenditures of those business people going to foreign countries. Do we next limit them to such exotic destinations as Hawaii, Alaska and Puerto Rico? Is the step beyond that to limit expenditures for business meetings in other states?

I agree with the intent of the sponsors to curb abuses of business travel as a cover for a vacation trip, but I feel the present act is much too stringent.

I hope this information will be helpful to you in planning your proposed changes in the law.

Sincerely,

VICTOR B. FRYER,
Manager, Travel Information Section.

IOWA DEVELOPMENT COMMISSION,
TRAVEL DEVELOPMENT DIVISION,
Des Moines, Iowa, May 14, 1979.

Hon. SPARK M. MATSUNAGA,
Washington, D.C.

DEAR SENATOR MATSUNAGA: We feel that the repeal of the 1976 restriction on business conventions in Mexico and Canada will not affect us one way or another. It will only make it easier for people to write off their trips as partial business expenses. We feel it will aid as an incentive for travel agencies located in our State, by making it easier for them to book foreign conventions and/or pleasure trips.

In your position as U.S. Senator, from Hawaii, we certainly hope your compassion and energies rest with the tourism industry in Hawaii and the continental United States during the present energy crisis and hope that you will expend your efforts accordingly.

Sincerely,

RICHARD A. RANNEY, *Director.*

ST. CROIX HOTEL ASSOCIATION,
Christiansted, V.I., May 17, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: Per your letter of April 13, 1979 to Dann Lewis, U.S. Division of Tourism, please be advised that the St. Croix Hotel Association poll resulted in a negative reaction to repealing Bill #589. Hoteliers definitely felt their convention business has increased as a result of this act.

Cordially,

SALLY CRAMER, *Secretary.*

NORTH DAKOTA STATE HIGHWAY DEPARTMENT,
TRAVEL DIVISION,
Bismarck, N. Dak., May 21, 1979.

Senator SPARK M. MATSUNAGA,
Washington, D.C.

DEAR SENATOR MATSUNAGA: North Dakota has not garnered any measurable increases in the number of or expenditures by business conventions within or state as a result of any legislation. I'm also reasonably sure that a partial repeal of the 1976 restrictions on foreign business conventions will have little if any effect on the number of conventions currently held in North Dakota. The real point seems to me to be: Is a convention held in Fargo, North Dakota in February a reasonable alternative to the same convention held in London, England or more to the point San Diego, California? That all depends.

We've become pretty realistic in our outlook for conventions. Our market share currently generates through multi-state regional groups whose conventions are held in the summer months, often in conjunction with family vacations and highly dependent on the family car as the principal means of getting to and from the convention. Regionally we are looking toward multi-state involvement in convention solicitation with a concentration on pre- and post-convention tourism. The ties between conventions and tourism are growing, as is our collective interest in them—we recognize that conventions are good business and big business but restrictive or permissive legislation will probably not enhance the real chances of North Dakota and its communities to become a convention hub. It takes capacity facilities, hospitality, services, professionalism and desire to make conventions. We've got them all but we've also got the weather and when its 30° below few people consider conventioning in North Dakota, so we'll exist for the time being by picking up the conventions we can handle and by knowing our market will grow.

Sincerely,

EUGENE REBER, *Director.*

THE VIRGIN ISLANDS OF THE UNITED STATES,
Charlotte Amalie, St. Thomas, May 24, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: Thank you for notifying us of the proposed amendments to the Tax Reform Act of 1976 and for giving us the opportunity to comment.

The lifeblood of the economy of the United States Virgin Islands is the tourist industry. Between 35-50 percent of the gross revenues of the Government of the Virgin Islands are derived from tourism.

Since the enactment of the Tax Reform Act of 1976, "group & convention" business has increased many-fold for hotels in the Virgin Islands. This has particularly benefited the smaller hotels since the "spill-over" from the hotels which are equipped for convention group business, results in an increased demand at the smaller hotels.

I would, therefore, strongly urge that any effort to repeal or "loosen" restrictions of the Tax Reform Act of 1976 be viewed in the light of the adverse effects it would have on the already ailing financial condition of this United States territory and, therefore, be rejected.

Copies of letters from those involved in the tourism industry are enclosed for your information.

Again, thank you for your interest in our islands.

Sincerely,

AMADEO I. D. FRANCIS,
Commissioner of Commerce.

ST. THOMAS-ST. JOHN HOTEL ASSOCIATION,
St. Thomas, V.I., May 10, 1979.

Hon. AMADEO I. D. FRANCIS,
Commissioner, Department of Commerce,
St. Thomas, Virgin Islands

DEAR COMMISSIONER FRANCIS: Recently I was contacted by Leona Bryant of the Division Tourism and asked the Hotel Association's position on the possibility of repeal of the Tax Reform Bill of 1976. After having taken a telephone polling of the major hotels on the island, I feel I should make you aware of my findings.

First, as I am sure you are aware, the island's hotel/convention facilities are somewhat limited to Frenchman's Reef, St. Thomas Sheraton, Bluebeard's Castle, V.I. Hotel and Sapphire Beach Resort. In all cases, the owners or operators of these properties feel that significant upward trends have developed in group sales as a result of the Tax Reform Bill of 1976.

In an overall sense, and perhaps more important, is the fact that with 2500 total available rooms on the island, any time group rooms are booked into the primary group service hotels, individual travelers and smaller organizations are displaced into the other properties. The net result is that in a pool of only 2500 rooms, any additional sales affect all the operators on the island.

Attached is the average occupancy by month of the islands from 1973 to present. The destination of St. Thomas is enjoying an upswing in a general sense. Specifically, since 1976 the trend is much more accelerated and as many of the convention groups deal in 12 to 36 month lead times, the trend has considerable growth yet to come. Please be advised that we are available to provide specific back-up information and qualified professional representatives should those services be of assistance to you.

It is, therefore, the position of the St. Thomas-St. John Hotel Association that the Tax Reform Bill of 1976 as it is currently written and implemented has been a substantial aid in the growth of the hospitality industry in the Virgin Islands.

Thank you for your assistance in presenting our position in this matter.

Respectfully,

JAMES ST. JOHN, *President.*

ST. THOMAS, V.I., *May 7, 1979.*

Dr. MELVIN H. EVANS,
U.S. House of Representatives,
Washington, D.C.

DEAR DR. EVANS: The purpose of this letter is to urge you to lend your strongest support in Congress against any changes in the present Tax Laws regarding meetings and conventions, which may affect the Virgin Islands.

As I am sure you are aware, Virgin Islands tourism benefited tremendously after the 1966 Law was passed, which made the Virgin Islands a favorable site for corporations to have their meetings and conventions rather than a foreign destination. There are presently Bills in the Congress trying to change this advantage to the benefit of the foreign countries. Speaking for this hotel alone, since the enaction of that Law, our group and convention business has increased by several folds and needless to say not only we have benefited, but also other business throughout the islands. Our overflow of guests has helped to keep many other hotels on the island full; the main street shops have enjoyed the purchasing power of our additional guests, the taxi drivers have been kept busy and the local tour operators have realized an appreciable increase in business * * * the list is almost endless.

All of the above have added much needed dollars into the economy of these islands. Therefore, I join my colleagues in this industry in urging you again to do your utmost to oppose any changes in any tax reform that will affect the Virgin Islands.

If you have any suggestions as to what we, as hotel operators, could do to express our strong opposition, which may help to influence the opinions of those on the Capitol Hill, we will be more than happy to do so.

Sincerely yours,

NICK POURZAL.

COMMONWEALTH OF PUERTO RICO,
TOURISM COMPANY,
San Juan, P.R., May 24, 1979.

Hon. SPARK M. MATSUNAGA,
Chairman, Subcommittee on Tourism,
Washington, D.C.

DEAR SENATOR MATSUNAGA: Thank you for your informative letter of April 13, 1979.

We are presently working with the office of the government of Puerto Rico in Washington regarding S. 589 and S. 749 and are pleased to inform you that we have also requested time to testify at the hearings in opposition to these bills.

We appreciate your efforts on behalf of the Tourism Industry and assure you of our complete cooperation in this respect.

Affectionately,

DOEL R. GARCIA, *Executive Director.*

STATE OF VERMONT,
AGENCY OF DEVELOPMENT AND COMMUNITY AFFAIRS,
Montpelier, Vt., May 25, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: The State of Vermont, though ranking high in its economic dependence upon tourism, does not have a generally recognized, widespread conventions program.

We conducted a limited survey in response to your question on tax deductions for attending business conventions abroad, and received a general consensus that the act has little impact upon conventions business in our state.

While Vermont has fine facilities for small conferences and seminars, we currently do not have large convention sites, hence would not be impacted in any substantial way.

Sincerely,

DONALD A. LYONS, *Director of Travel.*

THE COMMONWEALTH OF MASSACHUSETTS,
DEPARTMENT OF COMMERCE AND DEVELOPMENT,
Boston, Mass., June 11, 1979.

Senator SPARK MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: Your letter to Deputy Commissioner Ernest A. Lucci has recently been forwarded to my attention.

I am sending a copy of this legislation to the Greater Boston Convention and Tourist Bureau, and asking them to respond directly to you in regard to their opinion as to the effectiveness of this legislation. Also, a copy is being sent to the Chairman of the Governor's Advisory Committee on Vacation/Travel, Michael J. Frucci, in order that he might also comment on this legislation.

Although the state has no particular position at this time, I believe it would be accurate to say that the intent to curb tax abuses certainly should be applauded and enacted wherever the government feels it is necessary to equitably administer its taxing effort. However, it is even more important to remember that if by imposing corrective measures we interfere with the ability and desire of the travel industry to move back and forth freely, then perhaps we should leave the situation loosely defined in terms of the restriction.

No system, taxed or otherwise, ever functions to 100% efficiency. What we should advise the Congress to do is to tighten up on accountability for expenditures but do not set parameters for types of expenditures, and allow the free trade market to function independently of any government interference. Per diem and other such restrictions can in many cases cause more harm and loss of revenue in the long run.

Sincerely,

FRANCIS J. SHAW,
Director, Bureau of Vacation/Travel.

STATE OF WASHINGTON,
DIVISION OF TRAVEL DEVELOPMENT,
Olympia, Wash., June 13, 1979.

Hon. SPARK M. MATSUNAGA,
U.S. Senate, Washington, D.C.

DEAR SENATOR MATSUNAGA: In reply to your letter of April 13, 1979, regarding relaxation of the Tax Reform Act of 1976 in relation to Canada and Mexico, the Washington State business convention does not appear to have materially changed after the passage of the act. Each of the convention bureaus contacted in our survey were in favor of relaxation of the act, believing that the fewer restraints to free trade exist, the better the marketplace.

Thank you for the opportunity to express our views before your Subcommittee on Tourism.

Sincerely yours,

JOE ZASPEL, *Assistant Director.*

Senator MATSUNAGA. Our first witness will be the distinguished Senator from Texas, a member of the Finance Committee, Mr. Bentsen.

STATEMENT OF HON. LLOYD BENTSEN, U.S. SENATOR FROM THE STATE OF TEXAS

Senator BENTSEN. Thank you very much. I appreciate the opportunity to testify on the Bentsen-Javits bill, S. 589. I see there are many witnesses here, including my distinguished colleague from Arizona, so I will make my remarks brief.

There is no great mystery as to what Senator Javits and I, together with our cosponsors, are attempting to accomplish with S. 589. If enacted into law, S. 589 will exempt our hemispheric neighbors, Mexico and Canada, from the restrictions on foreign conventions contained in section 274(h) of the Tax Reform Act of 1976.

In recent years it has become apparent that both Mexico and Canada, nations with which we share a common border and a common destiny, are increasingly important factors in our foreign relations. Our dealings with these two nations transcend traditional foreign policy.

Actions we take in Congress, actions that would generally be considered domestic in nature, frequently have a direct and substantial impact on our neighbors. And the reverse, of course, is also true.

Millions of Americans have recently awakened to the importance of our relations with Mexico. The reason for this infatuation is not hard to identify. It is energy and the hope—in my opinion the false hope—that Mexico will somehow be the answer to our energy dilemma. Canada is also a major energy producer, and we hear talk these days about how North America could be energy self-sufficient.

But the fact of the matter is that our neighbors are of special and unique importance to the United States for reasons entirely unrelated to energy. Mexico and Canada are two of our most important trading partners. We share many common ideals and aspirations. There is a vast movement of persons, legal and illegal, across our borders. We interact daily on a political, economic, and social basis.

This country has an obvious interest in economic prosperity and political stability in Mexico and Canada. In recent years we have made a special and commendable effort to overcome historical obstacles to cooperation and establish our friendship on a firmer,

more enduring basis. We have made a conscious effort to find ways in which we can cooperate with our neighbors to our mutual advantage.

S. 589 is consistent with and supportive of that process. In my comments today I would like to focus on Mexico, because that is the country I know best. I was born and reared on the Mexican border.

For the past 3 years I have been Senate chairman of the United States-Mexico interparliamentary delegation; Senator Javits was co-chairman this year. Every year when we meet with our counterparts in the Mexican House and Senate, when we discuss our problems and look for ways to resolve them, the issue of foreign convention limitations is high on the agenda. It is high on the agenda because it is an issue important to Mexico, a nation with severe unemployment problems struggling to develop its economy and provide a better, more productive life for its people.

Mexico is a country with over 60 million people. At recent rates of increase the population of Mexico will double every 20 years. If present demographic trends continue, there will be more people in Mexico than in this country in not too many years.

They have 19 percent unemployment and about 40 percent underemployment. That is not just a concern of Mexico; that ought to be of grave concern to us, too. Tourism creates a lot of jobs, and it would appear that the 1976 foreign convention limitations have had a substantial and adverse effect on Mexican tourism.

In 1976, 378,000 conventioneers went to Mexico and the average size of a convention was 1,200. By 1978, the number of convention goers had dropped to 184,000 and the size of the average convention was down to 425 persons.

If we assume that the person attending a convention in Mexico spends 5 days in the country and spends $40 per day—I do not know where they would stay for that price—if they get by for that, the cost to the Mexican tourism industry would be about $40 million.

I do not pretend, Mr. Chairman, that by passing this legislation we will solve our complex problems with Mexico and Canada. Obviously, we will not. But we would remove a major irritant; we would demonstrate to our friends in this hemisphere that we recognize the special character of our relationship and are prepared to make a special effort to be responsive to their concerns.

It is true, Mr. Chairman, that S. 589 clearly favors Mexico and Canada, but I do not think there is anything wrong or unusual in favoring ones closest neighbors. There may well be a time in the not too distant future when we shall be looking at a North American Common Market, at cooperative economic development along the lines of the EC or other regional groupings. I believe our North American neighbors deserve any priority treatment we can accord them, consistent with our own national interests and objectives.

In conclusion, Mr. Chairman, let me acknowledge that I am a recent convert to the cause of even a North American exemption for conventions. Several years ago Senator Goldwater made the proposal and I argued against it because I had seen and heard in the Finance Committee examples of flagrant abuse of tax deductions for foreign conventions.

I have become convinced, however, that the positive impact on our relations with Mexico and Canada that would result from approval of S. 589 would far outweigh any potential for abuse. And I would certainly encourage the IRS to take a close look at convention deductions, here or abroad.

Mr. Chairman, we do not give foreign aid to Mexico. The Mexicans do not want it, and I commend them for that attitude. However, I think we can and should look for ways in which we can assist Mexico's economic development, and approval of S. 589 would be a step in the right direction.

I appreciate the opportunity to be heard on this proposal and sincerely hope the subcommittee will be favorably disposed toward it.

Senator Javits, I know, has a conflict in his schedule and in the event that he cannot be here at some point, I would like to ask unanimous consent that his remarks be put in the record in conjunction with mine.

Senator MATSUNAGA. Without objection, so ordered.

[The prepared statements of Senators Javits, Moynihan, and Baucus follow:]

TESTIMONY OF SENATOR JACOB K. JAVITS

Mr. Chairman, I appreciate this opportunity to testify on S. 589, a bill introduced by Senator Bentsen and myself, which would create a North American Area tax exemption for convention expenses.

As Senator Bentsen has already so ably described, our tax code's restriction on foreign convention business deductions needlessly impairs the development of the tourism industries of our North American neighbors Mexico and Canada. While this legislation would offer non-discriminatory treatment for both Canada and Mexico, and in my judgment would symbolize the neighborly relations among North American nations that for so long have been neglected, its main purpose is to assist Mexico's economic development.

The genesis of this particular proposal occurred during consultations held by the U.S.-Mexico Quadripartite Commission in February of this year. This Commission, which my colleague Senator Bentsen has joined me in shaping and bringing to its current level of accomplishment, was established in 1976 in order to enhance bilateral economic relations and understanding between our two countries. The first sector of the Mexican economy that the Commission chose to focus on is the tourism industry. The Commission initially focused on obstacles to investment flows that impede development of this sector. As I indicated in my report to the Senate on March 1, 1979 on the latest meeting of the U.S.-Mexico Quadripartite Commission, a copy of which I provide to the Committee herewith, the success of the Commission in fostering investment projects in developing sectors of the Mexican economy has been recognized both by Mexican President Lopez Portillo and our own government.

The legislative proposal contained in our bill is a first step in eliminating on the U.S. side one of a series of investment obstacles that have been highlighted on both sides of the border. On the Mexican side we have drawn attention to several aspects of Mexico's investment law which have served to inhibit U.S. capital flows to Mexico. I am hopeful that this type of reciprocal dismantling of investment barriers can be repeated in other areas of our economic relations. Certainly this has been a positive and startling demonstration of how, given the proper input from the respective public and private sectors, working together we can achieve progress in areas that have heretofore been contentious and unyielding.

In May of this year the Nineteenth Mexico-United States Interparliamentary Conference declared that to promote close cooperation between our two countries all attempts should be made to remove all obstacles to tourist flows in both directions. This bill will eliminate the major U.S. obstacle to U.S. to Mexico tourist trade. This bill would grant non-discriminatory tax treatment to U.S. nationals' conventions in Mexico and thereby encourage growth in tourism, a vital sector of the Mexican economy. It would also promote one of the most labor intensive of all Mexico's industries—thereby providing jobs to Mexicans who otherwise could end up as undocumented aliens in the United States. Tourism is a growth industry in Mexico and U.S. developers are better situated than any to become involved in this growth.

Yet to do so will require coordination among all parties—business and government alike—to assure that investment opportunities are developed on a mutually beneficial basis.

As Senator Bentsen has indicated, we have encountered complications as a result of several issues which remain outstanding in negotiations on a bilateral tax treaty between the United States and Canada. One in particular, regarding the tax treatment of advertising expenses paid to U.S. broadcasters, has proven to be especially difficult to negotiate. I understand that progress has recently been achieved on this issue and that talks will commence shortly to seek to resolve this problem. Given the relationship between this brodcasting issue and the convention tax issue, it would seem prudent to delay application of this legislation to Canada pending the successful resolution of the broadcast tax question.

Let me say catagorically that it should be the intention of Congress to extend a North American Area status to Canada and it is my full intention to work to that end. However, I am equally compelled to say that extention of this status to Mexico should not be delayed while we await the resolution of the Canadian problem. Therefore I will recommend that this tax status be granted to Canada conditional on resolution of the U.S.-Canadian broadcast dispute.

Traditional relationships between the United States and Mexico are undergoing reassessment in light of Mexico's rapid development and the extent to which our economies are increasingly intertwined. Longstanding perceptions of both countries will soon be put to the test as our economic and commercial relations advance in step with Mexico's development. We have opportunities before us to establish a new understanding and a new relationship with our southern neighbor that for too long has been taken for granted. We should seize these opportunities as they present themselves and I suggest to you that we have such an opportunity before us today in the eligibility of Mexico for tax deductible convention attendance by U.S. taxpayers that deserves your favorable consideration.

Report to the Senate by Senator Jacob K. Javits (R-NY) on His Trip to Mexico

Mr. President: On February 11, 1979, I attended a meeting of the Tourism Subcommittee of the US-Mexico Quadripartite Commission (which is hereinafter described) in Manzanillo, Mexico; and I would like to report to my colleagues on the results of that meeting. I was accompanied by my Special Assistant for Economic Affairs, Jacques J. Gorlin.

The Mexican delegation to the meeting was headed by the Secretary of Tourism, Guillermo Rossell de la Lama; former President of Mexico Miguel Aleman; the Director General of FONATUR (The National Tourism Development Fund), Jose Antonio Murillo; and by Bernardo Quintana, President of GRUPO ICA and Mexican co-chairman of the Commission. The United States representation included Assistant Secretary of Commerce for Tourism, Fabian Chavez, Jr., Edgar Molina, Vice President of Ford Motor Company and US co-chairman of the Commission, and myself. Over sixty other representatives of the private and public sectors of Mexico and the United States attending the meeting during which issues of mutual concern regarding the development of Mexico's tourism sector were thoroughly discussed.

The timing of this particular Subcommittee meeting of the Quadripartite Commission was especially significant in that it occurred immediately before President Carter's meeting of February 14-16, 1979, with Mexican President Lopez-Portillo.

The crucial role of the private sectors of the US and Mexico in the economic development of Mexico was clear and so recognized by the governmental representatives attending the meeting. I understand that Tourism Minister Rossell provided President Lopez-Portillo with a full report on the deliberations and conclusions of the meeting.

Upon my return to the United States, I briefed Secretary of State Vance and Assistant Secretary of State for Inter-American Affairs Vaky. U.S. Government support for the Commission was evidenced also by written greetings, which I personally delivered to the Commission members, from Secretary of the Treasury Blumenthal and Under Secretary of State Cooper. I ask unanimous consent that copies of these letters appear at the conclusion of my remarks.

Since its inception over three years ago, the Commission has sought to demonstrate the viability of private US investment working in association with both governments and Mexican private enterprise in assisting Mexico's economic growth and development especially in project areas which are Mexico's national priorities. As I will describe below, the tourism sector was one of those sectors of Mexican economy whose development was identified early in the Commission's deliberations by the Mexican members of the Commission as being of high priority. They indicated that since tourism was an important generator of domestic employment (i.e.,

labor intensive) as well as foreign exchange it could help Mexico meet its most serious economic problems.

The priority of the tourism sector already has been recognized by the United States and Mexican Governments; in May, 1978, the two governments signed a US-Mexican Tourism Agreement which pledged cooperation not only in resolving outstanding bilateral issues but also in developing joint programs to foster tourism from third countries.

The Tourism Subcommittee represented the culmination of over three years of effort by me to get the Commission on its way. In early 1977 I invited Senator Lloyd Bentsen to join with me in the effort. In this undertaking we have been joined by representatives of the private sector headed by co-chairmen Quintana and Molina, who attended the Manzanillo meeting, and Ralph Pfeiffer, Jr., of IBM and Antonio Ruiz Galindo, who are the other US and Mexican co-chairmen respectively. Also instrumental in the founding of the Commission were J. Irwin Miller of Cummins Engine, G.A. Constanza of Citicorp, and William Hewitt of John Deere. In addition, the following corporations are represented on the Commission: DuPont, Bendix, The Sheraton Corporation, Bank of America, ADELA, The Agribusiness Council, Inc., Murden and Company, and McKinsey and Company.

In putting forward the Quadripartite Commission as a vehicle to bring together the U.S. and Mexican private sectors to assist in Mexico's economic development under a joint governmental umbrella, these business leaders joined in underscoring the need for a special relationship between Mexico and the United States that would facilitate the economic interdependence that our common border dictated. The nature and size of the issues that face our two governments and the required solutions in such areas as labor-intensive economic development in Mexico, Mexican energy development, and undocumented aliens, cannot be resolved by governments alone and, hence the need, I believe, for the Quadripartite Commission to provide a necessary element to complement certain major objectives of the official relationship between our two governments.

The Commission's development had been characterized before the Manzanillo meeting by slow progress, notwithstanding the best intentions of both sides. The Commission was launched in June, 1975, after an initial meeting that I had with President Echeverria in Mexico. It was subsequently fully supported by President Lopez-Portillo after he took office in 1976.

The thrust of the Commission as a vehicle for economic cooperation was confirmed six months later in January, 1976, in a meeting in San Antonio where we agreed to form special committees to focus on the vital economic sectors of Mexico. In September and December, 1976, I briefed newly elected President Lopez-Portillo in Washington, who was very supportive of the Commission idea.

As a result of my meetings with President Lopez-Portillo, a plenary meeting of the Quadripartite Commission was held in Mexico City in April, 1977. The meeting was attended by myself, Senator Bentsen, Under Secretary Cooper, Under Secretary of the Treasury Tony Solomon, Under Secretary of Commerce Sidney Harmon, senior representatives of the Mexican Government, 13 representative leaders from the U.S. private sector, and 10 representative leaders of the Mexican private sector. The meeting continued our earlier attempts to determine possible areas of participation by the private sectors in joint investment projects which were defined as Mexican national priorities. It was agreed to develop proposals in the areas of tourism, agribusiness, manpower training and technology, manufacturing, and resource development.

Since the main objective of the Quadripartite Commission was to assist Mexico in project areas of its choosing, the U.S. participants awaited the wishes of their Mexican counterparts. In August, 1977, the U.S. co-chairmen, Ralph Pfeiffer and Ed Molina, and my Special Assistant, Jacques Gorlin, met with President Lopez-Portillo in Mexico City to gauge whether the Government of Mexico was still interested in the Commission. In the intervening period, the two sides have had discussions both face-to-face and through diplomatic channels; and the Tourism meeting which I attended was the culmination of these efforts.

The meeting provided an opportunity for tourism specialists from both the private and public sectors to focus on outstanding issues that have blocked greater U.S.-Mexican cooperation in the development of Mexican tourism projects. Representatives of FONATUR and the Ministry of Tourism briefed the Commission members on the potential for Mexico's tourism sector as well as on the specific objectives of Mexico's toursim policy and the role of U.S. investment in these plans. A frank exchange of views on Mexican legal issues relating to foreign investment and the acquisition of real property interests by foreigners in Mexico took place.

During the course of the meeting, the following issues were identified as posing problems for expanded U.S.-Mexican cooperation in the tourism sector:

1. The need to expand both the number of U.S. airlines servicing Mexico and the routes into Mexico.—It was recommended that a bilateral Air Agreement be negotiated to permit the U.S. and Mexican airlines to work more closely in exploiting these opportunities. The Mexican side indicated that the U.S. airlines were not considering increasing their flights to Mexico because of new opportunities afforded in the domestic U.S. market and expressed concern that an exemption from the Sherman Anti-Trust Act may be necessary to permit closer collaboration between the Mexican and U.S. airlines.

2. The possibility of having U.S. tax legislation which would create a "North Americar area" exemption to the present law limiting tax deductible foreign conventions to two a year when held outside the United States.—This limitation, the Mexicans believe, has been counterproductive to the development of their tourism industry.

The need for possible changes in federal and state securities laws and regulations with respect to the registration of real estate sales and securities to account for the inability under Mexican law to provide proof of clear title for property in Mexico.—The Mexican side viewed this as a major limitation on raising capital in the United States for real estate ventures.

4. Article 27 of the Mexican Constitution, which created a "prohibited zone" for foreign ownership of land (all land within 100 miles from any land border and within 50 miles of the sea coasts), is a major impediment to foreign investment according to U.S. participants in the meeting.—Although a 1971 Presidential decree, which was later codified in May, 1973, by the Mexican Congress in a Foreign Investment Law, has sought to alleviate the problem by permitting legally approved trust deeds of thirty years duration, legal problems dealing with successive trusts beyond the initial thirty-year period remain. In addition, the U.S. participants pointed to the absence of long-term credit instruments (mortgages are presently limited to ten years) as a further disincentive to touristic investments.

Mexico's representatives indicated their awareness of these problems and that they have sought to work within the limitations of the Constitution to create new incentives, such as accelerated amortization and tax credits, for such external investment in the tourism sector.

In addition to the plenary session in which these policy issues were discussed, the representatives of the two private sectors made on-site inspections of possible areas for joint tourism investments.

Two joint venture agreements negotiated under the auspices of the Quadripartite Commission between the ICA group and the Sheraton Corporation and between Howard Johnson and the Marcos Russek group of Mexico were signed at the close of the final session of the Commission. These agreements provided tangible evidence of private sector interest in Mexico's economic development.

The Commission plans to expand its work and concentrate its efforts further in tourism as well as in agribusiness and other labor-intensive sectors of the Mexican economy that have been identified by Mexico as priority areas.

The Commission has executive offices in New York, under the executive direction of Jeffrey Peters, and in Mexico City, under the direction of Alberto Velasco, who serves also as an assistant to President Lopez-Portillo.

The importance of this Subcommittee meeting transcends the tourism sector and should not be underestimated. The meeting was tangible evidence of the developing interest in the Commission on the part of Mexico. The meeting could not have taken place without the active leadership of Tourism Secretary Rossell and the personal Bureau of the President of Mexico. Given the close working relationship between government and the private sector in Mexico, continued Commission activity in other sectors of the Mexican economy will require also the leadership of other Mexican ministers to support the Commission's objectives.

Throughout the development of the Commission in the last three years, I have kept Secretary of State Vance and his predecessor, former Secretary of State Henry Kissinger, fully informed about the Commission's work. The State Department has lately recognized the Commission's importance in implementing any U.S.-Mexico policy for economic development which includes a significant role for the U.S. and Mexican private sectors. President Carter also has shown the importance that he attaches to continued close U.S.-Mexican private sector endeavors such as the Quadripartite Commission as a necessary complement to the official relationship between our two governments.

The President and the Congress must even more look to the private sector as a full partner in the implementation of the foreign relations of this nation. There is priceless expertise in the private sector as well as resources, and we must avail ourselves fully of that knowledge and the willingness to serve the U.S. that are to be found in the U.S. private sector.

One possible approach relating directly to the vital U.S. relationship with Mexico would be the establishment of a private sector advisory group on Mexico to advise the Department of State which would draw upon the work of the Quadripartite Commission members as well as of other private sector groups which are knowledgeable about Mexican affairs.

While it has taken over three years to get the Quadripartite Commission off the ground, there is no doubt in my mind that it is highly relevant to the very real economic issues that face—and all too often divide—the United States and Mexico. In a sense, the Quadripartite Commission may have been ahead of its time in recognizing the importance of strong U.S.-Mexico economic relations and the need for positive efforts on the part of both partners to make that objective a reality. But the times have now caught up and the effort looks most hopeful and worthwhile.

SECRETARY OF THE TREASURY,
Washington, D.C., February 6, 1979.

Hon. JACOB K. JAVITS,
U.S. Senate, Washington, D.C.

DEAR JACK: Thank you for informing me of the February 9-12 meetings of the U.S.-Mexico Quadripartite Commission.

I am happy to hear that the Commission is now looking at joint ventures in the tourism field. As ;you know, we welcome close cooperation between the United States and Mexico and between their private sectors. We believe the work of this Commission is extremely useful in stimulating and maintaining such cooperation. Please convey my sincere wishes for success to the participants in the upcoming Tourism Subcommittee meetings.

Best regards.

Sincerely,

W. MICHAEL BLUMENTHAL.

UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS,
Washington, D.C., February 8, 1979.

Hon. JACOB K. JAVITS,
U.S. Senate, Washington, D.C.

DEAR SENATOR JAVITS: I was pleased to learn from your letter of January 30 that progress is being made by the U.S. private sector in pursuing areas of joint investment in Mexico. This effort by the U.S. private sector representatives appears to be a promising avenue for involving their Mexican counterparts.

Enclosed is a letter which you requested for the meeting of the Tourism Subcommittee.

With best regards,

Sincerely,

RICHARD N. COOPER.

Enclosure: Letter to the Tourism Subcommittee.

UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS,
Washington, D.C., February 8, 1979.

To the Members of the Tourism Subcommittee:

I wish to extend to you my wholehearted support and best wishes for success in your efforts to promote tourism between our two countries through private investment in specific projects. Successful projects of this sort could serve as a model for joint endeavors by the private sector in other sectors of the Mexican economy. this cooperative effort by U.S. and Mexican free enterprise complements in an important way the cooperation at the Government level now being carried out by the U.S.-Mexico Consultative Mechanism.

President Carter's visit to Mexico, which will take place in a few days, reaffirms the importance he gives to increased official cooperation and consultation between Mexico and the United States. However, governments are able to go only so far in cementing the relations between their countries. Beyond that it is essential to have the sort of people-to-people contact exemplified by your group in its efforts to carry out joint investment projects.

Sincerely,

RICHARD N. COOPER.

STATEMENT OF SENATOR DANIEL P. MOYNIHAN

I applaud Senator Matsunaga for holding these hearings on the important question of tax rules affecting foreign conventions. Our government has been negotiating a foreign tax treaty with Canada for several years. We have not been able to conclude these negotiations. The reason for this stalemate, I am unhappy to point out, has to do with the fact that there remain provisions of the Canadian tax code which discriminate against American enterprise—not accidentally, but deliberately and by design. The most conspicuous example in the Canadian tax code is its provision which withdraws tax deduction status from advertising monies spent on U.S. television stations. It is apparent that when a Canadian firm understands that it cannot deduct as a business expense the purchase of advertising on American television and radio stations, it will curtail its purchase time.

Accordingly, for American broadcasters operating near the Canadian border the effects will be substantial. Irreplaceable revenues will be lost. As the Senator from New York, one of the states bordering Canada and where five television stations are located, this provision of the Canadian tax code has been a source of frustration and serious concern for me.

Our negotiators have tried to work with the Canadian government to reach a resolution on this and other issues in the tax convention. But I am sorry to say that so far they have failed. And it isn't that we haven't tried. I know, because I have been interested in this issue since I arrived as the Junior Senator from New York in January 1977. Our negotiators have been patient. And I am frank to state that I have been patient. For I believed it important that U.S.-Canadian relations—held up to the rest of the world as a model of comity and cooperation—prove that agreement could be reached. In that spirit, I went to the floor of the U.S. Senate to speak on this issue, brought it before this finance committee, and discussed it in faith with the Prime Minister of Canada on a visit last Winter. Each time I hoped that our Canadian neighbors would see the discriminatory nature of this provision, the acrimony and bitterness it has caused between us, and act accordingly. They did not.

At the same time I urged that we move forward in changing our tax laws to allow deductions for conventions in Mexico and Canada. I am opposed to the discriminatory provisions in the law; I would hope that we could have a tax code which deals with specific abuses in the realm of corporate business deductions without complicating our relations with other countries. But it is ironic that the Canadian government insists on its blatantly protectionist policy at the very moment when the free world has successfully completed the most comprehensive and far-reaching trade liberalization negotiations since 1947. The spirit and substance of liberal trade and the free enterprise system have been revitalized by the MTN. And I was proud to be instrumental in moving the U.S. implementing legislation through our committee. It is an agreement and a set of laws which will benefit Canada as a major trading nation in the industrial world. It is sad that the Canadian government—a leader of the liberal trade system from which we have both prospered—persists in a tax policy which places trade and cultural barriers between us.

I would hope that these hearings will allow us to move forward finally to resolve this most vexing problem between our two countries.

STATEMENT OF SENATOR MAX BAUCUS

I appreciate this opportunity to include in the record my endorsement of the Bentsen-Javits bill to extend convention tax exemptions to our North American neighbors, Canada and Mexico. However, I would also support an amendment which would preclude convention tax exemptions if the Canadian government does not yield on broadcasting and other tax issues currently being negotiated between our two governments. I seek increased North American cooperation, and this would further that objective.

Clearly, Canada and Mexico would welcome the Bentsen-Javits bill. It is in their business interests, more than it is in ours. Even so, if we are to progress in our relationship, it will be increasingly important for all countries to engage in fair concessional exchanges. We are at a crucial time in our relationship, a time when we must demonstrate our willingness to work more closely, and especially in a context of mutual benefit. For Mexico especially, the Bentsen-Javits bill is an indication that there is mutual benefit in closer cooperation, and that while the United States may seek energy, it has much more to give in return, more than many other countries. Indeed this bill stresses that there are several areas where we can increase cooperation.

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President Lopez Portillo this week acknowledged that his country recognizes the necessity to increase cooperation with the United States and Canada. President Portillo stressed, however, that it would be a mistake to expect energy alone. I firmly agree with President Portillo, and want to stress that Mexico should not look at energy alone either. The Bentsen-Javits bill underscores that others in the American government agree as well. The Bentsen-Javits bill typifies what I believe is an increasingly important concept, the concept of North American Interdependence.

Senator BENTSEN. Would you forgive me if I went to my other committee now?

Senator MATSUNAGA. There is nothing to be forgiven.

Senator BENTSEN. Senator Goldwater, I am sure that I will hear both of our speeches on the floor about this, too.

Thank you.

Senator MATSUNAGA. One of the three bills which is the subject of these hearings is S. 749 which would repeal all restrictions on foreign conventions. It was introduced by Senator Barry Goldwater, who will be our next witness.

Senator, we will be happy to hear from you.

STATEMENT OF HON. BARRY GOLDWATER, U.S. SENATOR FROM THE STATE OF ARIZONA

Senator GOLDWATER. Thank you very much, Mr. Chairman.

I welcome your hearings on legislation which I have introduced to repeal section 602 of the Tax Reform Act of 1976.

As you know, Mr. Chairman, section 602 discriminates against travel outside the United States for tax deduction purposes. Students, scholars and businessmen, who attend meetings and seminars in foreign countries are treated differently under the Tax Code than if they had traveled within the United States.

The new law is filled with nitpicking restrictions. No American may deduct the cost of more than two meetings abroad in a year. He can deduct only the cost of an economy air fare and daily expenses totaling no more than the per diem rates for Government employees, even though Government employees themselves are not tied to these rates. They can be reimbursed for their actual subsistence expenses up to an additional $21 in excess of the per diem rate.

And, I might add that major American hotel chains offer Government employees abroad a discount that is not available to business people. This concession results in a lower per diem rate which is unrealistic for non-Government taxpayers.

To be entitled to a deduction at all, a person must be virtually an accountant. He must prove he attended at least two-thirds of the business activities of the convention or meeting, and at least 6 hours a day.

The taxpayer must be checked in and out of each meeting and has to submit a verification signed by the manager of the meetings showing how many hours he spent at each one. I am told that when someone wants to go to the bathroom, for example, he has to be timed in and out of the room.

Now, this kind of nonsense is causing havoc with necessary international travel plans. These tax curbs are seriously discouraging free travel by Americans and impeding the free exchange of ideas.

The recordkeeping and reporting requirements and the limitations on amounts which can be deducted are so burdensome that many professional people are simply not going to foreign meetings. It is too much trouble.

The law is especially harmful to our relations with our sister nations, Mexico and Canada. Section 602 is literally killing the group meeting business in Mexico. This weakens her economy so that she has less money to buy American products. Mexico is our fifth largest trading partner and has had a $9 billion trade deficit with the United States over the last decade. She makes up a small part of that loss by hosting conventions.

Also it should be understood that at the same time section 602 cuts down on U.S. visitors to Canada and Mexico their citizens are visiting our country in record numbers. For example, in Arizona there were 7,370 group meetings in 1978, and nearly everyone of them had Mexican and Canadian visitors.

The Arizona Tourism Office reports that Mexican visitors represented a healthy 13 percent of all hotel-motel bookings in the Phoenix-Scottsdale area in 1978.

Also, it is worthy of note that Canadian visitors spend about $1 billion more annually in the United States than our visitors spend in Canada. If Canada wishes to retaliate by making it more difficult for its citizens to visit here, it is our economy that will suffer the most.

But, Mr. Chairman, section 602 makes no sense wherever it is applied. It gives offense to every country in the world by being so openly discriminatory.

What concerns me is that foreign governments will start applying the same rules to their citizens who want to travel to the United States. No other country in the world has such restrictive curbs on travel deductions as we do.

It is true that some States may have temporarily picked up some business as a result of the discrimination against foreign travel, but foreign governments can do the same thing to us and then everyone is a loser.

We might remember that the United States is the world's leading convention site. Far more foreign citizens attend conventions in the United States than Americans attend foreign conventions.

Also, I am worried that section 602 is just the first step. The next step is to put a limit on deductions for meetings held in the United States. Tourism is the biggest industry we have in my State, ranking even above manufacturing or mining; and it is to our advantage to stop the precedent of section 602.

Mr. Chairman, I would emphasize that section 602 closes no loopholes. All the Internal Revenue Service need do is enforce the law as it stood in 1976 to correct any abuses. The law already required that travel expenses must be reasonable and necessary to the taxpayer's business. If a trip was primarily for personal pleasure, it could not be deducted. Section 602 is a classic example of "over kill."

Mr. Chairman it is shocking that a country which is proud of its freedoms would obstruct travel and the free exchange of ideas. I am even more surprised that we would allow our tax laws to interfere with closer ties with Mexico and Canada. I think we

should forge a stronger brotherhood between our free countries and if we could do this, we could develop a strength that could literally challenge any country or group of countries that might wish to do us harm.

Mr. Chairman, I would like to have printed as a part of my testimony a letter from the Mexican Embassy which Senator Bentsen has quoted in part. This would give the entire figures.

[The information referred to follows:]

MEXICAN EMBASSY,
TRADE AND FISCAL OFFICE,
Washington, D.C., July 19, 1979.

Memorandum to Senator Barry Goldwater:

I want to confirm the information received by me from the Department of Tourism in Mexico City regarding the effect that we have experienced because of the limitations on deductions of expenditures in conventions going to Mexico.

The figures are as follows:

	Conventions	Conventionists	Average
1974	340	408,000	1,200
1975	326	391,200	1,200
1976	314	377,899	1,200
1977	491	128,362	300
1978	430	184,000	427

Regarding your inquiry about the possible revenue loss that Mexico has had on account of the limitations on tax deductions for foreign conventions after 1976, we can make the following general assumptions utilizing the average expenditure and the average number of days stayed in Mexico per conventionist:

(1) We can assume that the loss of U.S. conventionists has been about half of what we used to have prior to 1976. That is, we have lost roughly 200,000 conventionists per year.

(2) According to statistics, the average days that a person going from the U.S. spends in Mexico is in the number 10 figure. Also, the average expenditure per day is in the range of $40. So we have lost approximately $400 per conventionists that have not gone to Mexico.

(3) With these figures, it results that 200,000 times $400 totals 80 million dollars, which does not include any normal growth that the conventionist population in Mexico might have had in those years.

Actually, as you can see this measure alone has signified a revenue loss to Mexico that is almost 10 percent of the total income provided by tourists that go beyond the border areas, which for 1977 was estimated at 866.5 million dollars.

ALFREDO GUTIERREZ KIRCHNER,
Washington Representative,
Mexico, Department of Commerce.

Senator GOLDWATER. I might add in closing, Mr. Chairman, I have not heard any late, exact figures. The last figures I heard was that this crazy law means about $5 million to the Internal Revenue Service. For $5 million, we are willing to kick our friends in Mexico and Canada and elsewhere where they should not be kicked.

I have lived next to Mexico all my life. I spoke Spanish before I spoke English. In fact, I am so favorably inclined toward my brothers in Mexico that I might some day even try to make the border open, and I think we should stop closing it to Americans who want to go to Mexico and enjoy the people, enjoy the climate and spend our money down there.

I thank you, Mr. Chairman, for your kindness.

Senator MATSUNAGA. Thank you very much, Senator Goldwater. I know you have been a pioneer in the effort to repeal section 602

and the hearings are being held primarily because of the effort of Members such as yourself.

Senator GOLDWATER. Thank you.

Senator MATSUNAGA. Thank you for your testimony.

Our next witness is the Senator from Maryland, who has introduced S. 940, which would repeal the requirement imposed on convention sponsors for written verification of attendance and purpose.

We will be happy to hear from you, Senator Mathias.

STATEMENT OF HON. CHARLES McC. MATHIAS, JR., U.S. SENATOR FROM THE STATE OF MARYLAND

Senator MATHIAS. Thank you very much, Mr. Chairman. It is a pleasure to be before this committee and follow Senator Goldwater and express many of the same concerns that he has expressed.

I have a statement which is somewhat lengthy and, to conserve the time of the committee and to conserve the time of other witnesses who are waiting to testify, I would ask permission to file my statement.

Senator MATSUNAGA. Without objection, your statement will be included in the record as though delivered in full.

Senator MATHIAS. The points I made for the guidance of the committee, perhaps to assist other witnesses to follow me, are very simple.

The fact is that the U.S. share of international trade is shrinking. Trade itself may expand in absolute numbers, but our share of it is shrinking.

I think that we have to make sure that the disincentives to international trade, the handicaps that are slowing down the growth of our trade, are not hidden away in our own statute books. There may be some factors that we cannot control, but we, at least, ought not to be passing laws, or continuing laws, which are actually slowing down the United States in seeking its share of international trade.

As Senator Goldwater has just said, the reporting process for claiming tax deductions for attending foreign conventions is one of these irritating disincentives. It smacks of bureaucratic intrusion into personal lives. It is paperwork, it is redtape, it is all of those things.

S. 940 would repeal the Tax Code provision that requires the taxpayer to attach to his income tax return a statement signed by an officer of the organization sponsoring the foreign convention. Do mature business people need a den mother to go along with them on these organizational trips?

It really is a rather insulting kind of procedure, and demeaning.

Business people who attend conferences abroad are professional people. They ought to be treated as professional people. If they cheat, they can be disciplined as professional people.

This bill would eliminate the embarrassing type of attendance slip requirement, while it retains the requirement that the taxpayer should provide the basic information, the necessary information, about the trip.

I think you should leave out of the picture a foreigner who happens to be a conference official who gives you the attendance slip. That does not make sense.

I think that the conduct of American business across international borders has enough headaches in it, and this bill would give our people who are trying to extend the American economy more broadly around the world some relief from this perhaps minor but serious irritation, of the foreign convention attendance slips.

Thank you very much, Mr. Chairman. I will file a statement with your reporter.

Senator MATSUNAGA. Thank you very much, Senator Mathias, for taking time out of your busy schedule to present us your views.

[The prepared statement of Senator Mathias follows:]

TESTIMONY OF SENATOR CHARLES MCC. MATHIAS, JR.

Good morning. I'm happy to be here before the Subcommittee on Tourism and Sugar to talk about the tax rules affecting foreign conventions.

Our discussions this morning are very timely—and not only because it is the middle of July, and Washington thermometers have broken the 78 degree mark, and talk of travel to faraway places is a pleasant diversion. Our focus today on rules perceived by many as irritating and unnecessary obstacles in the paths of Americans seeking to broaden their business contacts by attending foreign conventions is appropriate at a time when Congress is working to improve American performance in international trade.

With our share of the global trade pie shrinking, and in a world of trading partners and competitors who actively urge and enable their businesses to sell on the world market, now is the time to make sure we don't have disincentives to international trade hidden away on our statute books. It's not only the big programs—the Export Administration Act, the reorganization and coordination of our trade policies and the agencies responsible for implementing them, the Tokyo Round agreements—that will make or break our efforts to promote exports and international trade. When we get down to the everyday decisions made by American businessmen, we can see how important it is that Congress not ignore the finer points of trade promotion. We must not perpetuate the minor but persistent annoyances and inconveniences that prompt potential international traders to say: "Forget it. It's not worth the trouble."

The present tax law regarding the reporting process pursuant to claiming deductions for attending foreign conventions is just such an irritant. Two bills before you today question the wisdom of imposing any reporting requirements at all or reporting requirements for conventions held in Canada or Mexico. My bill, S. 940, is narrower. It would repeal the provision of the Tax Code that requires a taxpayer to attach to his income tax return a statement signed by an officer of the organization sponsoring the foreign convention which must include a daily convention schedule and hourly breakdown of business-related activities.

The Internal Revenue Service now demands the equivalent of a signed note from Mother from our businessmen who attend conferences abroad. But these salesmen are the representatives of American companies abroad, and they should be treated like the professionals they are. My bill would eliminate this embarrassing attendance slip requirement. At the same time, in recognition of the interests of the Department of Treasury in accurate tax returns, I have retained in my proposal the requirement that the taxpayer provide certain information about his trip. The change is simple but striking: I would reverse the presumption of distrust inherent in the present reporting requirement. The taxpayer may claim a deduction for the expenses of his business trip abroad. The IRS may ask for particulars of the trip. The foreign officials are properly left out of the enforcement of our tax laws.

I recall the words of Benjamin Franklin, international statesman and town legislator, who in his autobiography recounted at some length various municipal services he had initiated in his hometown of Philadelphia. He wrote with pride of his victories in getting the streets swept and the dust toted away, then getting the streets paved, and then getting them lighted. "Some may think these trifling matters not worth minding or relating," he concluded, "But when they consider that though dust blown into the eyes of a single person or into a single shop on a windy day is but of small importance, yet the great number of the instances in a populous city and its frequent repetition gives its weight and consequence, perhaps they will

not censure very severely those who bestow some attention to affairs of this seemingly low nature."

The conduct of business across borders has enough big headaches. Let's give our sales force abroad relief from the minor throb of foreign convention attendance slips.

SUMMARY OF POINTS OF TESTIMONY

1. The U.S. share of global trade is shrinking, and we must make sure that disincentives to international trade are not hidden away on our statute books.
2. The reporting process pursuant to claiming tax deductions for attending foreign conventions is just such an irritating disincentive.
3. S. 940 would repeal the Tax Code provision that requires a taxpayer to attach to his income tax return a statement signed by an officer of the organization sponsoring the foreign convention.
4. Businessmen who attend conferences abroad are professionals, and should be treated as such. S. 940 eliminates the embarrassing attendance slip requirement, while retaining the requirement that the taxpayer provide certain information about his trip. Foreign conference officials would be properly left out of the enforcement of our tax laws.
5. The conduct of business across borders has enough big headaches. S. 940 would give our sales force abroad relief from the minor throb of foreign convention attendance slips.

Senator MATSUNAGA. Our next witness is the Hon. Baltasar Corrada, Resident Commissioner of Puerto Rico, who is accompanied by Mr. Joaquin Marquez and Mr. Doel Garcia.

You may proceed, Congressman.

STATEMENT OF HON. BALTASAR CORRADA, RESIDENT COMMISSIONER OF PUERTO RICO

Mr. CORRADA. Thank you, Mr. Chairman.

My name is Baltasar Corrada. As Resident Commissioner for Puerto Rico I represent 3.3 million American citizens on the island here in the U.S. Congress.

With me today are Mr. Doel Garcia, to my right, executive director of Puerto Rico Tourism Development Co., which is a division of the Economic Development Administration of Puerto Rico; to my left, Mr. Joaquin Marquez, Director of the Puerto Rico Federal Affairs Administration.

We are here today to present the views of the Government of Puerto Rico with respect to the bills S. 749, 589 and 940. These bills would, in essence, either liberalize or eliminate completely the rules restricting the deductibility of foreign convention expenses which were enacted in 602 of the Tax Reform Act of 1976 which we would like to respectfully express our strongest opposition to the proposed legislation because, in our judgment, it is precisely these rules that have helped rescue the lagging convention industry in our island from the economic doldrums of the 1974 recession.

I will let Mr. Garcia explain the effects that the proposed legislation has in our industry. I would like to add that I do understand the reasons why perhaps we might want to amend section 602 which has reference to the countries of Mexico and Canada.

Naturally, both of these countries are great allies and friends of the United States and we, in Puerto Rico, fully understand the implications of the foreign relations of our nation with these two countries.

However, I believe there are different ways in which the foreign policy of the United States with reference to both Mexico and Canada could utilize other mechanisms for economic and social development within those countries that would not be so injurious

to the tourism industry in the domestic United States and Puerto Rico particularly also at a time when the balance-of-payments situation with reference to the U.S. economy is not quite healthy and furthermore because I fully believe that the taxes foregone through the elimination or amendment of section 602 would not really have a direct or indirect impact particularly with reference to Mexico.

For those people in Mexico who are the poorest in that nation the foreign policy of the United States should help Mexico in terms of economic and social development within his own borders.

With this statement, I would ask Mr. Garcia to please go ahead.

STATEMENT OF DOEL GARCIA, EXECUTIVE DIRECTOR, COMPANIA DE TOURISMO, PUERTO RICO, ACCOMPANIED BY JOAQUIN MARQUEZ, OFFICE OF PUERTO RICO

Mr. GARCIA. Thank you very much.

Mr. Chairman, members of the subcommitte, good morning.

My name is Doel R. Garcia and I am executive director of the Puerto Rico Tourism Development Co. I wish to express my appreciation to the subcommittee for giving me the opportunity to present the Puerto Rican Government's position on bills 589, 749 and 940.

During the past 3 years, Puerto Rico's tourism industry has experienced dramatic growth, particularly in the convention and meeting business. The growth in this sector of the industry is largely due to section 602 of the Tax Reform Act of 1976. By extending applicability of the liberal rules for domestic conventions to Mexico, Canada and possibly other countries, S. 589 and S. 749 would seriously impair the present rate of growth in this very important tourism industry.

The 1976 provisions of section 602 did not prohibit foreign business conventions from being held overseas altogether; instead it just tightened up widespread abuses which worsened our balance-of-payments problem. At this time, when our Nation is facing the specter of a recession in the coming months, we can ill-afford to risk further damage to our economy by allowing U.S. dollars that could otherwise remain in this country to flow overseas resulting in the loss of U.S. domestic jobs.

Tourism is of great importance to the Puerto Rico economy, as well as to the Nation; it is a large source of revenue and employment and a key element in our balance of payments. The latest international economic report to the President stated that tourism in the United States is a $100 billion a year business which supports over 4 million jobs.

In fiscal year 1978, Puerto Rico had approximately 1.8 million visitors and this year we expect to have a record high of 2 million. The convention business attracted 62,000 visitors in fiscal year 1976-77, 81,000 in fiscal year 1977-78 and 92,500 in fiscal year 1979-80, or approximately a 50 percent increase over 1976-77, the year section 602 took effect.

Our office of statistics and economic studies estimates that by 1980 we will receive approximately 100,000 convention visitors. During fiscal year 1977, visitor expenditures amounted to $428.8 million.

Based on actual figures, the Puerto Rico Tourism Development Co. estimates that these expenditures will increase to $531 million for fiscal year 1980. In fiscal year 1977, these expenditures represented $105 million in revenue to the Government and by next year it will increase to $137 million. If one considers the multiplier effect of visitor expenditures the impact is much greater. The Puerto Rico Planning Board's model estimates the multiplier at 1.11 of net income. This translates into an additional $46.1 million for fiscal year 1977 and $54.8 million for fiscal year 1980.

In the area of job creation tourism is also crucial. The Puerto Rico Planning Board's model indicates that for each $1 million in visitor expenditures, 190 direct and indirect jobs are created. Thus, in fiscal year 1977, the tourism industry generated approximately 81,000 jobs. By fiscal year 1979 this figure will have increased to 100,000.

With an unemployment rate of approximately 16.4 percent and with a per capita income of just $2,500 which amounts to half of Mississippi's, Puerto Rico cannot afford to lose a single job in the tourism industry. In 1975, six convention-oriented hotels stopped operating in Puerto Rico resulting in a loss of over 2,100 jobs. However, as a result of increased convention activity on the island, these hotels reopened in 1977.

The Government of Puerto Rico invested $22 million in a new convention center and has remodeled two adjacent hotels. We have also given development and construction loans as well as tax incentives to hotel operators and other suppliers of tourist-oriented goods and services.

Convention business is very important to our economy as a whole, not only as a source of revenue, but also as an employer during the off-season months. This is a labor-intensive industry which provides an important outlet for the many young people entering the job market every day.

We are submitting the entire testimony and, if you have any questions, Mr. Chairman, we will be more than happy to answer it.

Senator MATSUNAGA. Mr. Marquez, are you testifying?

Mr. MARQUEZ. No.

Senator MATSUNAGA. I certainly appreciate your testimony, Congressman Corrada, Mr. Garcia. I did not fully appreciate the increase in tourism that you have enjoyed since section 274(h) of the Internal Revenue Code was enacted.

It is quite an increase. Would you object to any relaxation for Canada and Mexico?

Mr. CORRADA. While we understand the reason for the foreign policy whereby it would appear interesting to consider the possibility of a relaxation with preference to Canada and Mexico, an ingredient that we fail to see with reference to a blanket policy in section 602.

We do oppose the relaxation with reference to Mexico and Canada and believe that there are other ways in which the United States can contribute to the economic development in these places, particularly Mexico, that would not meet a change in section 602.

There are other instruments and tools available if we want to promote economic development in Mexico and naturally relations with Canada that can be discussed but which would not hurt other

domestic areas like Puerto Rico and other areas in the United States.

Senator MATSUNAGA. Would you object to extending the domestic convention rules to conventions held in South American countries?

Mr. CORRADA. No, we would oppose that.

Senator MATSUNAGA. You would oppose it?

Mr. CORRADA. Yes, we would oppose it.

Again, we feel that this would help tremendously the American domestic tourism industry and that, at a time where our balance of payments is in a very difficult economic situation that we should not relax these rules which essentially merely allow us to forego taxes merely to subsidize activities which do not appear to be essential, like going out of the country for a business session.

Mostly it is understood to be a blend of leisure and work. I do not think in terms of priorities and the needs of this Nation as to how we should allocate our tax dollar that the relaxation of section 602 would appear to be one of paramount importance and significance.

Senator MATSUNAGA. Have you made any projections beyond 1980, on the effects of repealing the restrictions and of continuing the present restrictions with regard to Puerto Rico?

Mr. GARCIA. No, we have not.

Mr. CORRADA. No, we have not made those projections. However, in the testimony, you would see definitely the favorable impact that the 1976 amendments produced in terms of increased tourism in Puerto Rico and we are afraid, naturally, that if section 602 is amended or eliminated that this increase in tourism will disappear and often, as the good Senator knows, I have to come here to talk about assistance to Puerto Rico and welfare programs because of unemployment and because of other social conditions and I wish I did not have to come here to plea for more welfare funds for Puerto Rico, but if Federal policy simply provides mechanisms whereby further unemployment will be created in Puerto Rico, then what we are doing is condemning the island to more welfare when we would be able to continue with the economic growth and development so our people will be employed rather than depending on transfer payments from the Federal Government.

Senator MATSUNGA. As one who has been, from time to time, dubbed the Senator from Puerto Rico, I can understand your plight. It would be much easier for me, in representing your interests, to promote tourism rather than appeal to the Finance Committee members for additional welfare assistance for Puerto Rico. Tourism can create jobs for the unemployed and turn welfare recipients into tax paying workers.

Well, I thank you very much for being here this morning and your views definitely will be taken into consideration before the committee arrives at its final decision.

Mr. CORRADA. Thank you, Mr. Chairman.

Mr. GARCIA. Thank you, Mr. Chairman.

[The prepared statements of Commissioner Corrada and Mr. Garcia follow:]

TESTIMONY OF DOEL R. GARCIA, EXECUTIVE DIRECTOR, PUERTO RICO, TOURISM DEVELOPMENT COMPANY

Mr. Chairman, members of the subcommittee: Good morning, my name is Doel R. Garcia and I am executive director of the Puerto Rico Tourism Development Compa-

ny. I wish to express my appreciation to the subcommittee for giving me the opportunity to present the Puerto Rican Government's position on bills S. 589, S. 749 and S. 940.

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The 1976 provisions of section 602 did not prohibit foreign business conventions from being held overseas altogether; instead, it just tightened up widespread abuses which worsened our balance of payments problem. At this time, when our nation is facing the specter of a recession in the coming months, we can ill-afford to risk further damage to our economy by allowing U.S. dollars that could otherwise remain in this country to flow overseas resulting in the loss of U.S. domestic jobs.

Tourism is of great importance to the Puerto Rico economy, as well as to the nation; it is a large source of revenue and employment and a key element in our balance of payments. The latest international economic report to the President stated that tourism in the United States is a $100 billion a year business which supports over 4 million jobs.

In fiscal year 1978 Puerto Rico had approximately 1.8 million visitors and this year we expect to have a record high of 2 million. The convention business attracted 62,000 visitors in fiscal year 1976-77, 81,000 in fiscal year 1977-78 and 92,500 in fiscal year 1979-80, or approximately a 50 percent increase over 1976-1977, the year section 602 took effect. Our office of statistics and economic studies estimates that by 1980 we will receive approximately 100,000 convention visitors. During fiscal year 1977 visitor expenditures amounted to $427.8 million. Based on actual figures, the Puerto Rico Tourism Development Company estimates that these expenditures will increase to $531 million for fiscal year 1980. In fiscal year 1977 these expenditures represented $105 million in revenue to the government and by next year it will increase to $137 million. If one considers the multiplier effect of visitor expenditures the impact is much greater. The Puerto Rico planning board's model estimates the multiplier at 1.11 of net income. This translates into an additional $46.1 million for fiscal year 1977 and $54.8 million for fiscal year 1980.

In the area of job creation tourism is also crucial. The Puerto Rico planning board's model indicates that for each one million dollars in visitor expenditures, 190 direct and indirect jobs are created. Thus, in fiscal year 1977 the tourism industry generated approximately 81,000 jobs. By fiscal year 1980 this figure will have increased to 100,000, with an unemployment rate of approximately 16.4 percent and with a per capita income of just $2,500, which amounts to half of Mississippi's, Puerto Rico cannot afford to lose a single job in the tourism industry. In 1975 six convention-oriented hotels stopped operating in Puerto Rico resulting in a loss of over 2,100 jobs. However, as a result of increased convention activity on the island, these hotels reopened in 1977. The government of Puerto Rico invested $22 million in a new convention center and has remodeled two adjacent hotels. We have also given development and construction loans as well as tax incentives to hotel operators and other suppliers of tourist-oriented goods and services.

Convention business is very important to our economy as a whole, not only as a source of revenue but also as an employer during the off-season months. This is a labor-intensive industry which provides an important outlet for the many young people entering the job market every day.

A related issue has to do with the difficulties of survival for the hundreds of small businesses associated with the tourism and travel industry. While in recent years there has been an increasing trend toward larger enterprises and greater industry concentration in particular segments of the tourism industry such as lodging, the industry remains essentially an industry of small enterprises. Our government hopes that the growth we are presently enjoying in our industry as a whole and the convention sector in particular, will represent an increase in employment which will enable us to decrease our dependence on Federal funds.

The argument for restoring the deductibility of expenses for attending certain conventions in Mexico and Canada would appear to be valid, especially within the context of the present energy crisis. However, extending conventions to these two very powerful countries would only lead to further pressure on Congress from other friendly countries which feel they should be entitled to the same treatment. Furthermore, we can ill-afford to solve our energy problems by creating further inequities within sectors of our economy.

The tourism industry has already been severely impacted by the gasoline shortages. Several States suffered immense losses in revenue during the 1973 oil embargo

when, because of ill-timed Federal policy, the travel industry was declared nonessential. In a three month period following the 1973 oil embargo, 90,000 people were put out of work, another 197,000 jobs were affected and about $717 million of revenue were lost nationally, actions and policies of the Federal Government will continue to play a critical role in determining the degree to which the tourism industry can successfully adapt to new energy conditions.

Because of the present energy crisis and the coming economic recession, it would be untimely to relax the rules limiting the expenditures for foreign conventions at this time.

The expansion of the national economy requires that we not only give attention to solving the problems of troubled industries, but also that we give maximum support to developing domestic markets. An example of extending benefits to other countries at the expense of American developing markets can be seen in the concessions given to foreign rum producers in the recent multilateral trade negotiations. As you may be aware, Puerto Rico receives approximately 13 percent of its annual government revenues from the collection of Federal excise taxes on the sale of our local rum which are then turned over into our island's treasury. It was agreed internationally that a 20 percent reduction in the rum tariff would take place and that a change in our method of taxation would occur so that foreign rum producers will be given a windfall savings of at least $5.88 per case. As a result, foreign rums will be far more attractive to consumers, and domestic rums less so. These concessions were given with little or no thought to its effect on the territories. It was only with a supreme effort that we were able to get the Congress to include a provision to compensate us for any losses in the near future.

Mr. Chairman, it is our firm belief that any proposals to repeal or loosen the 1976 restrictions would severely cripple Puerto Rico's growing convention market at a time when we can least afford a downward change in either employment or revenue. We therefore, respectfully wish to express our opposition to S. 589, S. 749 and S. 940. I will be happy at this time to answer any questions you might have.

Thank you.

Statistical data

Convention visitors for fiscal year—			
1977	62,000	1979	62,000
1978	81,000	1980	100,000

Tourism revenues:	Multiplier effect (1.11):
Fiscal year:	
1977—$427 million	$474 million.
1978—$487 million	$541 million.
1979—$506 million	$561 million.
1980—$531 million	$581 million.

Direct and indirect jobs—(190/$1 million):			
1977	81,130	1979	96,160
1978	92,530	1980	100,890

TESTIMONY OF HON. BALTASAR CORRADA DEL RIO, RESIDENT COMMISSIONER FOR PUERTO RICO

My name is Baltasar Corrada Del Rio and as Resident Commissioner from Puerto Rico I represent 3.3 million American citizens on the island. With me today are Mr. Doel R. Garcia, Executive Director of the Puerto Rico Tourism Development Company, and Mr. Joaquin A. Marquez, Director of the Puerto Rico Federal Affairs Administration.

We are here today to present the views of the Government of Puerto Rico with respect to S. 749, S. 589 and S. 940. These bills would in essence, either liberalize or eliminate completely the rules restricting deductibility of foreign convention expenses, which were enacted as section 602 of the tax reform act of 1976. We should like to respectfully express our strongest opposition to the proposed legislation because, in our judgment, it is precisely these rules which have helped rescue a lagging convention industry within our island from the economic doldrums in which the 1974 recession left it.

I will let Mr. Garcia explain the effects which the proposed legislation would have on our industry.

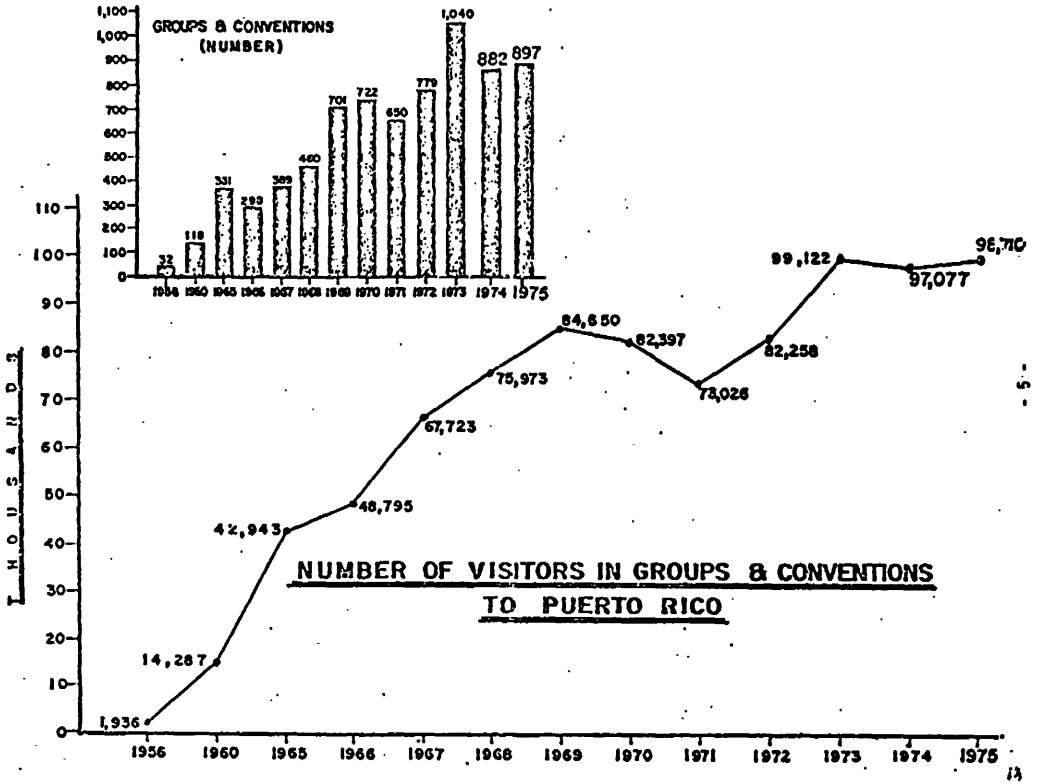
Thank you for your time. I shall be happy to answer any questions after Mr. Garcia completes his testimony.

NUMBER OF VISITORS IN GROUPS AND CONVENTIONS, PUERTO RICO—FISCAL YEARS 1956 TO 1975-76

Year	Groups and conventions	Visitors
1955-56	32	1,936
1956-57	54	3,548
1957-58	86	6,814
1958-59	131	8,308
1959-60	118	14,287
1960-61	98	11,962
1961-62	123	13,501
1962-63	127	12,784
1963-64	209	20,512
1964-65	381	42,943
1965-66	298	48,795
1966-67	389	67,723
1967-68	460	75,973
1968-69	701	84,650
1969-70	722	82,397
1970-71	650	73,026
1971-72	779	85,258
1972-73	1,040	99,122
1973-74 [1]	882	97,077
1974-75	897	98,710
1975-76	603	65,257

[1] Revised.

Source. Tourism Company of Puerto Rico.


GROUPS & CONVENTIONS
(NUMBER)
1,100
1,000
900
800
700
600
500
400
300
200
100
0
32
118
331
299
389
460
701
722
650
778
1,040
882
897
1956 1960 1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 1975
THOUSANDS
110
100
90
80
70
60
50
40
30
20
10
0
1,936
14,287
42,943
48,795
67,723
75,973
84,650
82,397
73,026
82,258
99,122
97,077
96,710
NUMBER OF VISITORS IN GROUPS & CONVENTIONS
TO PUERTO RICO
1956 1960 1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 1975

[From the Washington Post, Sunday, July 17, 1977]

PUERTO RICO AWAITING A CONVENTION BOOM

(By James H. Winchester)

SAN JUAN.—When the new U.S. Tax Reform Act imposing stringent limitations on deductions for conventions and meetings outside the country went into effect at the start of 1977, Puerto Rico expected to be a big winner

As a U.S. commonwealth, the island offers the same tax benefit given to mainland sites, with business deductions for conventions qualifying for a full write-off.

But the new business anticipated for Puerto Rico has not yet materialized. Adolfo Porrata Doria, executive director of the San Juan-Puerto Rico Convention Bureau, said. "We are still hoping for the boom." Officials say it is too early to feel the full impact of the new tax law, but they expect convention business to begin increasing over the next few years.

For U.S. groups holding their conventions at foreign sites, transportation deductions now are only allowed in full if half or more of the total days of the trip are spent on business-related activities. A delegate also must fly to the site of the foreign convention in coach or economy class.

Deductions for meals, lodging and other costs like tips and taxis at overseas conventions are allowed only for days when a substantial amount of business activity is scheduled and the taxpayer attends at least two-thirds of the meetings.

On top of that, the amount of subsistence expenses for any day cannot exceed the per diem rate that applies to U.S. civil servants in that area of the world.

If a taxpayer attends more than two foreign conventions in a given year, he can claim only one of them for deductions. All of this involves a lot of record keeping and proof of attendance at convention sessions.

The full impact of these new and restrictive demands on foreign conventions will not be added up for another year, but early evidence is that they are already heavily hurting a lot of cities and countries

Canadian officials estimate that the new laws will cost their country as much as $75 million in lost business in 1977 alone, with Montreal, Toronto and Vancouver being hit hardest. For example, American convention delegates spent an estimated $32 million attending 118 business and professional meetings in Toronto alone last year.

More than 50 U.S. conventions originally scheduled to be held in Canada already have been switched back home. But so far not one of them has picked Puerto Rico for its new meeting site.

Nonetheless, Puerto Rico still will play host to more than 500 conventions, with more than 125,000 delegates spending in excess of $100 million in 1977. While 40 per cent of these meetings represent island groups, the others are from elsewhere, mostly the United States.

Most of the big conventions drawing delegates from outside Puerto Rico are held in the off-season tourist months, which makes them important economically.

This August, for instance, just three groups—the Church of God with 4,000 delegates, the U.S. Treasury Department Employees Union with 1,500 delegates, and the National League of Postmasters of the United States with 1,500 delegates—will help fill San Juan hotels in a normally slack period.

Later this year, the island plays host to such groups as the Society of Philatelic Americans, the International Epidemiological Association, the American Orchid Society, and in September, the Federal Bar Association. In October, 1,500 delegates of the American Occupational Therapy Association will meet in San Juan.

A new $20 million convention center, located in the heart of the resort hotel district in San Juan's Condado area, hoped to attract convention originally planning to meet in foreign countries. In its first year, ending on May 1, it was used by only 35 conventions with 15,000 delegates, who spent an estimated $3 million.

For the next year, which ends in May 1978, the complex already has 40 conventions booked, with 30,000 delegates, expected to spend $7.2 million.

Now managed by Hilton International, along with the La Concha Hotel and the Condado Beach Hotel which sit on either side, the new convention center expects the new Tax Reform Act to boost its bookings in the years ahead.

Jag Mehta, general manager of the center, said, "The real impact won't be felt for another year or two mainly because conventions are scheduled so far in advance. Our prospects, however, are bright."

[The San Juan Star, July 10, 1979]

Puerto Rico Tourist Boom Pumping Life to Defunct Hotels

(By Manny Suarez and Thomas Dorney)

The tourists are following the sun to Puerto Rico again and right behind them are investors eager to reopen hotels long closed or to open aborted projects near abandonment, according to a STAR survey.

Deals now in the talking stages may jell within the next 60 days to complete the 604-room Melia Hotel in Isla Verde which is about 70 percent finished and the 140-room Ramada Inn in the Condado which is more than 95 percent constructed.

Several groups also are dickering for the purchase of the 98-room Petite Hotel on Ashford Avenue which is now owned by the Federal Deposit Insurance Corp. and two groups are interested in acquiring the 144-room Condado Ritz Hotel on Joffre Street between Ashford Avenue and the lagoon which was foreclosed by the First Federal Savings and Loan Association.

"The prospects are excellent to get them all open soon," Tourism Co. Director Doel Garcia said. "Tourism has been doing so well over the past few seasons that investors are eager to cash in on it."

Two other shuttered hotels, the Miramar and the Normandie, are on the verge of imminent sales. However, they will not be reopened as hotels.

The FDIC has already agreed to sell the Miramar to the Public Buildings Authority for $1,050,000 for conversion to offices for the Department of Justice. The FDIC acquired the hotels when it closed Banco Credito y Ahorro Ponceño last year and took over the property the bank had acquired in foreclosure procedures.

A group involving Democratic National Committee Chairman Franklin Delano Lopez has petitioned U.S. District Court to permit the sale of the Normandie for $1.4 million so it could be converted to a federally subsidized home for the aged and the handicapped.

The biggest project, however, would involve the sale of the huge Melia Hotel on the Boca de Cangrejos Road.

The partially completed building was taken over 18 months ago by the Chase Manhattan Bank which had $26 million invested in the project.

A group of local businessmen promoted the project which was to be operated by the Melia Hotel chain of Spain. Melia, however, lost interest in the venture when the bottom fell out the tourist industry. The businessmen had very little of their own money invested in the venture according to a source.

Hugh Andrews, general manager of the Condado Holiday Inn, said Inns of America, the owners of his hotel, are interested in acquiring the Melia.

"We have been doing so incredibly well here we want to expand our room capability and we have been talking to Chase about the Melia," he confirmed. "We had 340 rooms last year and finished with a 92 percent occupancy. When we opened the Laguna Wing we raised our rooms to 590 and we finished with 91 percent.

"We feel the market will be increasing about 10 percent a year and we want to grow here. If we cannot get the Melia or anything else that can give us 450 rooms, then we will see about building a new tower on land between our hotel and the Regency."

Chase Vice President Francisco Arrivi confirmed the bank was talking with Inns of America, "but we have been talking with others also.

"The tourist industry has changed so much for the better in recent months that we have received several inquiries from the U.S. about the property. None of it has gone beyond the preliminary talk stage, but the interest is definitely there. Playboy Hotels was one of the interested parties," Arrivi said.

Although he declined to say how much the bank was asking for the property, industry sources said it could be obtained for as little as $8.5 million.

Andrews said his group's offer would likely jell within 60 days if at all. "There are some changes we would want to make architecturally and then see about getting it open for the 1980 season. It still requires a lot of work."

The 140-room Ramada Inn, by contrast, could open for the upcoming season, said owner Efrain Kier. Work was suspended on the building about two years ago.

"The hotel is 99 percent completed. Even the carpets are laid and the air conditioners and elevators are in working order," he said. "All we have to do is get the furniture in and we can open for this season."

Kier said he is now in negotiations with two groups interested in investing in the project so the Ramada Hotel chain can operate it. He said the chain's original interest in running the hotel waned when the tourist industry went into the doldrums "but they are definitely interested now."

Kier said his K Corp. has about $7 million invested in the hotel and would need another $1.5 million to open.

"I'm talking to two groups and I believe something will come out of it in the next 60 days."

One of the most promising groups talking to the FDIC about acquiring the Petite Hotel on Ashford Avenue involves former Hotel Pierre general manager Juan Santoni and Bill Clemons of Jajome Terrace in Cayey, a restaurant that they plan to expand into a "Parador."

Santoni said it would take about $3.5 million to rebuild the 98-room hotel, which has been thoroughly vandalized, atop a sales price of about $500,000.

"We would want to give it a lot of local flavor in its decor and restaurants. We would run it jointly with the Jajome Terrace and give guests the option of combining their stays at either hotel," he said.

The outcome of the deal depends on the willingness of the Puerto Rico Industrial Development Co. to help finance the venture, Santoni said.

Ramon Rodriguez of the FDIC said there were several groups talking about purchasing the property but the Santoni-Clemons groups looks good.

He added that the sale of the old Miramar Hotel to the commonwealth government is now being discussed by the lawyers.

"I expect a coming to terms any day now," he said.

Public Buildings Authority executive director Manuel Iglesias said the authority will put more than $2 million into converting the hotel to office use for the Department of Justice.

"Plans for the renovation are well advanced," he said.

The familiar honeycomb look of the hotel will disappear with the renovation. The fixed, hectagonal-shaped windows will be removed and replaced with square windows that can be opened, said Undersecretary of Justice Carlos Shine, who saw the plan through.

The Normandie Hotel building on the other hand, will be restored to the appearance it had when originally constructed in the late 1930s, said Developer Gabriel Diaz. The group will even attempt to get the Burger King restaurant out from in front of the building, he said.

Diaz said there were three types of units in the hotel all of which will be converted to rental units for the aged of the handicapped of moderate incomes or less.

"The units will be rented under Plan 8 of the rent subsidy program administered by the Department of Housing and Urban Development.

"Most of the tenants will pay from 15 percent to 25 percent of their incomes for rent and HUD will subsidize the balance. The hotel has 178 rooms, but 88 of them are really suites that will be made into one-bedroom apartments renting for $357 monthly. The large efficiencies will go for $294 monthly and the smaller ones for $278 monthly," he said.

The hotel is now in receivership and a hearing will be held Aug. 17 on a motion by the court-appointed receiver to sell the hotel to the Diaz-Lopez group.

A spokesman for the First Federal Savings and Loan Association said the Condado Ritz was recently sold to a group planning to reopen the hotel in time for the upcoming season.

And Tourism's Garcia said a group which acquired the Montemar Hotel in Aguadilla will also get it open in time for this year's season. Roberto Rafols Davila, an attorney, and Cesar J. Otero, owner of the Vistamar Hotel in Quebradillas, originally hoped to completely renovate the 40-room hotel and have it opened early this year.

Another change

The surge of interest in new tourism facilities in San Juan is a logical consequence of several consecutive successful seasons here and is evidence of new confidence by investors in Puerto Rican tourism.

The island, helped along by two of the worst mainland winters in history, has been regaining its 1960s niche as a premiere vacation spot. Let us hope it does not also regain its previous reputation of indifferent, sloppy and sometimes hostile attitudes towards tourists.

Granted, there has been these last few years a considerable improvement in the skills and attitudes of those who work in the industry, much of it brought about by a combination of the 1973 recession and accumulated dissatisfaction on the part of vacationers with how they were treated here. When times get tough, people begin realizing how good they had many things—and this is what happened to managers and workers in Puerto Rico's tourism industry.

Now, there is strong, new interest in opening facilities that have been languishing in partly-built stages or in dispair since closing.

We have a new chance here to begin achieving the enormous potential that tourism holds for the island. Maybe, this time around we will have learned a few crucial lessons and we can do it right.

Senator MATSUNAGA. Our next witness is a Congressman from the Virgin Islands, the Honorable Melvin H. Evans, and he is accompanied by Mr. James St. John III, president, St. Thomas-St. John Hotel Association.

We will be happy to hear from you, Congressman.

STATEMENT OF HON. MELVIN H. EVANS, DELEGATE, THE VIRGIN ISLANDS, ACCOMPANIED BY JOSE VASQUEZ, DIRECTOR, VIRGIN ISLANDS DIVISION OF TOURISM

Mr. EVANS. Thank you very much, Mr. Chairman.

First of all, I would like to make a correction. Mr. St. John left his position recently and so the person who is accompanying me is Mr. Jose Vasquez.

Mr. Chairman, I shall make my remarks brief. I find myself in the very unenviable position of having to take a different point of view from the very respected and eminent Senators who preceded me, but I feel very strongly about this and I hope that the committee will take it into the consideration.

I am very thankful for this opportunity, because I consider it very, very important. The statistics and so forth shall be presented by Mr. Vasquez and I will confine myself to a few very general remarks.

First of all, I find that I must present the opposite point of view and I hope to do so as strongly as I can. I do not think too many people understand the Virgin Islands. The Virgin Islanders are American citizens who, until 1942, were not even eligible to serve in the draft and, with World War II, it actually petitioned the Congress to grant them full American status by permitting them to shed their blood.

Such permission was granted and they served and died in World War II.

In the most recent conflict, the Vietnam conflict, we are sure that the Virgin Islands suffered either the highest or the second highest per capita casualty rate of any place in the United States. I say this briefly to let you know who we are talking about when we are talking about the Virgin Islands.

The Virgin Islands have very meager resources. Their beautiful climate, which is good for tourism, is not particularly good for agriculture. Their beautiful clear waters that attract so many tourists are also not full of rich seafood to make fishing very, very profitable.

They depend on tourism and one of the things that have happened in the past is that so many of the well-intentioned actions by the Federal Government have turned out to be disastrous for the Virgin Islands. We can start off with what happened shortly after the acquisition of the Islands by the United States when one of the main industries was the production of roe. Come the 1980 amendment, and it was knocked out.

The passage of Public Law 91-225 earlier in this decade that permitted a tremendous influx of aliens without any compensatory aid has put a tremendous load on our social services, our schools, hospitals, housing and everything. It created tremendous problems.

It changed the situation where we could boast that people were fully employed. Now we have a significant degree of unemployment.

Comes the general agreement on tariff and trade and our status as a tourist center offering bargains has been eroded still further by a reduction of tariffs. So our competitive position in this area, which is in support of tourism, is again being eroded and almost neutralized.

Additionally, we—and we do not see any reason why we should not be, but we have to follow the laws of the United States. We are proud to do so. But it is important that it be recognized that such actions by the EPA, for example, that bids well to run our rum industry out of existence almost, if we are not successful in combating some of the restrictions. It would make it even that much worse and add to unemployment.

It is because of these reasons that we feel it necessary to point out that what will happen if the provisions of the bills under consideration go into effect. It would be disastrous to the Virgin Islands, that they would convert an already high unemployment into much higher unemployment.

We think our unemployment rate now is somewhere in the neighborhood of 10 percent. We actually think it is much higher.

Our per capita income at the present time is lower than the lowest State in the Union, Mississippi. We have had to come to the Federal Government, even recently, asking for assistance. It is a situation that I can assure you we do not like, but the situation that we found ourselves in because of conditions beyond our control.

We would like this body, this subcommittee and the full committee, to recognize some of the ramifications of any action that might be taken here.

If, in the wisdom of this committee and the full committee and this body of the Congress as a whole, changes are made, we would feel that it would be necessary to consider certain concessions, if you will, certain things to offset the damaging effect.

The experience pointed up by the Honorable Mr. Corrada of Puerto Rico has been repeated in the Virgin Islands. We had to close one of our biggest hotels, the Virgin Islands Hilton that has recently opened under a different management as a result of the possibility of attracting more convention business.

We have had the tourist business pick up, so we know that what will happen when this goes in effect. My plea to the committee is to take these things into consideration.

I shall be happy if you will permit Mr. Vasquez to speak and we will try to answer any questions that you might want to ask at the end.

Senator MATSUNAGA. We would be happy to hear from Mr. Vasquez.

STATEMENT OF JOSE VASQUEZ, DIRECTOR, VIRGIN ISLANDS DIVISION OF TOURISM

Mr. VASQUEZ. Thank you very much, Mr. Chairman.

My name is Jose Vasquez. I am director of U.S. Virgin Islands Division of Tourism.

The convention business is a small but integral and growing component of the Virgin Islands tourist industry. As a consequence of the provision of the 1976 Tax Reform Act the Islands are being viewed as an increasingly attractive convention destination. The Virgin Islands Department of Commerce has documented the dramatic rate of growth which this sector of the tourist business has enjoyed since passage of the legislation.

Between 1976 and 1978 the growth rate for convention traffic as compared to total tourist air arrivals was nearly nine times as great. Using data from an exit survey done by Davidson-Peterson Associates, it can be seen that while total tourist air arrivals increased by 9.4 percent between 1976 and 1977, convention air arrivals increased by 194.5 percent.

Between 1977 and 1978, total air arrivals increased by 24 percent and convention air arrivals increased by 41.7 percent. This data clearly indicates that unprecedented growth occurred in convention business during the 1977 season, immediately after the passage of favorable tax legislation.

This observation was further substantiated by a Virgin Islands Commerce Department survey of St. Thomas hotels with convention facilities. Subsequent to the passage of the 1976 Tax Reform Act, convention business increased by over a 100 percent. Detailed data to support these conclusions can be found in tables I and II appended to this testimony. These exhibits should be included in the record.

The contribution of the convention sector to the insular economy is substantial. Its size can be quantified using the current year, 1979, as a base.

The Virgin Islands Department of Commerce has projected total tourist air arrivals at 687,027 and conventioneers are projected at 30,871. Assuming an average stay of 4.5 days and an average expenditure of $39 per day, convention visitor expenditures are projected to be $5,417,880.

Using a multiplier of 0.80, $4,334,304 is the net injection to the gross territorial product. Since each million in GTP is estimated to support approximately 50 jobs, convention business yields approximately 217 jobs. Additionally, it is estimated that convention activity generates an additional $607,000 in taxes to the Virgin Islands treasury.

To summarize, it is estimated that for 1979 convention activity will attract over 30,000 new visitors to the territory whose spending will generate $4.3 million in GTP, support over 200 jobs and contribute approximately $607,000 in local taxes. As much as 50 percent of this income could be lost if the present tax provision is not retained.

In order to capitalize on the advantage which Congress gave to the U.S. territories in the 1976 Tax Reform Act, the public and private sectors in the Virgin Islands have embarked on an effective campaign to promote the Virgin Islands as a convention destination. Several of our hotels have begun major renovations and expansions in order to comfortably accommodate larger groups. In 1977, the Division of Tourism initiated an advertising campaign, "Sun, Seminar, Sea, and U.S. Too" highlighting the tax advantages of siting conventions in the Virgin Islands. Using full page adver-

tisements in the trade publications, the following message was conveyed:

> The U.S. Government has given you another reason for having your next sales meeting or convention in the Virgin Islands. Because we are part of the United States, the Tax Reform Bill imposes no limitations whatsoever.

Both the St. Thomas and the St. Croix airports are undergoing multimillion dollar construction programs which will result in modern facilities which can accommodate larger jet planes for charter and convention groups.

The Virgin Islands does not have unlimited resources to fund extensive tourism promotion campaigns. Indeed, the Government currently finds itself in a fiscal crisis and is facing a $27 million deficit. Every penny of Government revenue is badly needed and must be spent prudently. As you are probably aware, most major conventions are planned 2 or 3 years in advance. Therefore, the public and private funds expended to attract additional convention business to the territory were primarily targeted toward groups arriving in 1980 and later.

A change in the tax law at this point will mean that these efforts have been largely wasted, a loss that the Virgin Islands Government and its tourism-based economy can ill afford at this time.

As part of the Caribbean community, the Virgin Islands is aware of the pressure which has been placed upon the U.S. Government to open up offshore convention business to our competing islands. At the Third Annual Caribbean Tourism Conference, Jamaica's Prime Minister Michael Manley called for U.S. concessions on legislation affecting convention travel.

While the U.S. Government is undoubtedly interested in strengthening its ties to the Caribbean region, and Latin America, its primary responsibility should be and must be to its own citizens first.

As part of the United States, the Virgin Islands and the Commonwealth of Puerto Rico should receive some type of preferential treatment over its foreign neighbors—particularly in the area of tourism which comprises almost 50 percent of the territory's gross domestic product.

During the past year the Virgin Islands has suffered immeasurably as a direct consequence of the Carter administration's multilateral trade negotiations and other tariff initiatives. The protective tariffs on rum were lowered by 30 percent and the customs duty exemptions for travelers returning from abroad were raised from $100 to $300 substantially diminishing the Virgin Islands' advantage as a duty-free port-of-call for cruise ship visitors.

The Virgin Islands cannot continue to lose ground in these international issues and still maintain a viable economy to support its citizens. Therefore, I urge the committee to retain the current tax laws on offshore conventions and assist the U.S. possessions in their efforts to continue their economic growth.

Senator MATSUNAGA. I note that you have tables appended to your statement. They will be included in the record.

[The material referred to follows:]

TABLE 1

Year	Total arrivals	Percent of increase	Conventioneers	Percent of increase
1976	421,367	.....	5,478	.....
1977	460,871	9.4	16,130	194.5
1978	571,689	24.1	22,868	41.7
1976 to 1978	.....	35.7	.....	317.5

Source 1976, 1977 data Davidson-Peterson Exit Survey. 1978 data Virgin Islands Department of Commerce, Office of Policy Planning and Research.

TABLE 2.—SURVEY OF ST. THOMAS HOTEL CONVENTION ACTIVITY (3 HOTELS)

Year	Conventions	Percent of increase	Convention bed nights [1]	Percent of increase	Average stay
1975	56	.....	9,128	.....	3.0
1976	64	14.3	10,007	9.6	4.0
1977	133	107.8	22,917	129.0	4.0
1978	127	−4.5	37,508	63.7	4.5

[1] Convention bed nights equals number of convention visitors multiplied by average length of stay

Source Virgin Islands Department of Commerce Hotel Convention Survey, June 1979

TABLE 3.—*Convention visitor expenditure data for 1979*

(1) Projected 1979 tourist air arrivals—686,027 (1979 tourist air arrivals 571,689 plus 20 percent—114,338 equals 686,027).

(2) Projected 1979 conventioneers—30,871.

(3) Convention bed nights—138,920 (30,871 multiplied by average length of stay of 4.5 days equals 138,920).

(4) Convention visitor expenditure—$5,417,880 (139,920 times $39 per day average expenditure equals $5,417,880).

(5) Net income injected into economy—$4,334,304 ($5,417,880 times a multiplier of 0.80).

(6) Employment generated by convention activity—217 (each added million in GTP supports approximately 50 jobs, therefore, 4.33 times 50 equals 217).

(7) Tax revenue generated by convention activity—$606,803 (it is estimated that each dollar in GTP nets 14¢ in Virgin Islands taxes).

Source: Virgin Islands Department of Commerce, Office of Policy Planning and Research.

Mr. EVANS. One further statement I would like to make, and that is that one of the reasons for the convention period, it straightens out the slow period, fall and spring. That changes the picture completely from a losing proposition to a profitable one.

Senator MATSUNAGA. Thank you very much. I appreciate your sharing your views with us, and thank you, Mr. Vasquez.

We have Senator Jacob K. Javits, the Senator from New York, with us now. Senator Javits is the cointroducer of one of the three bills before this committee today, S. 589, to exempt conventions held in Canada and Mexico from the present restrictions.

We have already heard from the other cointroducer of the measure, Senator Bentsen. We would be happy to hear from you now, Senator Javits.

STATEMENT OF HON. JACOB JAVITS, U.S. SENATOR FROM THE STATE OF NEW YORK

Senator JAVITS. Thank you very much Mr. Chairman. I will take just 1 minute of the committee's time to associate myself with the views of Senator Bentsen and ask that my statement may be included in the record. With respect to Canada, I want to make it clear that I will propose to extend this tax status to the Canadians, if they give us the reciprocity of dealing with what we consider to be a very onerous tax respecting the U.S. broadcast industry. This Canadian law is specifically directed, we feel, at business interests in western New York and also in other neighboring U.S. areas.

As to Mexico, I deeply appreciate the feelings of my friends from Puerto Rico and I do not think I need to protest my fidelity to their cause in the United States. It has been constant for over 30 years.

My problem, and our national problem, is to deal with the unique sensitivities of the Mexicans. I am sure that the people of Puerto Rico who are our people, just as are the people of Hawaii, will realize the grave exigencies we face in relation with Mexico and the tremendous national interest which is involved.

I do not think it amounts to much in money, Mr. Chairman. In fact, I do not think it will take business away from anybody. But the sensitivities of Mexico are such that I think that it would be an enormous affirmative contribution to realinement of our relations so that they are as close as they can be. Because of the enormous national interest which is involved in close cooperation with Mexico today, I commend to the committee—really, in all honesty on foreign policy grounds—this legislation to create a North American area tax exemption for convention expenses.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Senator Javits. I appreciate your contribution.

Our next witness is Hon. C. V. Woolridge, Minister of Tourism from the Government of Bermuda.

Is Mr. Woolridge here?

[The prepared statement of C. V. Woolridge follows:]

SUMMARY OF STATEMENT OF HON. C. V. (JIM) WOOLRIDGE, MINISTER OF TOURISM, GOVERNMENT OF BERMUDA

TAX RULES AFFECTING FOREIGN CONVENTIONS

1. Bermuda, an island of 21 square miles and a population of 56,000, is substantially dependent on the tourist trade. Amendments affecting the tax treatment for attending foreign conventions were passed in Section 602 of the Tax Reform Act of 1976 and have seriously impacted the economy of Bermuda.

2. Bermuda requests enactment of a North American exemption which would include Bermuda.

3. To date, 118 separate conventions originating from the United States have been cancelled in Bermuda. This represents a loss in room night revenue alone of more than $21 million.

4. The importance of the United States visitor is shown by the fact that 85 percent of all regular visitors come from the United States and they accounted for 90 percent of all receipts from regular visitors in 1978.

5. The effect of Section 602 to household income in Bermuda has been dramatic. The losses attributable to Section 602, on a personal level, are estimated at $500 per person.

6. The number of regular visitors in 1978 were 4.1 percent less than in 1977.

7. Hotel occupancy rates have fallen from 75.3 percent in 1976 to 70 percent in 1977 to a low of 63.8 percent in 1978. The rates for the first four months have proven equally unsatisfactory.

8. Typically convention business has accounted for 30 percent of all regular visitor expenditures which equates to approximately $55 million. When compared to the total Bermuda budget for fiscal year 1979-80 of $95 million, United States convention expenditures are extremely vital to the economy of Bermuda.

9. In 1978 Bermuda spent $156.5 million on direct and indirect imports from the United States. Thus Bermuda spend more than 90 percent of its direct income from American regular visitor expenditures in the United States.

10. Approximately 10 percent of Bermuda's total area is occupied by the United States Naval Air Station. This Base is rent-free which, we believe, is the only free military facility the United States has anywhere in the world.

STATEMENT OF C. V. WOOLRIDGE, MINISTER OF TOURISM, GOVERNMENT OF BERMUDA

Mr. Chairman, my name is C. V. (Jim) Woolridge and I am the Minister of Tourism for the Government of Bermuda. I am also a Member of the House of Assembly and the Deputy Premier of Bermuda. On behalf of the Government of Bermuda, I wish to express my appreciation for the opportunity of appearing before your subcommittee. Accompanying me is Colin Selley, the Director of Tourism and William F. Ragan of Ragan and Mason, attorneys for the Government of Bermuda in Washington, D.C.[1]

Section 602 of the Tax Reform Act of 1976 restricted the ability of United States taxpayers to deduct expenses for attending foreign conventions. It is to that provision that I am appearing before you today and I will specifically relate the effect of that provision on Bermuda over the past two years. I do not mean to be presumptuous in an attempt to influence the internal policies of the United States, but, inasmuch as I understand that this section was never meant to be a revenue raising measure for the United States, I would only ask that your committee consider the views of areas such as Bermuda in order to take appropriate action to remedy the situation.

Bermuda is a small island colony of Great Britain, which lies no more than 90 minutes from most major metropolitan areas on the eastern coast of the United States. Bermuda is less than 21 square miles in land mass and it supports a permanent population of somewhat in excess of 56,000 people. Bermuda has no natural resources and, therefore, is substantially dependent upon the tourist trade, as the ensuing discussion clearly indicates. As distinct from most other resort areas, Bermuda attracts the family type tourist. The fact is that Bermuda does not sell itself with gambling or any type of "fast" nightlife.

Before proceeding further, I must point out that approximately 10 percent of Bermuda's total areas has been under United States flag for the past 38 years. Bermuda, even though a colony of Great Britain, actually has a great affinity with the United States. There is a strong tradition of historical military and security ties between Bermuda and the United States. At the beginning of World War II, the United States acquired a military base in Bermuda which the Navy still operates. The acquisition of this military base by the United States was totally separate from the Lend-Lease Agreement reached between the United States and the United Kingdom in 1941. The land acquired was actually privately held and was purchased from private owners by the government of the United Kingdom.

The Bermuda Government, in turn, totally reimbursed the British Government for its payments to the former Bermuda land holders. Bermuda has never sought any reimbursement or rental and has never made any charge for this use of space by the United States. The fact is that Bermuda is pleased the base is there and wants it to stay. This alone illustrates the close relationship between Bermuda and the United States. It is in the mutual best interests of both the United States and Bermuda that a stable economy and society be maintained on the Island, with particular regard given to the United States Base, and because of Bermuda's particular strategic locality as far as the United States is concerned. Thus, I submit, a United States law that was never intended to produce revenue but rather has the potential of creating a financially catastrophic situation to a close and good friend and neighbor is hardly in the best interest of either the United States or Bermuda.

As I have already noted, Bermuda is substantially dependent upon tourism for its livelihood. 90 percent of its residents are reliant, directly or indirectly, on the tourist industry. From enactment of Section 602 of the Tax Reform Act of 1976 to date, 118 different conventions originating from the United States were cancelled in

[1] Ragan and Mason is registered with the Department of Justice under the Foreign Agent Registration Act, 22 U.S.C. § 611 et seq. as agent for the Government of Bermuda. Registration does not represent approval by the United States Government of statements made herein.

Bermuda. The size of these conventions ranged from 100 to 1000 people. The loss in room night revenue alone for these conventions amounts to more than $21,000,000.

More importantly, our official statistics show a lack of bookings by various convention groups in our hotels. Of course, it is impossible to determine how many conventions might have come to Bermuda but for the enactment of Section 602.

The importance of the United States visitor is shown by the fact that more than 85 percent of all regular visitors, that is all visitors other than cruise ship visitors, come from the United States. The American visitor, in 1978, accounted for 90 percent of all receipts from regular visitors. In 1978 there were less than 420,000 regular visitors which was 4.1 percent less than in 1977. Prior to the enactment of Section 602, there was a consistent pattern that 30 percent of the regular visitors came in convention groups.

In 1978 Bermuda experienced a substantial decrease in the amount of expenditures by these 420,000 regular visitors. They spent $183.5 million representing a decline of 15.7 percent from 1977. Virtually every sector of our tourist economy suffered substantial decreases in expenditures. For instance there was a 3.6 percent decrease in total expenditures at places of accommodation. There were decreases of up to 40 percent in such tourist amenities as taxi and sightseeing enterprises.

Attachment 1 to this statement sets forth the hotel occupancy rates for 1977, 1978, and the first four months of 1979. These figures have been compiled from reports of the 20 largest hotels and guest houses in Bermuda representing more than 80 percent of all the available beds.

Only in the months of September and October were the occupancy rates for 1978 higher than in 1977. We have been unable to match the 1977 levels for any of the first four months of 1979. In 1978 the highest occupancy rate was 86.1 percent in May. The major convention months are January through June and September through October. Except for May, for each of those months in 1978 more than 15 percent of our available space was unused which equates to more than 1,350 unused beds per day. Of course this figure is much higher for months such as February, March and April.

Thirty percent of the total regular visitor expenditures, representing the percentage of regular visitors coming for conventions, amounts to $55 million. When this is compared against the total Bermuda budget for fiscal year 1979-80 of $95 million, the importance of the convention business is no small matter.

In an updated economic report by Dr. Brian Archer,[1] concerning Bermuda, "The Impact of the Tourism Dollar," (1978) he noted that in 1978 all visitors generated approximately $212 million, a decrease in 11 percent from 1977, of household income to Bermudians of which 94 percent came from regular visitors. Thus the importance of tourism to household income is dramatically clear. In fact, we have estimated that on a personal level the loss resulting from Section 602 equates to approximately $500 per person.

I would also note that the tourism dollar in Bermuda is important in the economic relationships between the United States and Bermuda. Since 90 percent of regular visitor expenditures were from United States tourists, the United States regular visitor spent approximately $165 million in Bermuda in 1978. Bermudians on the other hand spent $88 million (63 percent of our total) on direct imports from the United States in 1978. To this must be added an additional $68.5 million for what are termed invisible imports which include such items as education, freight, travel, interest and dividends. Thus, Bermuda spent approximately $156.5 million in the United States in 1978. We have been unable to estimate whether there have been any curtailments in these expenditures by Bermuda as a result of the loss to the economy, but the dollar loss and the continuing requirement of imports and other matters accentuate the strain on the overall economy of Bermuda.

We understand that the committee is currently considering three bills which would affect the current provisions relating to the tax treatment for attending foreign conventions. We endorse S. 749, introduced by Senator Goldwater, which would entirely repeal Section 602 (26 U.S.C. § 274(h)). However, if the committee determines to utilize S. 589, introduced by Senator Bentsen, or S. 940, introduced by Senator Mathias, we would request that the bill be amended to include the standard North American exemption which would encompass Bermuda.

S. 589, as presently written, would only benefit Canada and Mexico by providing an exemption for attending conventions there. To grant such an exemption to Canada and Mexico would further ensure the lack of convention business in Bermuda and the harm to Bermuda would be very substantial especially when the size of

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[1] Director of the Institute of Economic Research, Bangor, Wales, Author of many studies on tourism for many nations; on January 1, 1978 assumed Chair at the University of Surrey, Department of Tourist and Hotel Management.

the convention business, as compared to the budget, is considered. As noted earlier, Bermuda is substantially dependent on the tourist industry which is not true for Canada and Mexico.

We would suggest that the following language relating to the North American exemption be included in any bill which may be considered by the committee: "NORTH AMERICAN AREA.—The term 'North American area' means the United States, its possessions, and the area lying west of the thirtieth meridian west of Greenwich, east of the international dateline, and north of the Equator, but not including any country on the continent of South America."

This language has been considered by both House and the Senate in previous Congresses. In fact, the Senate Finance Committee agreed to this language in its report accompanying H.R. 10612 (S. Rept. 94938, June 10, 1976) which became the Tax Reform Act of 1976. The House Ways and Means Committee has also considered this language. It would appear that this language has not been enacted more due to technical procedural rules than for any substantive or policy reason.

On behalf of the Government of Bermuda I respectfully submit this statement and with appreciation for the fact that Bermuda has been allowed to express its opinion today before the Congress of the United States. It is my understanding that the whole issue is not one of revenue but rather one of controls; therefore the abuses should be resolved in a manner which does not create such an inequality as the state of the law does now. Again, I am most appreciative of this opportunity to appear on behalf of the Government of Bermuda and am respectful of the problems that your subcommittee has before it.

ATTACHMENT 1 TO STATEMENT OF C. V. WOOLRIDGE, MINISTER OF TOURISM

HOTEL OCCUPANCY RATES FOR 1977, 1978, AND FIRST 4 MONTHS, 1979

[In percent]

	1977	1978	1979
January	29.0	13.8	25.0
February	58.1	44.1	43.9
March	80.8	60.0	63.7
April	91.2	73.5	82.5
May	90.9	86.1	
June	84.1	79.4	
July	82.3	77.4	
August	91.0	83.7	
September	77.6	80.5	
October	79.0	81.2	
November	59.6	56.0	
December	22.6	27.9	

STATEMENT OF C. V. WOOLRIDGE, MINISTER OF TOURISM, GOVERNMENT OF BERMUDA, ACCOMPANIED BY COLIN SELLEY, DIRECTOR OF TOURISM, AND WILLIAM F. RAGAN, RAGAN & MASON, WASHINGTON, D.C.

Mr. WOOLRIDGE. Good morning, Mr. Chairman.

Mr. Chairman, on my left is Director of Tourism Colin Selley and on my right, Mr. William Ragan of Ragan and Mason, Washington, D. C. who represents the Bermuda Government.

Mr. Chairman, members of the committee, my name is C. V. Woolridge and I am the Minister of Tourism for the Government of Bermuda. I am also a member of the House of Assembly and the Deputy Premier of Bermuda.

On behalf of the Government of Bermuda, I wish to express my appreciation for the opportunity of appearing before your subcommittee. Accompanying me is Colin Selley, the director of tourism and William F. Ragan of Ragan and Mason, attorneys for the Government of Bermuda in Washington, D. C.

I appreciate the opportunity to testify today on the tax rules relating to the deductibility of expenses for attending foreign conventions.

I have submitted a prepared statement for the record and, with your kind permission, I will briefly comment on its main provisions.

The Government of Bermuda supports S. 749. However, if the committee decides to use S. 589 which would provide a limited North American exemption, or S. 940 which relates certain reporting requirements, we request the inclusion of a North American exemption that would encompass Bermuda.

Bermuda is a small island which, while a colony of Great Britain, is closely allied to the United States, economically, geographically and strategically. The United States currently occupies more than 10 percent of our total land area with its naval air station.

The Government of Bermuda charges no rent, and we believe that this is the only foreign base which the United States has at no cost.

Bermuda's 56,000 residents live on a land mass of only 21 square miles; 90 percent of our residents are directly or indirectly dependent on the tourist industry. Basically, the island is totally dependent on tourism since it has no natural resources and little manufacturing.

Our regular tourist industry is geared primarily to the family unit. The fact is that tourism is the foundation of our economy.

Since enactment of section 602 in 1975, however, our tourist industry has been drastically impacted due to the new tax rules affecting the deductibility of expenses for attending foreign conventions. In fact, 118 separate conventions to Bermuda have been canceled since the enactment of section 602. We have lost more than $21 million in room night revenue alone. This has resulted in a shortfall of revenue to the Government of Bermuda.

We have taken pride in full employment which, in return, has given us a stable economy and society. This favorable position of Bermuda should be permitted to continue.

In 1978, 85 percent of our regular visitors came from the United States and they accounted for 90 pecent of our receipts for regular visitors.

In that same year, we experienced a decrease of 4.1 percent of our visitors compared to 1977 and 15.7 percent decrease in their expenditures. We would have expected, from our experience prior to 1977, that 30 percent of our visitors would have come in convention groups, but that has not occurred since 1976.

The U.S. visitors spent approximately $165 billion in Bermuda by 1979. If 30 percent of this had come from conventions, it would have amounted to $55 million.

This is significant when one compares the Bermuda budget for 1979-1980 of $95 million.

Because of section 602, we have estimated that the loss of household income on a personal level equates to approximately $500 per person. Our hotel occupancy rates have decreased substantially for 1976, where it was 75.3 percent, to 1977 at 70 percent, and 1978 when it hit a low of 63.8 percent. Our rate for the first 4 months of 1979 has been equally unsatisfactory.

Bermuda, in 1978, spent approximately $156.5 million n the United States on direct and indirect imports. This is significant when one compares the $165 million spent by United States visitors in 1978. However, the margin is small and it is certainly feasible that if this continues we will be forced to make certain curtailments in our expenditures abroad for our basic needs.

In summary, Mr. Chairman, the Government and people of Bermuda respectfully request that they be included in any exemption that the Congress of the United States may consider because of the basic needs of our people to be employed productively in tourism.

Lastly, sir, the Bermudans look at the longstanding friendship of the United States, and I believe it is in the best interests of both the United States and Bermuda that Bermuda remains economically sound.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Woolridge.

That is quite an impact that section 274(h) of the Internal Revenue Code has had on your economy, I can see, and we will definitely take into consideration your testimony which will appear in the record as though delivered in full, along with the tables which you have presented.

Mr. WOOLRIDGE. Thank you, sir.

Thank you again for allowing us to appear before the committee.

Senator MATSUNAGA. Thank you, very much for your testimony.

Our next witness is the Deputy Assistant Secretary for Tax Policy of the Department of the Treasury, Mr. Daniel Halperin.

Secretary Halperin, are you here?

Mr. Halperin, if you will excuse me, we will take a brief recess.

[A brief recess was taken.]

Senator MATSUNAGA. Mr. Halperin, we will now be happy to hear the views of the administration.

STATEMENT OF DANIEL I. HALPERIN, DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY

Mr. HALPERIN. Thank you, Mr. Chairman.

With me here today is Mr. Gutman and Ms. Levinson of the Office of Tax Legislative Counsel.

I would like to submit my statement for the record and I will try to be brief here this morning. In fact, many of the points I wanted to touch on you have covered in your opening statement and I think I can therefore be even briefer.

We do share some of the concerns that have been expressed by those who support the bills that are before you today, but as the Chairman outlined in his statement, we believe that there is a problem that existed prior to the 1976 act in terms of people being able to take vacations partially at the taxpayers' expense, and that problem will not be eliminated and will still exist if we just go back and repeal the 1976 legislation.

We do have a proposal which we made earlier and which is very similar to what the House Ways and Means Committee adopted last year, which would eliminate many of the burdens and complexities of the present law while at the same time strengthening the policy behind the 1976 legislation.

The chief problem is that a convention is considered related to a trade or business if, after considering all the facts and circumstances, there is some benefit or advance to the taxpayer's trade or business.

We do not measure the degree of benefits, but as long as there is a business benefit and the primary purpose of the trip is business, the taxpayer is entitled to a deduction, most of the time for the full cost of travel and subsistence allowance. That is the way the law stood prior to 1976.

The Congress recognized, as the Chairman stated, that many people were taking vacations in the guise of business trips. They were being urged to do so by the promotional material they were seeing.

Theoretically, perhaps, it might have been true that some of these trips were primarily for personal purposes. However, that is something wholly within the knowledge of the person taking the trip. It is not something that the Internal Revenue auditor can determine very easily. It is very difficult to distinguish between personal and business motives and therefore taxpayers were able to claim deductions for these trips.

It seemed clear to Congress in 1976, and it remains clear today, that we need a more objective test to determine when a convention should be considered business related.

For that reason, we oppose S. 749, because it will return us to the unsatisfactory conditions that existed prior to the 1976 Tax Reform Act.

We also are opposed to the North American exemption contained in S. 589. We believe that the issue is not whether American tourism in foreign countries, or in particular foreign countries, ought to be encouraged or discouraged. The question from the point of view of the American taxpayer is whether they should bear part of the cost of what is really a vacation, whether that vacation is in Canada or Mexico or any other foreign country.

Furthermore it is the consistent policy of the State Department to oppose legislation that discriminates among particular foreign countries.

As Senator Javits stated, there is also an additional point which pertains specifically to conventions held in Canada. For some time now, the Treasury Department has been involved in negotiations with Canadian representatives with a view toward modifying our existing income tax treaty, which dates from 1942.

Most issues have been satisfactorily resolved, although there are a few questions, admittedly important, which remain.

Two of the remaining issues are the treatment of foreign conventions in Canada under the U.S. tax laws and the treatment of expenses for advertising on U.S. television stations under the Canadian tax laws. I believe you will hear about that problem from another witness who will come on later. I do not want to go into details at this point, but we do not think it will be appropriate for the United States unilaterally to extend foreign convention benefits to Canada while negotiations are in process and the United States is seeking important tax concessions from Canada.

As I said, Mr. Chairman, we think that there is a way to reconcile many of the difficulties which have arisen. In our view, the

present provisions, 274(h) of the Internal Revenue Code as added by Section 602 of the 1976 act, are inadequate to deal with the primary problem, namely, selection of the foreign site because of vacation motives without regard to business considerations.

Even though a convention benefits a taxpayer's business, when it is held at a foreign site which has nothing to do with the taxpayer's business, the personal benefit predominates.

The Chairman mentioned the California Trial Lawyers Association. There is certainly no reason to travel to Tel Aviv or Jerusalem in order to learn how to handle a personal injury case, or to take a cruise through the Greek Islands for purposes of learning something about trial advocacy.

Denying deductions for that kind of activity certainly is consistent with the general rules of the Internal Revenue Code, which limit deductions to ordinary and necessary business expenses.

On the other hand, as the Chairman pointed out, for those people with international ties, two conventions per year may be too few. So we have the problem that the 1976 act continues to allow some people to take two vacations a year at public expense while interfering with legitimate business travel for others.

In order to solve this problem, we suggest a more objective test to determine whether attendance at a foreign convention is primarily for business purposes. We suggest the test that was adopted by the Committee on Ways and Means in H.R. 9281. As the Chairman pointed out, that bill has "a more reasonable" test in it. The administration's original proposals in 1977 had an "as reasonable" test. We felt it was sensible for us to go along with the Ways and Means Committee at this point.

We think that once this kind of test is adopted, many of the restrictions and mechanical rules in present law can be eliminated. Accordingly, we would propose to eliminate the maximum of two conventions per year and the recordkeeping and attendance rules.

In addition, once a determination to hold a convention abroad is determined to be reasonable, we think it makes sense to have the same limits on travel and subsistence expenses as would apply to business trips generally.

If that were done, the difficult questions that the Chairman referred to in determining whether a particular meeting is similar to a convention or not, would not have to be dealt with very often, if at all.

For example, if one were traveling over to talk to officers of a particular company, it would clearly be reasonable to go to the country where that business is located to talk to them so that that kind of trip would be allowed as a business deduction, whether it was a convention or not. If the deductions for travel and subsistence are the same on both kinds of trips, we can avoid the very difficult question of trying to figure out what is a convention and what is a business meeting.

It is a hard question; we have not been able to solve it completely under existing law and to the extent that we can limit this, I think it would be helpful.

In conclusion, let me repeat that the evils to which the 1976 change was addressed was the tax-subsidized foreign convention that had no relation to ongoing business ventures abroad. Our

proposal meets this problem while, at the same time, removing needless burdens and restrictions on American business efforts in foreign countries.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you, Mr. Halperin.

You touched upon an issue which has been a sore point with businessmen; that is, the definition of a convention.

Have you tried administratively to define this more clearly?

Mr. HALPERIN. Well, we have to define it more clearly in order to issue regulations under the 1976 act. As you know, those regulations have not been issued, and one of the reasons for the delay is the difficulty of answering that particular question.

Senator MATSUNAGA. For the hearing record, would you state whether or not a trip by a company officer or employees to oversee the company's foreign operations, a trip to attend a foreign meeting of the governing body, other committees, or members of a nonprofit making organization with international membership for administrative or management purposes, and travel by businessmen to negotiate business transactions are excluded from the term "convention"?

Mr. HALPERIN. Traveling to a county where somebody has business operations in order to oversee that business operation is not, obviously, similar to a convention. Getting together the directors of a particular corporation at a site where the corporation has business dealings does not seem to us to be similar to a convention. When a nonprofitmaking organization has a significant number of foreign members or a significant number of foreign representatives on a governing board or committee, an administrative or management meeting of the members or of the committee that is held abroad would be excluded. Travel to negotiate a purchase or sales agreement with a foreign government, corporation, or individual would also not be a convention.

Senator MATSUNAGA. Have you, in any of the regulations, given examples of what business trips would not be included in or excluded from the term "convention"?

Mr. HALPERIN. We have not, but of course, when the regulations are issued, we will have to deal with that problem and we will give examples.

Senator MATSUNAGA. That would be very helpful to businessmen, I have received letters and personal complaints from businessmen on this point they have got to delve into the mind of the IRS and nobody has yet succeeded in doing that.

Mr. HALPERIN. I understand, Mr. Chairman, and as I said, if we can move to a test which eliminates the artificial two conventions a year restriction and looks to whether it is reasonable to hold the meeting in a foreign country or not, I think that most of the pressure on trying to draw that distinction will disappear.

Senator MATSUNAGA. Senator Goldwater testified earlier—you heard him—that the total revenue loss, if we do away with section 274(h), would amount to only $5 million. Is that a correct figure?

Mr. HALPERIN. I do not believe that the revenue is substantial. I do not have the number, but we have always said that the revenue in this particular provision is negligible.

I do not think that the issue is revenue. I think that the issue is equity. When we see the kinds of ads for foreign travel as the one you referred to by the California Trial Lawyers Association and other examples which are similar, when those kinds of things are out and people can advertise that they are carefully informed of the 1976 act and you can have a vacation anywhere in the world you would like, I think that breeds disrespect for the tax law and has a general, negative impact on people's willingness to comply with the law.

I think that that is the key issue. It is not particularly one of dollars.

Senator MATSUNAGA. Well, I thank you very much. If other questions should come up, we will forward them to you in writing and have you respond to us in writing for the record.

Mr. HALPERIN. We would be glad to.

Senator MATSUNAGA. Again, I thank you, Mr. Halperin, for your appearance before this subcommittee.

[The prepared statement of Mr. Halperin follows:]

STATEMENT OF DANIEL I. HALPERIN, DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY

Mr. Chairman and Members of the Subcommittee: I am pleased to appear before the Subcommittee to discuss the deductibility of foreign convention expenses. After commenting on the three bills before the Subcommittee, I shall describe the Treasury's suggestion for change in this area. Of the three bills being considered, the Treasury Department opposes S. 589 and S. 749. If the Treasury proposal were to be adopted, S. 940 would be unnecessary; if the present system were to be retained, however, we suggest modifications to S. 940.

Present law

Before I speak about legislative change, let me briefly review the law in this area.

A convention is deemed related to trade or business if, considering all the facts and circumstances, attendance at the convention benefits or advances the taxpayer's trade or business, If this test—which is qualitative and not quantitative—is met, then the cost of travel for the primary purpose of attending a convention is generally deductible regardless of the purely personal benefits a taxpayer may derive from the convention trip. The Internal Revenue Code provision which allows a deduction for ordinary and necessary business expenses (section 162) denies a deduction only if the primary purpose of the trip is personal.[1]

Beginning in 1964, Congress imposed a further, although limited, restriction on the deductibility of expenses for foreign trips, including conventions (section 274(c)). If a foreign trip lasts longer than one week and at least twenty-five percent of the taxpayer's time on the trip is devoted to personal pursuits, only a portion of travel costs are deductible. The part allocated to personal activities, generally in proportion to the number of days spent on business or pleasure, is disallowed. But if the foreign trip lasts one week or less, or less than twenty-five percent of the time is spent on nonbusiness activities, the "primary purpose" test applies and expenses are deductible in full.

In 1976 Congress recognized the growing practice among professional, business and trade organizations to sponsor cruises, trips and conventions during which only a small portion of time was devoted to business activity. Committee reports noted that promotional material often highlighted the deductibility of expenses incurred in attending a foreign convention and, in some cases, described the meeting in such terms as a "tax-paid vacation" in a "glorious" location. Committee reports also noted that some organizations advertised that they would find a convention for the taxpayer to attend in any part of the world at any given time of the year.

In short, many taxpayers were attending foreign conventions primarily to take advantage of opportunities for sightseeing and recreation. However, since it was extremely difficult to distinguish between personal and business motives in taking such trips, taxpayers were able to claim a tax deduction. As a result, deductions for

[1] Regardless of the primary purpose of the trip, the cost of meals and lodging at the convention site are deductible if they are attributable to a day spent on business.

attending foreign conventions had become a source of tax abuse. In 1976, Congress responded to this problem with the provision under consideration today (section 274(h)).

Under this provision, deductions can be taken for no more than two conventions per year. For these two conventions, transportation expenses to and fro, not exceeding coach or economy air fare, are fully deductible if at least one-half of the days spent at the convention are business related, otherwise transportation expense is pro-rated. Subsistence expenses, limited to the Federal per diem for the particular location, are deductible for each day in which there are at least six hours of business activities if the taxpayer attends two-thirds of the scheduled activities. One half day of subsistence expenses is allowed if there are at least three hours of business activities and the taxpayer attended two-thirds of the activities.

These provisions are complex but at the same time continue to allow two deductible foreign vacations annually. We sympathize wtih the desire to mitigate record-keeping and other burdens on legitimate business activities. But this does not require that we jettison any restrictions on foreign conventions. Rather, it is possible to mitigate burdens on business while at the same time to deal more effectively with the abuse which led to the 1976 legislation.

We have a proposal to accomplish this goal. First, however, I shall comment on the three bills before the Subcommittee.

S. 589

S. 589 would exempt expenses incurred in attending conventions in Canada and Mexico from the limitations of section 274(h). There are several reasons why we oppose this legislation.

As we have stated, the purpose of the 1976 change is to prevent tax subsidized foreign vacations. Controlling abuse by attempting to determine the primary purpose of the trip on a case-by-case basis has proved ineffective to combat conventions promoted for their vacation features. S. 589 would apply the primary purpose test, which in known to have been subverted in the past, to conventions in Canada and Mexico. The issue is not whether American tourism in foreign countries should be encouraged or discouraged. The issue rather is whether American tourism in foreign countries should directly increase the tax burden of the average American taxpayer. From the point of view of the American taxpayer who would, in the end, underwrite these Canadian or Mexican conventions facilitated by S. 589, a vacation that is taken in the guise of a convention in Canada or Mexico is not different than a vaction taken in any other foreign country.

Furthermore, the State Department consistently opposes legislation that discriminates among foreign countries. An additional point pertains specifically to conventions held in Canada. For some time now the Treasury Department has been involved in active negotiations with Canadian representatives with a veiw to modifying our existing income tax treaty, which dates from 1942. Most issues have been satisfactorily resolved, and there are only a few questions that remain, although these are admittely quite important. Two of the remaining issues are the treatment of foreign conventions in Canada under United States tax law; and the treatment of expenses for advertising on United States television stations under Canadian tax laws. We do not think it would be appropriate for the United States unilaterally to extend foreign convention benefits to Canada while negotiations are in process and the United States is seeking important tax concessions from Canada.

S. 749

S. 749 would repeal section 274(h) as enacted by the Tax Reform Act of 1976. We oppose S. 749.

As I have said, the provision was designed to curb tax deductions for foreign vacations. The law prior to 1976 created a serious enforcement problem for the Internal Revenue Service, and was perceived by many taxpayers as a tax loophole, To repeal section 274(h) and to substitute nothing in its place would be tantamount to approving the use of tax money to subsidize foreign vacations. However, we are not opposed to an overhaul of section 274(h), and I shall explain our suggestion shortly.

S. 940

A taxpayer who claims a deduction for foreign convention expense must attach to his return a written statement relating to attendance at the convention, which must be signed by an officer of the organization sponsoring the convention. (Section 274(h)(7)(B).) S. 940 would eliminate this requirement.

At present convention expenses are deductible only if the individual actually attends convention activities. We believe enforcement of this provision requires that the sponsoring organization verify attendance. On this basis, we oppose S. 940.

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However, we would suggest two changes in the present rules which we believe will substantially reduce the compliance burden. First, the statement of the sponsoring organization must now be signed by an officer of the organization. The Internal Revenue Code uses the word "signed" literally; under the present wording of the statute, it is likely that signatory authority cannot be delegated and facsimile signatures cannot be used. To require an officer of any large sponsoring organization to sign personally hundreds or thousands of forms is too burdensome. We would support the elimination of the signature requirement.

Second, when an employer claims a deduction, the employer must attach to its return a statement from the sponsoring organization for each convention attended by each employee, as well as written statements signed by the employees themselves. In the case of an employer with a large number of employees, this requirement makes the employer's tax return unwieldly, to say the least. We would support a proposal that would allow employers with large numbers of employees attending foreign conventions to submit the information in summary form, such as a computer printout, with their returns, and keep the original statements in their own files to substantiate the deductions on audit.

Modifying both the signature requirement and the requirement of attachments to the return will lessen the compliance burden without weakening enforcement of the deductibility restrictions.

Treasury proposal

In our view, the present provisions are inadequate to deal with the primary problem, namely, selection of the foreign site because of vacation motives without regard to business considerations. Even though a convention benefits a taxpayer's business to some degree, there is no justification for a tax deduction where the convention is held at a foreign site having nothing to do with the taxpayer's business. In such cases the personal benefit predominates.

The mechanical tests of present law do not solve the problem. For those taxpayers with legitimate business concerns abroad, two conventions per year may well be too few. For those taxpayers with no international ties, two conventions per year are obviously two too many. Yet in both cases, present law allows deductions for the same number of conventions.

As a result, taxpayers who do business abroad and who commonly go to more than two foreign conventions or similar meetings per year have been faced with the strict disallowance rule. On the other hand, some taxpayers may still take two foreign vacations a year at public expense. Opportunities for such vacations are not hard to find. For example, the California Trial Lawyers Association sponsored seminars all over the world for its members in 1977. The promotional booklet advertises as follows: "Decide where you would like to go this year: Rome. The Alps. The Holy Land. Paris and London. The Orient. Cruise the Rhine River or the Mediterranean. Visit the islands in the Caribbean. Delight in the art treasures in Florence."

The booklet also noted that these trips have been "designed to qualify under the 1976 Tax Reform Act as deductible foreign seminars." This type of advertising breeds disrespect for the tax system.

In order to solve this problem, we suggest a more objective test to determine whether attendance at a foreign convention is primarily for business purposes. The test is identical to that adopted by the Committee on Ways and Means in H.R. 9281, as reported to the House last year. It focuses on the reason why a foreign site is chosen for a convention. The expenses of attending a foreign convention, seminar or similar meeting would not be deductible unless it is more reasonable to hold the convention outside the United States and its possessions than within them. The factors to be considered in determining reasonableness of the convention site are: the purpose and activities of the convention; the purpose and activities of the sponsoring organization; the residence of active members of the sponsoring organization; and the places at which other meetings of the sponsoring organization have been held.

For example, if a significant portion of an organization's members resided in Canada, it could be considered more reasonable for the organization to hold a convention in Canada than in the United States. Similarly, if the members of an organization composed of individuals engaged in a certain type of business regularly conducted a portion of their business in Mexico, it could be considered more reasonable for the organization to hold a convention in Mexico than in the United States.

The reasonableness test would supplement the primary business purpose test now used for business trips under present law. If it is not more reasonable to hold a foreign convention outside the United States and its possessions than within them, then all convention activities will be regarded as nonbusiness activities for which deductions would not be allowed.

If the foreign site meets the reasonableness test, the convention will be treated as a foreign trip, and must be related primarily to the taxpayer's trade or business. In addition, as with other business trips, the special restrictions on foreign travel will apply where the convention trip takes more than one week and at least one-quarter of the trip is spent on nonbusiness activities.

This approach, we feel, will go a long way toward distinguishing between true foreign vacations and bona fide business meetings that advance American business abroad. We regard this proposal as a complete substitute for the mechanical rules of present law. Accordingly, we propose to eliminate the annual maximum of two conventions and the recordkeeping and attendance rules.

Our proposal is aimed at the difficulty under present law in determining whether or not a foreign convention is primarily for a business purpose. Once the characterization of deductible business activities and nondeductible personal activities has been determined, the mechanics of allocating expense between those activities should be the same for conventions as for other foreign business trips. Accordingly, we do not suggest any special limits on the deductibility of convention transportation or subsistence expenses. If a convention passes the proposed foreign site test, it will be treated as a foreign trip. This approach will also tend to eliminate the troubling questions of whether a meeting is similar to a convention and which limits to apply when a trip has several phases, including attendance at a foreign convention.

Conclusion

I repeat that the evil to which the 1976 change was addressed was the tax subsidized foreign vacation that had no relation to on-going business ventures abroad. Our proposal meets this problem, while at the same time removing needless and burdensome restrictions on American business efforts in foreign countries.

Senator MATSUNAGA. We will next hear from a panel of witnesses consisting of the following: Mr. Dana Vanesse and Mr. John C. Bennison on behalf of the American Society of Travel Agents, Inc.

Mr. Gabriel Phillips, vice president, traffic services, American Transport Association of America.

Mr. Jack E. Pratt, on behalf of the American Hotel and Motel Association.

Mr. Thomas Boggs, Jr., on behalf of the ad hoc committee on section 602. Would the two gentlemen accompanying Mr. Boggs identify themselves.

Mr. LOWE. Mr. James Lowe, president, American Society of Association Executives, with Mr. Boggs.

Mr. DERBIN. I am James E. Derbin, president of Marriott Hotels, and I am with Mr. Boggs.

Senator MATSUNAGA. Thank you very much.

We will either proceed right down the list or according to the understanding that you may have reached among yourselves. Any objections to going right down the list of names?

If there are no objections, then Mr. Vanesse, will you proceed.

STATEMENT OF DANA VANESSE AND JOHN C. BENNISON ON BEHALF OF THE AMERICAN SOCIETY OF TRAVEL AGENTS, INC.

Mr. VANESSE. Thank you, Mr. Chairman.

My name is Dana Vanesse. I am the president of Beacon Hill Travel Service of Boston and also the vice president of the American Society of Travel Agents, National Legislative Committee.

ASTA, as you know, is the world's largest professional travel organization, comprising more than 16,000 members from 120 countries representing all facets of the travel and tourism industry.

In the United States, ASTA members in more than 8,600 locations arrange the travel plans of over 40 million American consum-

ers annually representing an expenditure of approximately $14 billion in pleasure and travel sales.

I am going to briefly touch on four points that deal with the current U.S. tax code and I would ask that our complete testimony will be included in the record.

Senator MATSUNAGA. Without objection, it is so ordered.

Mr. VANESSE. ASTA's primary objection to the provisions of the Tax Reform Act of 1976 with regard to the tax deductibility of foreign convention expenses is that it introduces an international discrimination. It grants a preference to domestic business travel over foreign business travel.

As you know, the concept of equal treatment of all countries and the corresponding principle of equal access to world markets is the basis of our free enterprise system and has always been a cornerstone to U.S. policy.

Having members in 120 countries, ASTA is particularly concerned about these discriminatory restrictions contained within present U.S. tax laws. They constitute an unfortunate precedent and could have a significant impact on other countries.

This type of international discrimination is not subject to international review in IMF or OECD. Accordingly there is a high potential for emulation of this technique for other countries, not only in the field of business travel, but in other areas as well.

Second, ASTA believes it is inappropriate to limit the legitimate deductions of businessmen to a U.S. Government per diem rate for subsistence expenses where the rate reflects benefits including lower cost to Government employees in the form of Government discount rates which are not available to private individuals.

Third, since the new tax provisions have been in effect, American Society of Travel Agents has found that the recordkeeping requirements involve extraordinary effort and expense on the part of the sponsoring organization to effect compliance.

ASTA sponsors the world's largest trade show and convention in the travel and tourism industry annually. Last year, for example, our annual convention was held in Acapulco. To comply with tax guidelines, ASTA had 10,000 certified official programs printed at the cost of $900. Tax guidelines were printed and distributed at a cost of $1,000.

One hundred and nineteen thousand cards, which were distributed at every function applicable for tax law purposes, were prepared at a cost of $2,000. These cards are completed by the individual delegates and left at the door for ASTA records.

ASTA must stamp every delegate's official program for each official event. The rubber stamps used to perform this function alone cost over $1,000.

These cards must be stored for at least 7 years at a cost of $400 per year. The labor costs of the 15 people involved at 35 sessions for 2 hours each session came to a total of 1,050 hours.

This labor cost alone was over $4,000. The total cost thus becomes over $9,000 and we are attaching the forms to our testimony which describe everything included.

The total cost, including the other development of these records, came to almost $20,000. Clearly, this exercise is extremely burden-

some, and very expensive. Therefore, ASTA urges the burden of establishing compliance be shifted.

Individuals should determine whether they attend a foreign convention, meeting, or trade show. It is simply a common business decision: Does the cost justify the anticipated benefit of attendance and expense? The philosophy of getting the Government out of the decisionmaking process and the internal affairs of business is reflected in the administration's and Congress desire to deregulate airlines, buses and other modes of transportation.

Why is there a need now to regulate business attendance at conventions, meetings, and trade shows? ASTA would concede that surely there are some individuals who abuse the out-of-the country privileges.

I do thank you for your time, and we appreciate being here.

Senator MATSUNAGA. Thank you very much, Mr. Vanesse, and, as I earlier stated, your statement will appear in full in the record.

Mr. Phillips, we will be happy to hear from you.

STATEMENT OF GABRIEL PHILLIPS, VICE PRESIDENT, TRAFFIC SERVICES, AIR TRANSPORT ASSOCIATION OF AMERICA

Mr. PHILLIPS. My name is Gabriel Phillips. I am vice president of traffic services of the Air Transport Association of America [ATA], which represents virtually all of the scheduled airlines of the United States. We appreciate this opportunity to appear before the committee on behalf of our members to discuss the tax treatment of foreign convention expenses under the Tax Reform Act of 1976. Since our member airlines presently operate international air services between the United States and over 75 foreign countries, they have an obvious interest in legislation to liberalize the tax treatment of foreign convention travel which directly affects or influences the demand for their services.

The airlines of the United States join with other segments of the U.S. travel and tourism industry to respectfully urge the subcommittee to reverse the steps taken in the Tax Reform Act of 1976 which severely restricted foreign convention expense deductions, by amending section 274 of the code and deleting the provision added by section 602. The 1976 amendments, in conjunction with other factors, have had the unfortunate effect of discouraging international travel without providing any significant gains or tax revenue benefits to the national economy. As a matter of fact, the very opposite is probably the case since the amendments have also diminished the opportunities for the sale of American goods and services abroad. Moreover, the elimination of the adverse provisions of the 1976 amendments is in the interest of U.S. policy consistency, international comity, and the equitable treatment of U.S. business men and women in the conduct of their ordinary and necessary business activities.

The Internal Revenue Code has long provided for the deduction of ordinary and necessary travel and related expenses incurred in the conduct of regular business activity. In making such expense deductions, taxpayers were required to demonstrate the validity of the activity and the reasonableness of the expenditure. The requirements to substantiate travel and related expense deductions

were no more or no less than those associated with other business expense deductions.

However, unlike the consideration of other business expense deductions, the Internal Revenue Service apparently felt that, due to perceived abuses or the potential for abuse, foreign convention travel expenses required a special determination as to the motives and intentions of individual taxpayers. Thus, complex legislative guidelines were advocated to limit foreign convention expenses, notwithstanding the relatively insignificant impact on tax revenues. In effect, the Congress was asked to isolate one particular business expense and, for the first time, determine how that particular ordinary and necessary business expense should be demonstrated.

The result, section 602 of the Tax Reform Act of 1976 went far beyond anything necessary or required.

It limits business expense deductions for foreign convention travel to two meetings a year, ignoring the fact that taxpayers may have legitimate business reasons for participating in more than two annual meetings.

It limits deductible living expenses to the Government per diem rate, notwithstanding the fact that business travelers do not have access to special rates frequently available to Government employees, and despite the necessity for business expenditures beyond those required for lodging, meals, and local transportation, at levels in excess of the Government per diem rate.

It limits transportation expenses to the equivalent of economy class air travel ignoring the fact that there may be legitimate business reasons for utilizing the availability and convenience of first-class air travel or its equivalent.

Whatever the objectives of the 1976 amendments, the consequences have been a reduction in the number of conventions by U.S. organizations in countries abroad, a comparable reduction in the demand for international air services, questions both here and abroad about consistency of U.S. policy, and an inequitable treatment of ordinary and necessary business expenses.

Policy consistency warrants a special note since the 1976 amendments conflict with other national objectives fostering international trade and tourism. Congress has enacted many statutes to promote the export of American products and to encourage travel to the United States by citizens of other countries. The Congress is now considering legislation to implement the international agreements developed in the Tokyo round of trade negotiations to further advance U.S. export oportunities. Conventions held in foreign countries have been productive mediums for American salesmen to sell American products. Our national export objectives certainly are not advanced by arbitrarily limiting the number of sales opportunity meetings or restricting associated ordinary and necessary business expenses. Likewise, both Houses of Congress this year have reaffirmed our national obective to encourage travel from abroad, including travel to this country for convention purposes. They have done so by voting to supplement the administration's request for token funds and to extend the life of the U.S. Travel Service through fiscal year 1980. The Senate has passed, and the House is about to initiate hearings on legislation to develop a new,

comprehensive U.S. tourism policy and implementing organization. We cannot at the same time continue to restrict the participation of U.S. citizens at conventions in foreign countries without fostering retaliatory action by other countries.

Several bills now pending before the committee would modify or eliminate these foreign convention restrictions. While the airline industry welcomes any reasonable adjustment of these onerous and unjustified restrictions, we specifically endorse S. 749, which reinstitutes the traditional business related test for convention deductions and eliminates the arbitrary provisions enacted in 1976.

Both S. 589 and S. 940 would relax the provisions of section 274 of the code, the former by excluding from the definition of prescribed conventions, those which are held in North America, and the latter by reducing the reporting burden, primarily on the convention sponsor. They are both welcome changes but they do not go far enough. There is no sound policy reason to discriminate in favor of conventions held in North America and against those held elswhere. The heart of the matter is whether the activity is a legitimate business expenditure—not where it is held. If any distinction as to location is justifiable on grounds of international comity, it can only relate to whether a convention country is a participant with the United States in a general treaty of friendship and commerce; in other words, those whose products are eligible for treatment under the most favored nation principle of section 251 of the Trade Expansion Act of 1962. Otherwise, what sound basis exists for treating Canada or Mexico in a preferential way to England, France or to our neighbors in the Caribbean who rely on American tourism as the mainstay of their economy?

The airline industry believes that the evaluation of facts and circumstances to determine whether claimed deductions for foreign convention travel are ordinary and necessary business expenses is the nondiscriminating and appropriate means to correct abuses that may develop. The general provisions of the code and regulations give the Internal Revenue Service ample power to prescribe supporting justifications as is required in all other business expense deductions. These established and tested procedures are far more preferable than the arbitrary provisions of section 274, which single out foreign convention travel.

Consequently, we strongly recommend the adoption of S. 749 and the return to the traditional business-related test for determining the propriety of deductions for foreign convention travel. We respectfully urge the committee to give this matter early and favorable consideration.

Senator MATSUNAGA. Thank you very much, Mr. Phillips.

We hear next Mr. Pratt who appears on behalf of the American Hotel and Motel Association.

Mr. Pratt?

STATEMENT OF JACK E. PRATT ON BEHALF OF THE AMERICAN HOTEL AND MOTEL ASSOCIATION

Mr. PRATT. I am Jack E. Pratt from Dallas, Tex., the chairman of the board and president of Inns of the Americas, Inc., owners and operators of 24 hotels in Texas, Mexico, and Central America and the Caribbean.

I am here representing the American Hotel and Motel Association, an association with a membership of over 8,500 hotels and motels, containing over 1 million rooms.

When Congress passed the Tax Reform Act of 1976, section 602 and the new section 274(h) of the Code limited the amount of deductions for tax purposes. We recognize the need for change as presently structured, but the present act is much too severe. The prospects for retaliation does exist very much.

Cancellations of meetings and conventions have been extremely heavy in both Canada and Mexico. During 1978, compared with 1975, Mexico had a drop in conventions of over 60 percent, a dollar loss that could be upward of $80 million a year.

Many U.S. companies were hurt and affected by this act and regulation, including airline companies, American, Eastern, Braniff, et cetera; many hotel companies, including Holiday Inn, Sheraton, Hyatt, Western Interational, Marriott.

Most meetings and conventions are held by multinational organizations that have to occasionally hold meetings where they have representations. In our own company in 1978, our 12 hotels in Mexico hosted only two so-called off-shore conventions. In years prior to 1976, with only five hotels opened at that time within our company, we averaged 25 to 30 conventions per year.

The development of tourism in Mexico will certainly help relieve the pressure of the illegal immigration entry into the United States. This tax law is very irritating, as our good Senator from Texas stated, very irritating to the Mexican Government, particularly in light of the current imbalance of trade between Mexico and the United States.

We need the cooperation and support of our two neighbors to the north and south more than ever in the history of our country because of the energy problems and other trade problems that we have between our friendly neighbors.

We strongly support the repeal, proposed in 749. If such repeal is not practical, we strongly favor S. 589, which would greatly improve our relationship with our good neighbors to the north and south.

The Congress of the United States could better serve the interests of the American people, much better, we feel, if it would direct its interests in uniting its neighbors in the Western Hemisphere rather than antagonizing them with ill-conceived laws and regulations.

In summary, the American Hotel and Motel Association opposes the present law on tax deductions for foreign conventions. This law was intended to end abuses in the business travel section of the previous law, but the Tax Reform Act of 1976 went too far.

The law actually hinders legitimate business travel and limits the tourism economies of many of our neighboring countries. It is a real possibility that the law will hinder the flow of tourism between us and our neighboring countries.

The reporting and per diem requirements of this law are onerous.

The law adversely affects many U.S. hotel companies and airline companies and car rental companies.

The HAMA favors all three bills before the subcommittee—749, 940, and 589.

Thank you for the opportunity of attending, and we will be glad to answer any questions that you might have.

Senator MATSUNAGA. Thank you, Mr. Pratt.

We will next hear from Mr. Juliano.

Mr. JULIANO. Thank you, Mr. Chairman.

On behalf of our general president, Ed Hanley, we are delighted to be here today. I would ask that our statement be made a part of the record.

Senator MATSUNAGA. Without objection, your statement will appear in the record.

Mr. JULIANO. Thank you.

STATEMENT OF ROBERT JULIANO ON BEHALF OF THE HOTEL AND RESTAURANT EMPLOYEES AND BARTENDERS ASSOCIATION

Mr. JULIANO. Our position has been basically the same since this issue came up. Our major cause of concern at this point is the fact that I get paid on salary, not piecework. I wish I got paid by piecework, because if this issue keeps coming up, we may have to resurrect my structure.

We feel very strongly that it is equitable and just to have the reinstatement of a North American exemption. I say reinstatement and I do not use the word loosely, because when the conference committee met in 1976, we all assumed that that was the least that we could come out with.

Well, we all learned a lesson—at least I did that night—and that is that even though there are two views, there can always be a third interjected.

As a result, we have been wrangling with the issue for the last 3 years and I think basically not having anything to do, really, with the merits or the substance of the issue.

The law, as it has been carved out in 1976, has resulted in a loss of membership from my union in Canada of about 2,500 members. We stand to lose substantially more, in the area of 3,000 to 4,000, due to the situation with all the questions that have been raised regarding, you know, who can go to Canada and what can take place, and so on.

There is no question that there has not been any retaliatory gestures at this point. I suggest that that might not be the case in the not too distant future. When one considers the travel balance that Canada has of a deficit of $1 billion.

The Treasury has done a marvelous job. I appreciate and applaud their efforts to consistently look for tax equity and tax justice. That is their hallmark. I do not think it is equity and justice to link this issue with the border broadcasting issue.

We are talking on the one hand of revenues of $10 million. We are talking on the other hand of revenues of $1 billion. And, I might add, substantially more jobs in our issue than can be conceived of with the border broadcasting problem.

So we do not think that is equitable or just when they have taken that kind of activity to hold our issue hostage while they are continuing to negotiate their tax treaty.

Their basic premise has been, as was stated earlier, you usually carve out a law for two reasons—tax equity, tax justice, revenue. There is no revenue accrual. They admit that it is negligible and they have said that consistently.

And in the area of abuse, we have consistently, all of the proponents are opposed to that, regardless of our positions and how they might have differed slightly, there is not one that I know of who has not urged the IRS to go after those people who have abused this specific area of deduction.

And it is our belief that they have the power under the law to do that.

What I think Treasury is looking to do is really to change some of the reporting relationships and perhaps make them less onerous, but I believe what they are up to is to go ahead and try to apply some sort of limitation to domestic convention travel, which is just what we need at the time of the energy crisis and inflation in a very unstable economy, because obviously our policy is not to put people to work; it is to knock them off of work.

If they are going to try to continue this type of activity, we are going to resist, quite obviously.

Last, numerous witnesses have testified about all of these packages, you know, and these fancy brochures, and I have heard this now for 4 years about trips here and trips there.

They have all referred to the Virginia Bar Association, the American Trial Lawyers Association, and so on. I do not want to paraphrase my good friend, William Shakespeare, but perhaps we might want to support a provision where all professional groups are exempt, except lawyers. Since they were the ones who started this, maybe they can all get together and work the thing out.

Thank you very much.

Senator MATSUNAGA. Thank you very much.

Our next witness is Mr. Thomas H. Boggs.

We are happy to hear from you, Tom.

STATEMENT OF THOMAS H. BOGGS, JR., ON BEHALF OF THE AD HOC COMMITTEE ON SECTION 602

Mr. BOGGS. Thank you, Mr. Chairman.

I am testifying here today on behalf of the ad hoc committee to appeal section 274(h) of the Code. The committee consists of six major U.S. hotel chains most of which are familiar to you, Mr. Chairman, because they operate in Hawaii. It also consists of the American Society of Association Executives which is the society in this country which represents the executives of most of the major trade associations and professional societies.

Mr. Chairman, I have a prepared statement which is both lengthy and technical and rather than read it, I would ask that it be submitted for the record.

Senator MATSUNAGA. Without objection, your statement will appear in full in the record as though delivered.

Mr. BOGGS. Thank you, Mr. Chairman.

Rather than dwell on some of the technical aspects of this problem which I think are covered in the statement, I thought it would be more useful to the committee to hear some of the practical aspects that have been the result of section 602.

What we have here today, as I say, Mr. Lowe, who really represents the vast majority of the groups in this country that sponsor conventions and trade shows both in this country and abroad and Mr. Jim Derbin who is the president of one of the major hotel chains in the United States.

I would like each one of them to briefly give you some practical examples of the problems the law has caused.

STATEMENT OF JAMES LOWE, PRESIDENT, AMERICAN SOCIETY OF ASSOCIATION EXECUTIVES

Mr. LOWE. Mr. Chairman, I am James Lowe, president, American Society of Association Executives.

Not to disagree with my friend Bob Juliano, but I think I am the oldest living witness. We have been at this for now almost 6 years and, in fact, back in the old days of 6 years ago we had about two or three witnesses—the Treasury and ourselves.

We look around and we have a roomful of people today and I suggest if the Treasury proposals that you have heard today go into effect in the changes that they advocate, you are not going to have a big enough room next year, because it will not help the problem; it will create a greater problem.

I do subscribe to what Senators Bentsen, Mathias, Goldwater, and Javits have said. We embrace and are sympathetic to their comments, as well as these other witnesses.

Let me just, as Mr. Boggs suggested, give you a practical illustration, since we do represent the only witnesses, I believe, who are the meeting planner, as contrasted to the service and the employees and the other people who have an economic interest.

If we have an unreasonable test that has been advocated here, you would not correct the problem; you would slam the door on conventions worse than it is slammed today, and I say that in a very practical way.

For instance, if the Hawaiian Bar Association chose to go to the People's Republic of China to talk about legal problems and so forth, they would be prohibited by the unreasonable test to go, mainly because of the test under that statement.

There are no members of the Hawaiian Bar Association in the People's Republic of China. In fact, of our 8,000 associations, where we have 30 million people belonging to the associations that belong to us, very few have foreign members, so the test is, the Association will be more reasonable to hold the meeting, if you have members in that locality, you are not going to go.

It will be more prohibitive than it is today.

One last comment, and that is the per diem.

That is, as Senator Goldwater has stated, entirely inequitable. It is not even rational. It was not created for that reason.

So, if nothing else, if you changed the unreasonable clause, you would open the door to conventions—and we mean legitimate ones, not junkets.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you very much.

STATEMENT OF JAMES DERBIN, PRESIDENT, MARRIOTT HOTELS

Mr. DERBIN. My name is James Derbin. I am president of the Marriott Hotels.

We are one of the members of the ad hoc committee on Code section 274. I endorse the statement of Mr. Boggs and, of course, my good friend Mr. Lowe, but I would like to expand briefly on a few points, if I may.

First, in support of Senator Goldwater's comments, I want to stress why the existing restrictions on foreign conventions should be repealed entirely. We were first, as Marriott, a Washington company; then a U.S. company.

But times have changed, and it is obvious to us today that we have to think beyond our national boundaries.

We own or invested in or are managing and constructing hotels in Mexico, the Caribbean, Europe, the Middle East and elsewhere in the world. Having a separate and harsh set of restrictions for conventions held outside the United States seems to us to be quite shortsighted.

It ignores the important fact that many of the expenses American businessmen spend when attending foreign conventions—in fact, it is a substantial portion of their expenditures—are for transportation and services supplied by U.S. companies, and they stay in U.S. hotels, and many of these hotels that they visit around the world are not only operated by Marriott Hotels but are built with U.S. equipment and by U.S. construction companies.

I am particularly concerned about our friends in Canada and Mexico, having traveled in these countries for a number of years. At the same time that we are asking for their friendship, we seem to be trying very hard to affront them.

These people are educated in our schools. They are doctors and attend our association, hotel people, professionals of all kind and I find it very difficult as I see their frustration growing into deep resentment about coming to conventions in the United States when such restrictions are opposed in the reciprocal.

I would like to say in closing that I would like to emphasize our support for complete repeal of these restrictions. We do not fear, in the United States today, the business to fill our hotels in the United States and in Hawaii. In fact, to point out a specific example, as you know, Mr. Chairman, we have just announced a 750-room hotel in your country and have another one soon to announce.

I am not concerned that we are going to lose this U.S. business. I think the value of our dollar in relation to other currency is going to bring in people from other countries if they are not affronted by this restrictive legislation.

I am rather more concerned about the policy that unless it is repealed, foreign countries might not respond; foreign companies and associations will limit the traveling opportunities of their nationals.

Hawaii is heavily dependent upon its overseas business and I think it has a lot more to lose than to gain, and I venture that much of Puerto Rico and much of the Virgin Islands business that has been enjoyed has been in relationship to the value of our dollar

in relationship to other currencies because of other things that have happened in world affairs.

I appreciate very much the opportunity to express our views before your committee.

Senator MATSUNAGA. Thank you very much and I want to congratulate you for going to Maui. I think it is a wise business move. Maui is a rapidly developing community.

Have we heard from everyone on the panel now?

[The prepared statements of the preceding panel follow:]

STATEMENT OF THE AMERICAN SOCIETY OF TRAVEL AGENTS

Good morning Mr. Chairman. I am Dana Vannasse, President of Beacon Hill Travel, of Boston, Massachusetts. I am Vice President of the New England Chapter of ASTA and Vice Chairman of the ASTA National Legislative Committee. My family has been in the travel business since 1914. As spokesperson for ASTA, I welcome the opportunity to testify today on tax proposals as they relate to the tax treatment of expenses incurred attending a foreign convention. Accompanying me today is Mr. John Bennison, Director of our Washington Office.

ASTA, as you know, is the world's largest professional travel trade organization. The Society is comprised of more than 16,000 members from over 120 countries representing all facets of the travel and tourism industry. ASTA's fundamental purpose is the promotion and advancement of the interest of the travel agency industry and the safeguarding of the traveling public against fraud, misrepresentation and other unethical practices. In the United States, ASTA members, in more than 8,600 travel agency locations arrange the travel plans of over 40 million American consumers annually, representing an expenditure of approximately $14 billion in business and pleasure travel sales.

We feel that the provisions of the Tax Reform Act of 1976 with regard to the tax deductibility of foreign convention expenses introduce a new kind of international discrimination by granting a preference to domestic business travel over foreign business travel. Under the deductibility restrictions of the law including the two foreign conventions a year rule and other limiting provisions,[1] business travelers are not prevented from traveling abroad, rather the cost of foreign travel is made significantly more expensive than comparable domestic travel.

ASTA, having members in 120 countries, is particularly concerned about the broader implications of this policy. Discriminatory restrictions impair an atmosphere conducive to the conduct of international business and economic policy and limits the ability of the U.S. Representatives to persuade other governments to adopt economic policies most likely to promote growth in their own economies as well as the international economies. These restrictions clearly have a limiting effect on overseas business contacts. These contacts are absolutely essential if we intend to increase our export sales. In addition should there be retaliation by foreign governments on their businessmen attending conventions in the U.S., our present large balance of payments deficit, which is a major drag on our growth, will be increased. ASTA has always contended that the more foreign businessmen you can bring to this country, the more you will increase the trade between countries from which we all benefit.

Non-discrimination, the concept of equal treatment of all countries and the corresponding principle of equal access to world markets, has always been a cornerstone of U.S. trade policy. We have adhered to this policy, not only because we have been the victim of trade discrimination, but also because experiences have shown that our people and the world as a whole prosper best in a framework that promotes the fairest exchange of goods and services. ASTA has heard no argument today nor seen any conclusive evidence to justify Congress altering or changing that position in any way.

Since the end of World War II, the principles of non-discrimination advocated by the United States have become embodied in its basic instruments that govern the conduct of international trade and payments. Most-favored-nation and national treatment are the basic obligations of members of the General Agreement on Tax and Trade (GATT) and its drafters established that organization to promote "the elimination of discriminatory treatment in international commerce * * *"

The International Monetary Fund Articles of Agreement—the fundamental regulations governing international payments—prohibit members from engaging in dis-

[1] Public Law 94-455, October 4, 1976, 26 U.S.C. 274 Sec. 602.

criminatory currency arrangements or multiple currency practices except as approved by the Fund. Non-discrimination among nations is also a basic principle of the Organization for Economic Cooperation and Development (OECD), and numerous Treaties of Friendship, Commerce and Navigation which the United States has entered into in the course of the past 30 years.

In addition, the principle of non-discrimination in international trade was the subject of debate during Congressional consideration of the Trade Act of 1974. There were those who felt then that the development of preferential trading areas and our own balance of payment problems required a modification of most-favored-nation treatment. However, instead of abandoning the most-favored-nation principle, the Congress specifically reaffirmed its support in Section 126A of the Trade Act of 1974 which provides that trade concessions granted by the United States "shall apply to products to all foreign countries whether imported directly or indirectly." [2]

In recent years, and particularly since 1973, many countries have faced severe balance of payment problems leading to mounting pressure to protect domestic goods and services from foreign competition. Under the strong leadership of the United States, a drift toward protectionism has been avoided. This was further evidenced by the final agreement resolved at the recent Tokyo round. In this regard, the most recent OCED study on "Tourism Policy in International Tourism in OECD Countries" states: "Under present circumstances, it is very important that tourist allowances in foreign currency granted by Member countries in conformity of the OECD Code of Liberalization of Current Invisible Operations be maintained and that any measures which may discourage international travel be avoided." [3]

This concept of promoting international tourism was further elaborated in the Helsinki Accord of September 1975.[4] The participating states, "aware of the contribution made by international tourism to the development of mutual understanding among peoples, to increased knowledge of other countries' achievements in various fields, as well as to economic, social and cultural progress, recognizing the interrelationship between the development of tourism and measures taken in other areas of economic activity, express their intention to encourage increased tourism on both an individual and group basis * * *"

ASTA believes that the discriminatory provisions on foreign business travel contained within present U.S. tax laws constitute an unfortunate precedent and could have a significant impact on the other countries on international economic issues. This type of international discrimination is not subject to international review in the IMF or OECD. Accordingly, there is a high potential for emulation of this technique for other countries not only in the field of business travel, but in other areas as well.

For these vital reasons, we urge that Congress support a non-discriminatory approach to business conventions applying essentially the same standards and criteria to those held outside the United States and its possessions as to those within. It is for this reason ASTA totally endorses and urges your support of S. 749, which calls for the total repeal of tax deductibility of expenses incurred attending all foreign conventions.

I would like to bring up three additional points of contention that we have with the current U.S. tax code. We believe that it is inappropriate to limit the legitimate deductions of businessmen to a U.S. Government per-diem rate for subsistance expenses where the rate reflects benefits, including lower cost to government employees in the form of government discount rates, which are not available to private individuals.

Secondly, since the new tax provisions have been in effect, ASTA has found that the recordkeeping requirements involve extraordinary effort and expense on the part of the sponsoring organization to affect compliance. ASTA sponsors the world's largest trade show and convention in the travel and tourism industry annually. Last year for example, our annual convention was held in Acapulco. To comply with the tax guidelines, ASTA had 10,000 certified official programs printed at a cost of $900. Tax guidelines were printed and distributed at a cost of over $1,000. 119,000 cards which are distributed at every function applicable for tax law purposes were prepared at a cost of $2,000. These cards are completed by the individual delegates and left at the door for ASTA's records. ASTA must stamp every delegate's official program for each specific event. The rubber stamps used to perform this function cost ASTA $1,000. These cards must be stored for at least 7 years at a cost of some $400 per year. The labor costs of 15 people at 35 sessions for 2 hours at each session

[2] Public Law 95-618, July 1974.
[3] OECD Study on Tourism Policy in International Tourism in OECD Member Countries, Paris 1976, Annual Report, p. 14.
[4] Helsinki Accord, September 1, 1975.

came to 1,050 hours. At an average cost of $3.50 per hour, that totals some $3,675. The total cost thus becomes $8,975 (attached are sample forms from the our last convention). This cost does not allow for any of the ASTA staff time and effort set aside to develop and prepare all of the above forms and documentation, arrange for their printing, distribution and ultimate storage which would easily result in another $10,000 cost to ASTA annually.

Clearly this exercise described above is extremely burdensome and very expensive. Therefore ASTA urges that the burden of establishing compliance be shifted from the sponsoring organization to the individual taxpayer as set forth in the proposed amendment of Senator Mathias' S. 940.

Thirdly, we feel the companies and individual businessmen should be left to determine on their own whether they should attend a foreign convention, meeting or trade show. This is simply another business decision and certainly the individual businessmen or company executives are in a much better position than the Government to determine if the expense of their attendance at a foreign convention justifies the cost they will incur. It is simply a common business decision—does the cost justify the anticipated benefit of attendance and expense. This philosophy of getting the government out of the decision making process and the internal affairs of business is reflected in the Administration's and Congress' desire to deregulate the airlines, buses and other modes of transportation. Why is there a need now to regulate business attendance at conventions, meetings and trade shows?

ASTA would concede that surely there are some individuals who abuse these out-of-country conventions and do not take advantage of the educational and training opportunities provided at them. However, we at ASTA have found that all our seminars are heavily attended and our membership feels the entire annual Congress is extremely important to their business development back home. Therefore, we feel it is wrong for those burdens and expenses to be placed on the thousand of individual well meaning delegates causing them to suffer because a few abused the law. It is for this reason that ASTA strongly supports S. 749 which calls for the total repeal of tax deductibility of expenses incurred attending all foreign conventions.

This concludes my testimony and I am prepared to answer any questions you may have.

Again thank you for this opportunity to allow ASTA to appear before you today.

AMERICAN SOCIETY OF TRAVEL AGENTS
48TH WORLD CONGRESS--ACAPULCO, ~~MEXICO~~
OCTOBER 15, 1978 - OCTOBER 20, 1978

5

BUSINESS MEETING:

CHALLENGE OF THE FUTURE
RICHARD J. FERRIS, PRES.
UNITED AIRLINES
0900 to 0920 hrs.
October 17th

*ATTENDANCE CARD FOR U.S. TAX PURPOSES

PLEASE PRINT BELOW:

DELEGATE NAME: JIM GLAB

AGENCY OR FIRM NAME: TRAVEL AGENT MAGAZINE

ADDRESS: 2 W. 46 ST.

CITY: NY STATE: NY ZIP CODE: 10036

DATE OF ATTENDANCE: 10/17

DELEGATE SIGNATURE: J Glab

*NOTE: U.S. Delegates who intend to claim a tax deduction for expenses incurred with respect to the ASTA Acapulco Congress must secure a "validation of attendance" in their Official Program Attendance Record, which must be filed with the IRS in support of a claim for deduction. IRS regulations require ASTA to maintain a record of those in attendance who may be filing for tax deductions. If you intend to claim a deduction on your own behalf or submit expenses for your employer's deduction, you must fill out this card and exchange it for a "validation of attendance" certification at the exit doors immediately following the conclusion of this seminar or business meeting.

DELEGATES OFFICIAL PROGRAM

ATTENDANCE CERTIFICATION

OFFICIAL BUSINESS PROGRAMMING:

44 hours, 45 minutes

NOTE: This document, when completed, may be used to support deductions for foreign business meeting expenses U.S. taxpayers may wish to file with the United States Internal Revenue Service.

1

TRAVEL TRADE SHOW
Sunday, October 15, 1978
1145 to 1730 (5 hours, 45 minutes)

An industry-wide exhibition by suppliers, wholesalers and travel publishers.

2

OFFICIAL OPENING SESSION
Sunday, October 15, 1978
1800 to 1900 (1 hour)

This business Session serves as the formal official opening of the 48th ASTA World Travel Congress.

3

ANNUAL MEETING & MEMBERS FORUM
Monday, October 16, 1978
0930 to 1100 and 1130 to 1300
(3 hours)

The official meeting of the entire membership for the annual reports of the Society's officers, followed by an ASTA officials' review of travel industry topics of concern to the membership.

4

TRAVEL TRADE SHOW
Monday, October 16, 1978
1300 to 1800 (5 hours)

An industry-wide exhibition by suppliers, wholesalers and travel publishers.

5

CHALLENGE OF THE FUTURE
RICHARD J. FERRIS, PRES.
UNITED AIRLINES
Tuesday, October 17, 1978
0900 to 0920 (20 minutes)

Richard J. Ferris, President of United Airlines will discuss his view of the challenges that face the travel industry in coming years.

6

"LET YOURSELF GROW-IN-AGENCY TRAINING"
Tuesday, October 17, 1978
0930 to 1100 - repeated 1130 to 1300 (1 hour, 30 minutes)

Seminar covering staff training techniques for owner-manager.

7

"RETAIL SELLING SKILLS"
Tuesday, October 17, 1978
0930 to 1100--repeated 1130 to 1300--(1 hour, 30 minutes)

Seminar covering philosophy and application of proven selling techniques.

8

TRAVEL TRADE SHOW
Tuesday, October 17, 1978
1300 to 1800 (5 hours)

An industry-wide exhibition by suppliers, wholesalers and travel publishers.

9

CHALLENGE OF THE FUTURE
DOMINIC P. RENDA, PRES.
WESTERN AIRLINES
Wednesday, October 18, 1978
0900 to 0920 (20 minutes)

Dominic P. Renda, President of Wester Airlines will discuss his view of the challenges that face the travel industry in coming years.

10

"SELLING THE DISCRIMINATING TRAVELER"
Wednesday, October 18, 1978
0930 to 1100--repeated 1130 to 1300--(1 hour, 30 minutes)

An examination of this unique traveler and how to sell him.

11

"THE BIG BUSINESS OF BUSINESS MEETINGS"
Wednesday, October 18, 1978
0930 to 1100--repeated 1130 to 1300--(1 hour, 30 minutes)

An examination of the corporate meeting market.

12

"SELLING YOURSELF - METHODS OF PERSONAL PRESENTATION"
Wednesday, October 18, 1978
0930 to 1100--repeated 1130 to 1300--(1 hour, 30 minutes)

Techniques of public speaking and increasing business through public appearances.

13

TRAVEL TRADE SHOW
Wednesday, October 18, 1978
1300 to 1800 (5 hours)

An industry-wide exhibition by suppliers, wholesalers and travel publishers.

14

"MARKETING FOR PROFIT"
Thursday, October 19, 1978
0830-0930 (1 hour)

Update analysis of agency costs in dealing with new travel markets.

15

CHALLENGE OF THE FUTURE
DAN A. COLUSSY, PRES.
PAN AMERICAN WORLD AIRWAYS
Thursday, October 19, 1978
0940 to 1000 (20 minutes)

Dan A. Colussy, President of Pan American World Airways will discuss his view of the challenges that face the travel industry in coming years.

16

TRAVEL HALL OF FAME & OFFICIAL CLOSING CEREMONIES--
Thursday, October 19, 1978
1000 to 1100 and 1130 to 1300
(2 hours, 30 minutes)

Official ceremony honoring those who have made significant and lasting contributions to the travel industry followed by the final business session and formal conclusion of the 48th ASTA World Travel Congress.

17

TRAVEL MARKETING EDUCATIONAL TOURS OF ACAPULCO AREA
Friday, October 20, 1978
0900 to 1800 (8 hours)

Guided familiarization of tourist zones in and around Acapulco.

"This certifies that, to the best of my knowledge, all business sessions validated herein by stamp were attended by the named delegate to the 48th ASTA World Travel Congress-Acapulco, Mexico--October 15 to October 20, 1978."

Nancy Stewart

Nancy J. Stewart
Vice President and Secretary

INTERNAL REVENUE SERVICE
(IRS)

INSTRUCTIONS AND
VALIDATION PROCEDURES
FOR ASTA
WORLD TRAVEL CONGRESS
ACAPULCO, MEXICO
OCTOBER 15--OCTOBER 20,
1978

This is the official document to be used to validate your attendance at any of the seminars or business sessions at the ASTA 48th World Travel Congress. Upon entering each session, an attendance card will be made available to you. Please fill out the card as soon as possible, and upon completion of the seminar or business session, return it to the tax certification desk located at the exits of the auditorium.

At that time the hostess will stamp this document as proof of attendance at the seminar or business session.

This document may then be used as certification of attendance and submitted with your 1978 U.S. income tax return.

** IMPORTANT **

--Carry this form with you to all seminars and business sessions.--

Name:_____

Firm:_____

Address:_____

City:_____

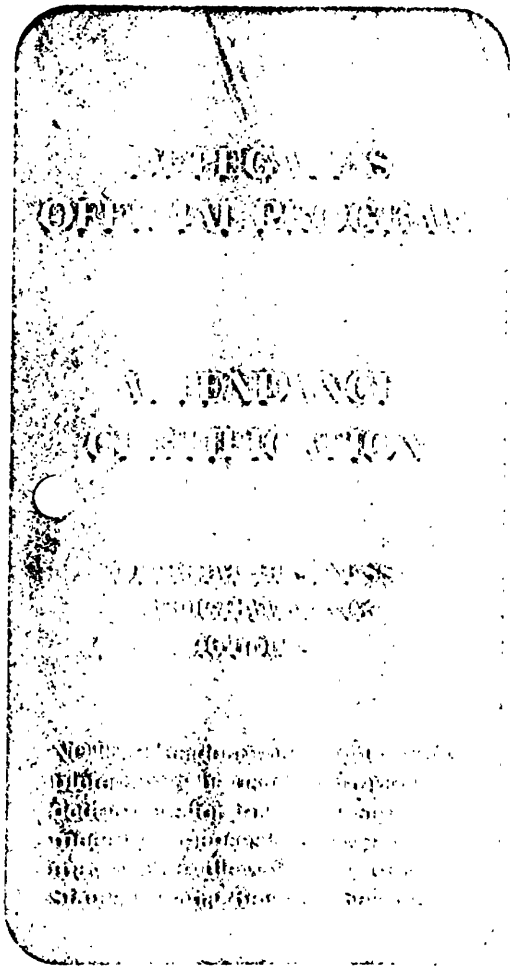
State:_____ Zip:_____

Congress Registration #:_____

** PLEASE PRINT ALL INFORMATION **

DISCOVER NEW HORIZONS

47th ASTA World Travel Congress
Madrid, Spain · Oct 30-Nov 4, 1977



OFFICIAL SEMINAR AND BUSINESS SESSIONS:

TRAVEL TRADE SHOW—
Sunday, October 30, 1977
1000 to 1800 (8 hours)
An industry-wide exhibition by suppliers, wholesalers and travel publishers.

OFFICIAL OPENING SESSION—
Sunday, October 30, 1977
2015 to 2100 (45 minutes)
This Business Session serves as the formal official opening of the 47th ASTA World Travel Congress.

ANNUAL MEETING &
MEMBERS' FORUM—
Monday, October 31, 1977
0930 to 1100 AND 1130 to 1300 (3 hours)
The official meeting of the entire membership for the annual reports of the Society's officers, followed by an ASTA officials' review of travel industry topics of concern to the membership.

TRAVEL TRADE SHOW—
Monday, October 31, 1977
1300 to 1800 (5 hours)
An industry-wide exhibition by suppliers, wholesalers and travel publishers.

"THE CASE OF THE BUSINESS TRAVELER—AN ELEMENTARY SOLUTION TO INCREASED PROFITS FROM COMMERCIAL ACCOUNTS"—
Tuesday, November 1, 1977
0930 to 1100—repeated 1130 to 1300—
(1 hour, 30 minutes)
Seminar exploring more profitable ways to approach business travel accounts.

"PRO•MOTE—Profit by Motivating Employees"—
Tuesday, November 1, 1977
0930 to 1100—repeated 1130 to 1300—
(1 hour, 30 minutes)
Seminar covering employee motivation and management, sponsored by Holiday Inns, Inc.

TRAVEL TRADE SHOW—
Tuesday, November 1, 1977
1300 to 1800 (5 hours)
An industry-wide exhibition by suppliers, wholesalers and travel publishers.

"EFFECTIVE USE OF OUTSIDE COMMISSIONED SALES AGENTS"
Wednesday, November 2, 1977
0930 to 1100—repeated 1130 to 1300—
(1 hour, 30 minutes)
A discussion of how to manage an outside sales force effectively, sponsored by the Boeing Commercial Airplane Company and Western International Hotels.

"A FOUNDATION FOR FINANCIAL MANAGEMENT"—
Wednesday, November 2, 1977
0930 to 1100—repeated 1130 to 1300—
(1 hour, 30 minutes)
Financial principles applied to management of a travel agency—sponsored by Iberia Airlines of Spain.

TRAVEL TRADE SHOW—
Wednesday, November 2, 1977
1300 to 1800 (5 hours)
An industry-wide exhibition by suppliers, wholesalers and travel publishers.

"TASK FORCE ON COOPERATION—A PRELIMINARY FINDINGS REPORT"
Wednesday, November 2, 1977
1500 to 1700 (2 hours)
A report of the findings of an international task force study on various U.S./International travel problems. Sponsored by Pan American World Airways and American Airlines.

"THE TRAVEL AGENT, THE CONSUMER AND THE LAW"—
Thursday, November 3, 1977
0930 to 1100 (1 hour, 30 minutes)
Industry legal experts discuss travel agent liability.

TRAVEL HALL OF FAME & OFFICIAL CLOSING CEREMONIES
Thursday, November 3, 1977
1130 to 1315 (1 hour, 45 minutes)
Official ceremony honoring those who have made significant and lasting contributions to the travel industry followed by the final business session and formal conclusion of the 47th ASTA World Travel Congress.

TRAVEL MARKETING EDUCATIONAL
TOURS OF MADRID AREA
Friday, November 4, 1977
0900 to 1800 (8 hours)
Guided familiarization of tourist zones in and around Madrid.

"This certifies that,
to the best of my knowledge,
all business sessions validated
herein by stamp were attended by
the named delegate to the
47th ASTA World Travel Congress—
Madrid, Spain—October 30 to
November 4, 1977."

Nancy Stewart

Nancy J. Stewart
Vice President and Secretary

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** PLEASE P

GUIDELINES FOR FOREIGN CONVENTION TAX DEDUCTIONS FOR UNITED STATES TAXPAYERS

Late in 1976, the United States Congress enacted a law effective January 1, 1977 that places severe new restrictions on the deductibility of business expenses incurred at foreign conventions. Many questions still exist with respect to the new law — including questions regarding its applicability to travel industry conventions. Nevertheless, some rules are clear and, if delegates intend to deduct expenses incurred at the ASTA World Congress in Acapulco on their 1978 federal income tax return, the following information can be used as a guideline to assist in qualifying expenses and in keeping the necessary records. Please be advised that this information is to be considered only as a guideline. It is a summary and interpretation of several provisions of the Tax Reform Act of 1976. In the future, the IRS will be issuing specific regulations which will clarify their

interpretation of the legislation.

The main thing to remember is to keep accurate and detalied records of all your expenses during the Acapulco ASTA World Congress. Those delegatrs participating in the pre and post convention tours should keep detailed records of expenses incurred on the tours too, as they may also be permissible business expenses.

GUIDELINES

Definitions and Limitations

- The definition of a "foreign convention" is any convention, seminar, or similar meeting held outside the United States.
- The expenses from no more than two "foreign conventions" per year can be claimed as deductible business expenses.

Employers

- An employer who reimburses an employee for expenses incurred while attending a foreign convention on

the employer's behalf, will be allowed a deduction for those expenses only to the extent that the employee, if applying as an individual would have been allowed a deduction.

Transportation Expenses

- Transportation expenses to and from the convention site are deductible, but may not exceed the lowest coach or economy rate charged by any scheduled commercial airline during the calendar month of the convention. This limitation applies only to the transportation outside the United States. Thus, first class transportation to a United States gateway city would be deductible, as would expenses of getting to and from the airport.

- A deduction for the full cost of transportation will be allowed only if one-half or more of the total days of the trip (excluding travel

days) are devoted to business related activities. Anything less than half the total days will result in a decreased proportionate amount allowedlowed as a deduction of transportation expenses.

Other Expenses

- Deductions for subsistence expenses — meals, lodging, laundry, valet, tips, etc.... may not exceed the dollar per-diem rate for Acapulco in effect for United States government employees for October,1978. The per diem rate presently in effect for Acapulco in October is $34.00. If you qualify, you will be permitted to deduct your subsistence expenses plus a prorated portion of the Congress registration fee up to $34.00 per day. Further information on these expenses will be provided in ASTANotes after the Congress. Delegates can also confirm the per diem allowance by writing to: Director, Allowances

Staff, Dept. of State, Washington, D.C. 20520, or telephone: (703) 235-9466.

Eligibility Requirements

- Full or proportionate deduction of subsistence expenses (up to $34.00 per day) will be allowed if the delegate:

Attends at least two-thirds of the daily scheduled business activities or, in the aggregate, attends at least two-thirds of the total scheduled business activities at the convention. If, for example, a given day's scheduled business activity totals six (6) hours, the delegate must attend at least four (4) hours to deduct subsistence expenses up to the maximum allowance of $34.00. The total aggregate hours, for scheduled business activity at the Congress is approximately forty-four (44) hours, therefore, the delegate must attend at least twenty-nine (29) hours of

business activities to qualify for the full deduction of subsistence expenses.

Reporting requirements when filing for a deduction on the 1978 tx return

1. Transportation and subsistence expenses must be listed separately on your income tax forms, or all such expenses will be treated solely as subsistence expenses and subject to the per diem limitation.
2. You should list the total number of days of the trip, and
3. The number of hours each day which you devoted to scheduled business activities.
4. You should include a program of the scheduled business activities of the convention (the Official Congress Program should do).
5. You must also include a statement signed by an appropriate officer of ASTA which includes a daily schedule

of the business activities during the convention, the number of hours you attended such scheduled business activities, and any other information as required in the regulations prescribed by the Secretary of the Treasury.

In order to assist you in furnishing evidence of your participation in the business activities and seminars at the World Congress, the following procedure has been established: On arrival at each of the business activities, you will find an offical Attend - ance Card available at the door or placed on each chair. This will become ASTA's record of your attendance as required by the United States Internal Revenue Service. Please fill one out as soon as possible, providing all the requested information (please print except for signature). When the business session is completed, please present the Attendance Card to one of the nostesses stationed at the Tax Certification Deck as the exits. On acceptance of your Attendance Card, the

hostess will stamp your Attendance Record which is located in the center of the ASTA Congress Program Book, for your convenience. Please carry this Attendance Record with you to all the business activities. It is your copy of proof of attendance at the business sessions and to claim a deducation, must be attached to your United States Income Tax return.

Pre and Post Convention Tours

In addition to deducting expenses incurred at the Congress, you may want to deduct some or all of the expense of your pre or post Congress tour and familiarization. Such expenses may be deductible as ordinary business expenses and we urge you to keep detailed and accurate records to facilitate making this claim on your 1978 tax return.

Obviously, additional questions will arise and ASTA staff will be present in Acapulco to facilitate compliance. Should you have further questions, you are urged to consult your own tax advisor prior to filing your 1978 tax return.

SUMMARY OF STATEMENT OF THE AMERICAN HOTEL AND MOTEL ASSOCIATION

The American Hotel & Motel Association opposes the present law on tax deductions for foreign conventions.

This law was intended to end abuses of the business travel section of the previous tax law, but the Tax Reform Act of 1976 went too far.

The law hinders legitimate business travel and limits the tourism economies of many of our neighboring countries.

There is a real possibility that the law will hinder the flow of tourism between us and our neighboring countries.

The reporting and per diem requirements of this law are onerous.

The law adversely affects many U.S. hotel companies.

AH&MA favors all three bills before the Subcommittee: S. 749, S. 940, and S. 589.

STATEMENT OF THE AMERICAN HOTEL AND MOTEL ASSOCIATION

I am Jack E. Pratt, President of Inns of the Americas, Inc., and I am here representing the American Hotel & Motel Association. The association is a federation of hotel and motel associations located in the fifty states, the District of Columbia, Puerto Rico and the Virgin Islands, having a membership in excess of 8,500 hotels and motels containing approximately 1,000,000 rentable rooms. The American Hotel & Motel Association maintains offices at 888 Seventh Avenue, New York City, and at 1101 Connecticut Avenue, N.W., Washington, D.C.

When Congress passed the Tax Reform Act of 1976, Section 602 of that bill and the new Section 274(h) of the Code limited the amount of tax deductions that can be taken by an individual or corporation on a business convention overseas.

We recognize that the business travel section of the tax law previous to the Tax Reform Act was fraught with administrative difficulties, and susceptible to some abuse and confusion. We could understand why more exact language and a more objective law was called for; but, we feel that the law as passed in the 1976 Reform Act was far more severe than necessary.

The law should have been focused upon the vacation disguised as a business trip and not on all legitimate business conventions that take place overseas. The law has had a serious economic impact on many U.S. hotel corporations who have properties outside the United States.

The law has so frightened convention planners that many conventions are being cancelled in Mexico, Canada, the Caribbean and Bermuda, to name some of the areas. These countries rely heavily on tourism and trade with us; and they contain many resort properties that are American owned or managed, that entertain American tourists who arrive on American airlines.

The oft-discussed retaliatory potential of this law still exists. Last year, for example, 12 million Canadians and over 2 million Mexicans visited the United States; and Canada and Mexico accounted for about 72 percent of all foreign visitor arrivals in the United States. There is a real possibility that Section 602 will hinder this flow of tourist trade between us and our neighboring countries. Even the Helsinki Agreement, to which the United States is a party, states that countries should "* * * encourage increased tourism on both an individual and group basis" and "* * * facilitate the convening of meetings as well as travel by delegations, groups and individuals * * *".

The reporting requirements of the new law are onerous and extremely difficult in practice. The per diem limitation is confusing since the government changes it constantly and also provides for special appeals by a civil servant that would not be available to a private citizen. In addition, many government officials are not even bound by per diem requirements; rather, they are just reimbursed for their actual travel expenses. Government employees may be given special rates by hotels and motels, they may often eat at government installations, and can often stay in smaller, less expensive hotels that would be difficult for a private citizen attending a convention to do so.

These are just some of the problems of the new law and although we are doing all we can to understand it, and comply with it, we are finding it very difficult. We think that the law should be completely repealed as Senators Goldwater and DeConcini have proposed in S. 749 and a new law with adequate reporting requirements and no limitation on travel be drawn up.

If such a repeal of the law is not practical, we would be in favor of other refinements which would make the present law workable. For example, we would strongly favor S. 589 which exempts Canada and Mexico and which would insure that our neighboring countries not retaliate against us and curtail their tourist and convention business in this country.

The U.S. hotel industry does not favor any restrictions on travel. In addition, the tourist offices of almost every state do not favor the current tax restrictions on travel. For the few conventions that U.S. hotels might have received as a result of this law, it is not worth it in terms of enormous harm done to U.S. hotel companies with properties outside of the U.S., and it is not worth the risk of other countries retaliating against us.

Pleas for relief from newly passed tax laws are probably common, but in our case the law has gone beyond the problem on tax subsidized vacation travel and into the hindering of business and the hurting of foreign relations with close and friendly countries. We ask that you reconsider what you have passed and review the impact of the law.

STATEMENT OF ROBERT E. JULIANO, LEGISLATIVE REPRESENTATIVE, HOTEL AND RESTAURANT EMPLOYEES AND BARTENDERS INTERNATIONAL UNION

Mr. Chairman, in behalf of our general president, Edward T. Hanley, and the 450,000 members we are proud to represent, it is a pleasure to appear before your committee to testify regarding the tax laws affecting foreign conventions (sec. 602).

Mr. Chairman, I know that time is of the essence, so I will not dwell on all the lengthy debate which focused on section 602, concerning foreign conventions, before the current provision in the law was enacted.

We stand here today with continued apprehension about the negative effect this law has had on our members in Canada since its enactment. You know all too well that we were concerned that the principle of comity, which usually characterizes foreign trade, would create a negative impact because of retaliation from foreign countries. Our opposition said that this would not be the case. As of this moment, we are still playing economic roulette, except the adverse experience in Canada has provided a little more definitive idea of what consequences have materialized.

Our international union to date has lost approximately 2,500 members in Canada due to the number of conventions that have canceled. If the trend continues, we stand to lose at least another 3,000-4,000 members, and who knows where it will stop. Add to this the enormous imbalance of payments between Canada and our country and I feel that in the not too distant future we can certainly expect the Canadian government to take some drastic measures, especially since the new government is seriously looking into this matter and may be more inclined to act than the previous administration.

It is our union's opinion that now is an appropriate time to attempt, once again, to secure the North American exemption into law. We believe that the United States Congress is of a mind to consider the North American exemption, but would not be predisposed to reopening any other aspects of this regulation as it now stands.

As a matter of course, the Treasury Department usually recommends changes in the tax code either to maintain the integrity of the code by rectifying abuses or to raise money for the United States Treasury. Ironically, as it relates to this issue, neither one of these points is applicable. The union, and all other interested groups, have constantly urged the United States Treasury Department to go after those people who abuse this legitimate deduction and merely tell them that they were disallowing such deductions. Also, in the estimates of the Treasury Department these changes in the tax code would mean a negligible increase in revenue to the Treasury, and the optimum estimate made is not more than $5 million would accrue to the Treasury.

Also, we are very disturbed that this issue has been linked with the border broadcasting problem and, as a result, has been held hostage pending final negotiation of the tax treaty between the United States and Canada. The border broadcasting revenues amount to somewhere around $10-$15 million while the deficit in Canada's travel account amounts to $1 billion. If the issue of foreign convention can be evaluated strictly on the merits of the issue, we are confident that the facts are compelling enough to warrant a North American exemption.

Our union has a great fear that with the current travel balance deficit that exists between the United States and Canada, it would not be too much longer before the Canadian Government would pass some sort of limitations on Canadians traveling to the United States. If this occurs, not only would there be a continued loss of Canadian membership but this would also affect our members in the States.

With this in mind, our union will work actively with the Congress to secure reinstatement of a North American exemption and thereby achieve some semblance of harmony and stability within our North American hemisphere.

STATEMENT OF THOMAS H. BOGGS, JR.

SUMMARY OF PRINCIPAL POINTS

1. Urge enactment of S. 749 to repeal present section 274(h), which is hopelessly complex, burdensome, and unwise.

2. Failing total repeal, section 274(h) should be revised to operate in a workable and reasonable manner:

Support enactment of S. 940, which would relieve sponsoring organizations of an onerous reporting burden which is superfluous to enforcement.

Expand nonforeign treatment to include Canada, Mexico, the Caribbean, and Central America. U.S. tourism important to economies of these countries; undesirable to cause them to enact reciprocal legislation which would restrict tourism in U.S.; and furthers U.S. foreign policy objectives. S. 489, which would apply to Canada and Mexico, is a step in the right direction.

Eliminate reference to government per diems, which have little relevance to actual expenses of private travellers.

Ensure that definition of foreign convention does not include private business meetings.

STATEMENT

This statement is submitted on behalf of the Ad Hoc Committee on Section 274(h), which consists of six major U.S. hotel chains (Hilton International, Hyatt International, Loew's Hotel Corporation, Marriott Hotels, Sheraton Hotel Corporation, and Western International Hotels) and the American Society of Association Executives. At issue are the limitations, enacted as part of the Tax Reform Act of 1976, on the deductibility of expenses incurred in attending foreign conventions. These appear as section 274(h) of the Internal Revenue Code.

The Ad Hoc Committee believes that section 274(h) as now drafted is hopelessly complex, burdensome, and unwise, and that it is preventing legitimate activity. The Committee therefore strongly urges the enactment of S. 749, introduced by Senator Goldwater, which would repeal these rules entirely. If Congress is reluctant to go that far, it should, at a minimum, enact S. 940, introduced by Senator Mathias, S. 589, introduced by Senator Bentsen, and a number of other revisions described below which would permit section 274(h) to operate in a more reasonable and workable manner.

To put our remarks into context, it first is necessary to summarize how section 274(h) now operates.

A "foreign convention" is defined as "any convention, seminar, or similar meeting held outside the United States, its possessions, and the Trust Territory of the Pacific." Transportation expenses to and from such a convention are deductible only to the extent they do not exceed coach or economy fare, and only if at least half the days of the trip are spent in activities related to business. If less than half the days are so spent, only the allocable fraction of the transportation expense is deductible. Subsistence expenses while attending such a convention, for meals, lodging, local transportation and the like, cannot exceed the corresponding Government per diem rate; and whether this amount can be deducted in full, in part, or not at all depends on adherence to certain prescribed rules of attendance at meetings. Attendance must be verified not only by the individual, but also by an officer of the group sponsoring the convention. In addition, if an individual goes to more than two such conventions in a taxable year, only the expenses related to two of them may be deducted. All these limitations apply whether the person claiming the deduction is the traveler or another person, such as the traveler's employer.

The Treasury Department has yet to propose regulations under section 274(h), perhaps because it believes that the statute will be amended. Of course, the absence of such regulations makes the interpretation of the statute that much harder. Yet, even if regulations were issued, the basic statute itself is incapable of sound administration. Nor is this merely fortuitous. It appears to us that while section 274(h)'s very existence attests to the fact that the cost of attending a foreign convention may be a valid and appropriate business expense, the statute was drafted in a punitive fashion: it burdens attendance with harsh and complex restrictions and with verification requirements which are an administrative nightmare.

The difficulties with section 274(h) have been widely recognized. Especially instructive are the comments of Representative Barber B. Conable, Jr., on March 17, 1978, during a Ways and Means Committee hearing on section 274(h) in connection with the 1978 tax cut legislation:

"I think Mr. Duncan and I probably started this more than anyone else and it has gotten out of control to some degree in terms of complexity and in terms of some of

the substantive decisions that are made. Quite frankly, we realize that what we have now is not workable and not fair.

"Let me say that there has never been any intention of trying to—at least on the part of this member—of trying to suppress legitimate business activities overseas. If it has that effect, then clearly that is a subversion of the intent of the measure.

"I suspect the Chairman is right when he says we are not going to back off completely on it, but major amendments are needed, and the suggestions that have been made here today in part I think suggest the directions in which we ought to go.

"I don't like all this business of—personally, Mr. Chairman, I don't like all of this business of trying to decide that specific type of activity are going to be prescribed first-class as opposed to coach travel. I don't like limitations on per diem. I think these are things that have to be considered by the IRS with respect to the purpose back of the deduction.

"It does seem to me that we can improve this. I hope we can generate some momentum for improvement, Mr. Chairman. I hope that we can do something in this bill on it and I appreciate the suggestions of the panel."

The Treasury Department, too, in the President's 1978 tax proposals, as much as conceded the inadequacy of section 274(h). While the Department's proposal for substitute legislation was, in our view and in the opinion of the Ways and Means Committee, no better, the proposal makes obvious that section 274(h) in its present form does not recommend itself even to the Treasury. Accordingly, the most commendable action for Congress to take would be to face these facts and to repeal section 274(h) entirely—in other words, to enact Senator Goldwater's bill.

Assuming the disease is allowed to remain, Congress should, at a minimum, act to abate its most significant symptoms. The bills introduced by senators Mathias and Bentsen would resolve two of these problems, and there are two others which should be dealth with at the same time.

The first problem involves the existing substantiation requirements. Under section 274(h)(7), the taxpayer attending the convention must attach to his tax return two written statements in support of the deduction of his expenses. He himself prepares and signs the first statement, which must contain a program of the convention's scheduled business activities, information with respect to the total number of days of the trip and the number of hours of each day which he devoted to the scheduled business activities, and whatever additional information is required in the tax regulations. The second written statement is to be secured from the sponsoring organization and signed by one of its officers. This statement must, among other things, describe the schedule of the business activities and state the number of hours during which the taxpayer attended these scheduled activities. However, larger organizations may have dozens of sessions conducted concurrently. For example, the American Psychological Association held its annual meeting in Canada last year with approximately 11,400 persons in attendance.

The schedule included 19 major and 12 minor sessions conducted simultaneously each morning and evening, along with 35 panel discussions. In this type of situation, organizations find it extraordinarily difficult to keep track of the whereabouts of every participant at every point in time. It is very expensive for them to hire enough additional officers to attempt to monitor all participants; it cost the APA an additional $35,000 to satisfy the verification requirements for this one convention. Even then, it is not easy to prevent a dishonest participant from falsifying the records relating to attendance at any given session.

Senator Mathias' bill, S. 940, would eliminate the written statement now required of the sponsoring organization, while retaining the need for the individual's statement. Since the organization's statement is totally redundant under present law, its removal will not detract from proper enforcement of the law in any significant way, but will relieve sponsoring organizations of a substantial and costly headache.

The second problem relates to the geographical applicability of section 274(h)'s restrictions. We firmly believe that the definition of "foreign" should be confined to only these meetings held outside North America, including the Caribbean and Central America. The new provisions are having a very significant impact—and in some instances a disastrous impact—on the economies of our close neighbors. This even has adverse effects on segments of some U.S. industries. For example, more than 70 percent of the GNP of the Bahamas comes from tourism, and most of the food products and transportation services connected with this industry are purchased from the United States. Canada is a net exporter of tourist dollars to the U.S., and the long-term impact of section 274(h) will be severe dislocation in the Canadian travel industry. The situation in Mexico is comparable.

Moreover, it should be noted that the use of the North American area as the geographic demarcation was adopted by the Committee on Ways and Means during

its early consideration of the reform legislation which ultimately became the Tax Reform Act of 1976. The North American area was likewise utilized in 1976 when the Senate passed its version of the foreign convention provision. It is understood that it was only by reason of an oversight on the part of the members of the House-Senate Conference Committee that the definition of "foreign" ultimately adopted was more inclusive.

The bill introduced by Senator Bentsen, S. 589, would expand nonforeign treatment to Canada and Mexico. This definition is what was adopted last year by the Ways and Means Committee in a bill, H.R. 9281, which was reported out but never acted upon by the House. We perceive no good reason for excluding the Caribbean and Central American countries. This would indeed be anomalous at a time when the United States is desperately trying to prevent them from succumbing to Cuban influence. However, it is clear that Senator Bentsen's bill would be a step in the right direction.

The third area of difficulty, not addressed by any of the pieces of legislation already under consideration, relates to the use of Government per diem rates as a reference guide for the deductibility of subsistence expenses. Government per diem rates frequently are fixed on the basis that, at the location in question, meals and/or lodging are available to Government employees either at reduced rates from private commercial establishments or for free at Government installations. It is thus irrational to make such rates the basis for limitations on the expenses of private individuals, to whom Government discounts or facilities are not available. The inappropriateness of this approach can easily be demonstrated by examining a sample of per diem rates published at various times this year: the per diem in Israel is $71; Ireland is $86; in Tokyo, $97; in Jidda, Saudi Arabia, $197; Trinidad is $98, compared to $49 in Montreal and $91 in London; Guadeloupe is $108 and Austria is $90, but Rome is $68 and Southern Rhodesia only $52. Clearly, to the private traveler, these rates bear no relationship to reality—to the expenses he would actually incur in these cities. In fact, these rates are so far afield that they are not even imposed on a variety of Government employees in travel status. We believe that utilizing them to limit the legitimate expenses of private travelers should be ended.

A final problem, which sounds technical but has considerable practical impact, involves the definition of foreign convention. The legislative history of section 274(h) indicates that Congress had in mind vacation-like group gatherings which were short on business and long on sightseeing and recreation. However, the language of section 274(h) goes far beyond that concept. The phrase "convention, seminar, or similar meeting" could be interpreted to include all sorts of traditional, legitimate, nonrecreational business activities: one or a group of salesmen meeting with several employees of an actual or prospective customer; one or a group of lawyers conferring with the officials of a foreign client; one or a group of the executives of a company holding discussions with the officers of the company's foreign subsidiary; or a group of the employees of a single multinational corporation being brought together by the company for instruction on various items of common interest. These activities, which may be characterized by their nonpublic nature, obviously do not represent conduct which Congress found fault with and intended to discourage.

In the House Ways and Means Committee's report on H.R. 9281, referred to earlier, the committee stated its view that the definition of foreign convention should not encompass these activities. We recommend that the definition should be specifically amended to exclude private meetings relating to doing business directly or indirectly within a foreign country or with the government, a company, or a national of a foreign country. Alternatively, it would be helpful if, in any legislation involving section 274(h), the Finance Committee would express its intention as to how the definition should be interpreted.

I thank the committee for the opportunity to appear today to state our views before it.

Senator MATSUNAGA. The Senate is now voting on an amendment. I will recess the subcommittee to go to the floor and vote. When we return, we will hear the next panel. I believe the questions which I had in mind have been addressed by the statements already made. We also have your written statements. Thank you, one and all, for appearing before the committee.

The committee stands in recess subject to the call of the Chair.

[A brief recess was taken.]

Senator MATSUNAGA. The committee will come to order.

Without objection, the statement of Senator Daniel P. Moynihan will appear in the record immediately following the statement made by Senator Javits.

We have, as our next witnesses, a panel consisting of Miss Christine L. Vaughn, Director of Tax Policy Center, U.S. Chamber of Commerce, accompanied by Mr. Charles W. Wheeler.

And Mr. G. J. Van Heuven, executive vice president, U.S.-Mexico Chamber of Commerce.

You may proceed, Miss Vaughn.

STATEMENT OF CHRISTINE L. VAUGHN, DIRECTOR, TAX POLICY CENTER, CHAMBER OF COMMERCE OF THE UNITED STATES, ACCOMPANIED BY CHARLES W. WHEELER, NATIONAL CHAMBER TAX ATTORNEY

Ms. VAUGHN. Thank you, Mr. Chairman.

My name is Christine Vaughn. I am Director of the Tax Policy Center of the Chamber of Commerce of the United States. I am accompanied by national chamber tax attorney Charles W. Wheeler.

The national chamber is the world's largest business federation, comprised of more than 81,000 business firms, 2,600 chambers of commerce in the United States and abroad and 1,275 trade and professional associations. On behalf of the chamber's 85,000 members, we welcome this opportunity to comment on proposed changes in the tax rules affecting foreign conventions.

We have submitted a written statement which we would request to have inserted in the record.

Senator MATSUNAGA. Without objection, the statement will appear in full in the record as though delivered.

Ms. VAUGHN. The Chamber of Commerce of the United States supports S. 749 which would repeal section 274(h) of the Internal Revenue Code. This section, adopted as part of the 1976 Tax Reform Act, places unnecessary limitations on the deductibility of expenses for attending foreign conventions, seminars and similar meetings.

The foreign convention provision of the 1976 act is filled with uncertainties and ambiguities and has created unnecessary hardships and compliance problems. It is a prime example of the tax writing overkill that has made the public so critical of the Internal Revenue Code.

The national chamber recognizes that, in the past, there have been some abuses in this area. But these abuses were subject to correction under section 274 before the 1976 act. The new law, while attempting to correct abuses, penalizes those who have not been a party to the abuses, further complicates the tax law, and imposes new compliance responsibilities on taxpayers.

The national chamber does not condone abuses, but neither can we condone the inequities and hardships created by the intended remedies. We think the Treasury Department has sufficient authority in this area even in the absence of section 274(h).

Confining deductions for attending conventions to those conducted in the United States and its possessions penalizes taxpayers who did not abuse the provisions of prior law. The chamber finds no

reasons to discriminate against deductions of legitimate business expenses for attending conventions held outside the United States.

While we think that section 274(h) should be repealed, in the absence of repeal certain changes should be made in this section.

First, section 274(h)(6)(A) should be amended to exclude from the definition of a foreign convention those meetings held in North America, including Mexico, Canada, Bermuda, and countries in the Caribbean area.

It is difficult to understand, for example, why a Detroit resident could not receive a deduction for attending more than two seminars just across the river in Windsor, Canada, but could receive, without limitation, deductions for similar meetings held in Puerto Rico or Guam.

The need for close ties with our neighboring countries in North America requires that our tax policy not discourage citizen-to-citizen contact throughout North America. We therefore support S. 589 which would remove conventions from Mexico and Canada from the coverage of S. 274(h), but we believe that this bill should be amended to cover meetings in the Caribbean countries and Bermuda as well.

With respect to other changes, the term "foreign convention" should be clarified so as to exclude ordinary meetings and briefings held outside the United States between employers and their employees or sales people. We think multinational firms are affected directly by this definition.

We do not think such meetings were intended to be included in section 274(h) and the language of the section is ambiguous. The absence of regulations compounds the problem.

We think the arbitrary two-meeting rule of section 274(h) which denies deductibility for attending more than two foreign conventions, should be eliminated.

The decision on whether an employee properly should attend more than two meetings outside the country should be made on the basis of what is necessary in the trade or business, not on the basis of an arbitrary rule in the tax code.

While it is true that reducing the number of deductible meetings could reduce the opportunities for abuse, if that approach were carried throughout the tax law, business activities would be generally curtailed.

There is a limitation on the deductibility of expenses in section 274(h)(5) to the per diem rate allowed U.S. Government employees. We think that this rate should be increased.

There are also a number of technical problems left unanswered in section 274(h), and these are mentioned in our written statement.

In conclusion, we think there is no reason to discriminate against deductions of legitimate business expenses for attending conventions held outside the United States. The Treasury had adequate means to deal with the abuses that occurred before the passage of section 274(h).

The real issue is whether an individual should be required to pay taxes on income used for a legitimate business meeting with a legitimate business purpose. To predicate the answer on the basis of location is unreasonable and creates hardships, particularly for

multinational companies and associations with international memberships.

We therefore urge this subcommittee to give serious consideration to reporting favorably S. 749, or at least to consider amending section 274(h) along the lines we have suggested in our testimony, and we commend the chairman of this subcommittee for holding these hearings.

Thank you.

Senator MATSUNAGA. Thank you very much, Miss Vaughn. Your timing was perfect.

[The prepared statement of Ms. Vaughn follows:]

STATEMENT OF THE CHAMBER OF COMMERCE OF THE UNITED STATES BY CHRISTINE L. VAUGHN AND CHARLES W. WHEELER

My name is Christine L. Vaughn. I am Director of the Tax Policy Center of the Chamber of Commerce of the United States. I am accompanied by National Chamber Tax Attorney Charles W. Wheeler.

The National Chamber is the world's largest business federation, comprised of more than 81,000 business firms, 2,600 chambers of commerce in the United States and abroad, and 1,275 trade and professional associations. On behalf of the Chamber's 85,000 members, we welcome this opportunity to comment on proposed changes in the tax rules affecting foreign conventions.

SUMMARY

The Chamber of Commerce of the United States supports S. 749, which would repeal section 274(h) of the Internal Revenue Code. This section, adopted as part of the Tax Reform Act of 1976, places unnecessary limitations on the deductibility of expenses for attending foreign conventions, seminars and similar meetings. The foreign convention provision of the Tax Reform Act of 1976 is filled with uncertainties and ambiguities, and has created unnecessary hardships and compliance problems. It is a prime example of the tax writing overkill that has made the public so critical of the Internal Revenue Code.

In the event that section 274(h) is not repealed, there are a number of changes, such as those proposed in S. 589 and S. 940, that should be made in the law:

Those meetings held in areas contiguous to the U.S. should be excluded from its provisions. Section 274(h)(6)(A) therefore should be amended to exclude from the definition of a foreign convention meetings held in North America, including the Caribbean area. While S. 589 would narrow the foreign convention definition to exclude meetings held in the United States, its possessions, Mexico and Canada, it should be amended to include Caribbean countries.

The term "foreign convention" as used in section 274(h) should be clarified so as to exclude ordinary meetings and briefings held outside the United States between employers and their employees or sales people. While such meetings were never intended to be included, the language of the section is ambiguous.

The arbitrary two-meeting rule of section 274(h), denying deductibility for attending more than two foreign conventions, seminars or similar meetings, should be eliminated.

The reporting requirements of section 274(h)(7)(B), requiring written certification by an officer of the sponsoring organization of the convention as to the exact number of hours of attendance of each and every attendee at a foreign convention, should be repealed. This would be accomplished through adoption of S. 940.

Deductions for subsistence expenses, including meals, lodging and other ordinary and necessary expenses incurred while attending a convention, seminar or similar meeting should not be limited to the amount of government per diem, but should be based on actual costs.

Finally, a number of technical changes should be made in section 274(h) to clarify its meaning.

SECTION 274(H) SHOULD BE REPEALED

Section 274(h) of the Internal Revenue Code, enacted as part of the Tax Reform Act of 1976, disallows deductions for those expenses a taxpayer incurs in attending more than two conventions, educational seminars, or similar meetings outside the United States each year. For the two meetings where deductions are allowed, section 274(h) limits the amount of expenses that can be deducted for transportation, meals, and lodging. To qualify to deduct any subsistence expenses, a full or

halfday of business activities must be scheduled on each day during the convention and an individual must attend at least two-thirds of the hours of daily scheduled business activities, or at least two-thirds of the total hours of scheduled business activities. The amount allowable cannot exceed the U.S. government per diem rate. Deductions for transportation expenses are limited to coach or economy airfare. Section 274(h) also imposes substantial recordkeeping and reporting requirements on taxpayers attending foreign conventions.

The National Chamber opposed the enactment of this provision during the hearings leading to the passage of the Tax Reform Act of 1976, and was the only organization opposing this proposal at the extensive tax reform hearings held by the House Ways and Means Committee in 1973. The Chamber urged that this section be repealed in testimony given on October 17, 1977, before the House Ways and Means Committee. We commend this Subcommittee for considering S. 749, proposed legislation which would repeal section 274(h).

The National Chamber recognizes that, in the past, there had been some abuses in this area. But these abuses were subject to correction under section 274 before the 1976 Act. The new law, while attempting to correct abuses, penalizes those who have not been a party to those abuses, further complicates the tax law, and imposes new compliance responsbility on taxpayers. The National Chamber does not condone abuses, but neither can we condone the inequities and hardships created by the intended remedy.

The Treasury Department has sufficient authority to control abuses in this area even in the absence of section 274(h). Where an individual's primary purpose in going to a convention is a vacation, the convention would be considered to be personal in nature and the expenses incurred not deductible. Internal Revenue Service regulations provide that the allowance of deductions for such expenses depends upon whether there exists a sufficient relationship between the taxpayer's trade or business and attendance at the convention, so that he benefits or advances the interest of his trade or business by such attendance. The regulations specifically state that if the convention is for political, social, or other purposes unrelated to the taxpayer's trade or business, the expenses are not deductible.

Confining deductions for attending conventions to those conducted in the United States and its possessions penalizes taxpayers who did not abuse the provisions of prior law. The Chamber finds no reason to discriminate against deductions of legitimate business expenses for attending conventions held outside the United States.

RECOMMENDED CHANGES

While the Chamber is of the view that the provisions of section 274(h) should be repealed, absent repeal the following changes should be made.

Exempt all North America

Section 274(h)(6)(A) should be amended to exclude from the definition of a foreign convention meetings held in North America, including Mexico, Canada, and the Caribbean area. It is difficult to understand why a Detroit resident cannot receive a deduction for attending more than two seminers just across the river in Windsor, Canada, but can receive, without limitations, a deduction for similar meetings held in Puerto Rico or Guam. The need for close ties with our neighboring countries requires that our tax policy not discourage citizen-to-citizen contact throughout North America. The Chamber supports S. 589, which would remove conventions in Mexico and Canada from the coverage of section 274(h), but believes it should be amended to cover meetings in Caribbean countries as well.

Foreign convention definition

Section 274(h)(6)(A) defines the term "foreign convention" to mean "any convention, seminar, or similar meeting held outside the United States, its possessions, and the Trust Territory of the Pacific." A strict interpretation of this provision could present unintended problems. The definition could be interpreted to include meetings held outside the United States between employers and their employees or salespersons where those meetings are informational or educational. It also could include a meeting held outside the United States between Chicago-based technicians of a U.S. multinational company and sales personnel stationed in another country, where the purpose is to demonstrate to the sales force new products manufactured by the company in this country for export and sale abroad. While such meetings could be called "seminars" under a strict interpretation of the law, they are not the type of meeting Congress intended to regulate.

A strict interpretation of section 274(h) also could bring within its purview a meeting in another country between U.S. company executives and government officials of that country, where the purpose of the meeting is to inform those

officials on the merits of an American-made product. The definition should be clarified to exclude the types of meetings described above.

Two convention rule

Generally, section 274(h) disallows a deduction for expenses incurred in attending more than two conventions, seminars or similar meetings per year held outside the United States.

The decision on whether an employee properly should attend more than two educational meetings outside the country should be made on the basis of what is necessary in a trade or business, and not what is dictated by the tax code. While it is true that reducing the number of deductible meetings reduces the number of opportunities for abuse, if that approach were carried throughout the tax law, business activities would be generally curtailed. The two-convention rule suggests that if employee X properly should attend three educational seminars outside the United States during the year to master three techniques that will improve his or her job performance, X should instead attend only two of the three seminars, and employee Y, who has not attended two meetings outside the country during the year, should attend the third.

Certification of attendance

The Chamber supports S. 940, which would repeal the reporting provisions of section 274(h)(7)(B) requiring certification by an officer of the meeting's sponsoring organization as to the exact number of hours of attendance during each day for each attendee at a foreign convention. This reporting requirement may appear to be a simple task, but to anyone familiar with the operation of a convention the task is far from a simple one. In auditoriums with multiple exits the number of persons required to be at each exit to clock temporary absences by attendees for the use of restrooms and telephones, and for other legitimate reasons, presents enormous compliance problems. To require an officer of a sponsoring organization to personally certify, under penalties of perjury, as to the exact number of hours of attendance by each of perhaps hundreds or even thousands of persons registered at a convention is a responsibility few, if any, would wish to undertake.

A requirement that the sponsoring organization provide a schedule of business activities for each day of the convention and a certificate stating that the taxpayer was registered at the meeting for attachment to the taxpayer's return would be a reasonable alternative. The present certification of attendance provision is overly complicated and should be replaced.

Limitations on expenses

Section 274(h)(5) limits the deductibility of subsistence expenses for those attending foreign conventions, seminars or similar meetings to the dollar per diem rate allowed U.S. government employees. It should be pointed out that government employees who are out of the country often have access to lower priced facilities. Lodging, meals, and other necessities may be provided to those government officials visiting embassies and other U.S. government installations at little or no cost.

The business persons who spends three days at an educational seminar in a foreign city often finds that he or she must pay a premium for lodging, meals, and local transportation when compared with the expenses of a U.S. government employee on an official visit in the same city.

If the tax law is to allow a deduction for ordinary and necessary business expenses incurred, a per diem limitation based on the costs to U.S. government civil servants is unrealistic. The provisions of section 274(h) should be changed to allow a deduction for subsistence based on the actual costs incurred for ordinary and necessary expenses.

Technical problems

There are a great number of other technical problems that are left unanswered in section 274(h). The term "seminar" is not defined, leaving open the question as to whether educational courses are subject to the section. There is a question as to whether "outside the United States" means 200 miles off-shore, on the high seas, on foreign land, or some other definition. It is unclear whether the "coach" or "economy" class restriction applies to that portion of a trip within the United States, its possessions, or the Trust Territory of the Pacific, where the ultimate destination is a convention held outside those areas. The Treasury has yet to issue regulations in this area, which adds substantially to taxpayer uncertainty.

CONCLUSION

There is no reason to discriminate against deductions of legitimate business expenses for attending conventions held outside the United States. The Treasury

had adequate means to deal with the abuses that occurred before the passage of section 274(h). The real issue is whether an individual should be required to pay taxes on income used for a legitimate business meeting with a legitimate business purpose. To predicate the answer on the basis of location is unreasonable and creates hardships, particularly for multinational companies and associations with international memberships.

Senator MATSUNAGA. Now, we will be happy to hear from you Mr. Van Heuven.

Mr. VAN HEUVEN. Thank you, Mr. Chairman.

In the interest of time, I would like my full statement included as part of the record and I would like to summarize some of my main points.

Senator MATSUNAGA. Without objection, your statement will appear in the record in full.

Mr. VAN HEUVEN. Thank you, Mr. Chairman.

STATEMENT OF G. J. VAN HEUVEN, EXECUTIVE VICE PRESIDENT, UNITED STATES-MEXICO CHAMBER OF COMMERCE

Mr. VAN HEUVEN. The United States-Mexico Chamber of Commerce is a binational organization which through its Mexican directors represents in excess of 160,000 Mexican companies. On the U.S. side, we represent most of the larger U.S. companies doing business in Mexico.

The United States-Mexico Chamber of Commerce supports S. 589, S. 749, and S. 940 as we see these bills provide U.S. conventions held in Mexico with similar tax treatment as U.S. conventions at home now receive.

As for Mexico, I would like to make several points which have occurred since passage of section 602 in 1976. In Mexico, we have seen over a 50-percent loss in the convention business as a result of passage of section 602.

U.S. companies feel the reporting requirements for conventions held outside the United States are too burdensome, even though two foreign conventions a year are now tax deductible.

In Mexico, in 1977, 245 conventions were booked for Mexico City. However, only 87 were actually held. This was the immediate result of passage of section 602 in September of 1976.

The number of U.S. persons attending conventions in Mexico City dropped from 76,000 in 1976 to 36,000 in 1978. The revenue received for U.S. conventions in Mexico City was in the neighborhood of $20 million in 1976 as compared to only about $13 million in 1978.

I draw your attention to the fact that I am only giving the Mexico City figure. If we take Mexico overall, we can assume that approximately one-third of all conventions are held in Mexico City, so we can increase this amount twofold.

The labor-intensive Mexican tourism industry estimates that it takes only $4,000 of investment to create one new job in Mexico, as compared to other industries in Mexico which require as much as $40,000 in investment.

In Mexico City, in 1977, we saw a loss of $24.2 million in the convention business.

If we translate this into jobs, we see an increased number of people unemployed—the result being a large number of undocumented workers crossing into the United States, as the tourism

industry is perhaps Mexico's most important industry in providing jobs.

As I said, the United States-Mexico Chamber of Commerce represents both sides of the border. On the U.S. side, we see U.S. hotel chains, airlines, and travel agencies, losing revenue since passage of section 602.

Approximately 70 to 80 percent of all the U.S. conventions in Mexico are held in U.S. hotel chains, with over 80 percent of those convention participants traveling by U.S. airlines.

I would like to conclude by saying, Mr. Chairman, that the Senate is now addressing the subject of North American area interdependence. A hearing was presided over by Senator Baucus last month. We testified on this subject.

We see an interdependence between Mexico, Canada, and the Caribbean becoming more and more important to the United States. In Mexico, we are seeing it in the energy and agricultural fields.

It is the feeling of the chamber that this committee can take an important step in treatment of conventions held abroad by supporting any one of the three bills mentioned.

Thank you very much.

Senator MATSUNAGA. Thank you very much, Mr. Van Heuven.

One question. You speak of the United States-Mexico Chamber of Commerce. Now, on the Mexico side, are these the American businesses doing businesses in Mexico, or Mexican businesses owned by Mexicans?

Mr. VAN HEUVEN. On the Mexican side, it is Mexican businesses owned by Mexicans, but I should say that we are split approximately 50-50 with U.S. and Mexican companies.

Senator MATSUNAGA. I see.

So that about 50 percent of your total membership consists of Mexican businessmen?

Mr. VAN HEUVEN. I would say that just a little over one-half. We are trying to get some more U.S. businessmen into Mexico, Mr. Chairman.

Senator MATSUNAGA. Do you make your headquarters in Mexico?

Mr. VAN HEUVEN. And in Washington.

Senator MATSUNAGA. You are in the Washington office?

Mr. VAN HEUVEN. I am in Washington. I also have an office in Mexico City.

Senator MATSUNAGA. Thank you very much for your views. We certainly appreciate your being with us this afternoon.

[The prepared statement of Mr. Van Heuven follows:]

STATEMENT OF THE UNITED STATES-MEXICO CHAMBER OF COMMERCE

My name is Gerard J. Van Heuven and I am here in representation of the United States-Mexico Chamber of Commerce, a binational enterprise organization working to foster mutually beneficial trade and investment between the United States and Mexico.

The Chamber, through its Mexican Directors, represents over 160,000 Mexican companies, many engaged in trade with the U.S.—as well as most of the larger U.S. companies doing business in Mexico. We are equally split between U.S./Mexican members, this being depicted by our Board of Directors.

The issues that we speak out on are those that affect the overall interests of the membership. Such is Section 602 of title VI of the Tax Reform Act of 1976.

My statement deals with the provisions of 602 regarding the nondeductibility for income tax purposes of expenses—specifically conventions—incurred "outside the United States".

Experience over the past 2½ years has shown a dramatic decrease in U.S. conventions being held in Mexico. In short, many U.S. businessmen have cancelled all thought of holding conventions in Mexico—even though the law permits two foreign conventions a year as deductible. Many companies find it too burdensome to deal with the excessive recording work and bookkeeping involved in attempting to comply with provisions of 602.

The following chart will give you an idea of the convention trend in Mexico since passage of 602.

Year	Registered conventions	Percent of increase	Conventions held	Percent of increase
1975	147	.....	147	.....
1976	190	24.2	190	29.2
1977	245	28.9	87	−54.21
1978	90	−63.3	90	3.4
1979	124	37.8	.....	.....

Source: El Consejo de Convenciones Figures for Mexico City only

I draw your attention to 1977 when 245 conventions were booked and only 87 were actually held—representing a 55 percent decline over the previous year. In 1978, only 90 conventions were booked—representing a 64 percent decrease in bookings.

Though we see a slow rise in conventions for 1979, this is expected to taper off and is only due to some hard selling by Mexican organizations.

Since the law was passed, we have seen over half of Mexico's convention business with the U.S. eliminated. This, in turn, has had a negative effect on the balance of payments position and will eventually affect Mexico's diminished ability to import U.S. goods.

In 1978, the convention business netted, just from Mexico City alone, $13.8 million. This does not take into account other convention sites such as Guadalajara, Monterrey, Cancun, etc.

It should be of interest to the Committee that it takes only $4,000 of investment to create one job in the labor-intensive tourism industry—as compared to $40,000 in other types of industries. The present Administration plans to construct 92,000 new rooms within the next few years—this translates into at least 92,000 more jobs. These new jobs will assist Mexico in providing much needed employment—thus curtailing the flow of undocumented workers to the United States.

CONVENTION INCOME

Year	Number of conventions	Participants per convention	Total participants	Cost per convention based on 4½ day stay [1]	Total amount received [1]
1976	190	400	76,000	289.62	22,011,120
1977	87	400	34,800	315.00	10,962,000
1978	90	400	36,000	382.50	13,770,000

[1] U.S. dollars

As I said, the USMCOC speaks for both sides of the border. The provisions of Section 602 have significantly hurt U.S. airlines, hotel chains, travel agencies, etc. It should be noted by the Commission that approximately 70-80 percent of conventions held in Mexico go to U.S. hotel chains.

The following will give you a rough idea of how the convention dollar is spent.

	Percent	Amount
Hotel	25	3,540,420
Local Purchases	25	3,404,250
Hotel Meals	11	1,497,870
Sightseeing	16	2,178,720
Meals outside Hotels	10	1,361,700
Local Transportation	6	817,020
Drink	3	408,510
Miscellaneous	4	461,510
Total	100	13,770,000

In concluding, let me say that the adverse consequence of the decision to adopt the wording in Section 602 to "outside the United States" has been a sharp reduction in Mexico's income and the loss of many thousands of jobs.

We believe the current problem can be corrected by changing the wording "outside the United States" to "outside the North American Area". The Chamber believes that S-589, introduced by Senator Lloyd Bentsen (D-Tex), and related bill S-749, sponsored by Senator Barry Goldwater (R-Ariz), provide the much needed and overdue relief for Mexico. It is time we recognize there is indeed a special relationship with our neighbors to the south as well as the north.

Recently, hearings were held by the Subcommittee on International Trade of this Committee on "North American Interdependence: The Next Decade". I commend the Senate for holding hearings on this subject as it is indeed touching the tip of the iceberg—that being the interdependence we have with our neighbors. In the near future, we will rely more and more on our neighbors—particularly to the south. This interdependence is seen today with Mexico in the energy and agricutural fields.

This Committee for its part can play an important role in this interdependence by taking the necessary action to establish the same rules for tax deductions on conventions held in the "North American Area" as those held in the U.S.

Thank you.

Senator MATSUNAGA. Our next panel of witnesses consists of Mr. Gerald W. Padwe of Touche Ross & Co.; Mr. William J. Fait, Matthew J. Kennedy, Wallace J. Clarefield, and Joseph P. Donohue, on behalf of Tax Executives Institute, Inc.

We would be happy to hear from you, Mr. Padwe.

Mr. GERVER. Mr. Padwe is not here, sir. I am Eli Gerver, and I am here substituting for him.

He had to leave. He was here all morning and waiting, but he had a 1 p.m. plane he had to make.

Senator MATSUNAGA. Your name is?

Mr. GERVER. My name is Eli Gerver, G-e-r-v-e-r. Mr. Padwe and I are both here on behalf of Touche Ross & Co., which is one of the big eight accounting firms. We are here in two capacities, I guess. First, we are tax practitioners and we have been working with section 274(h) since it was enacted, working on it with our clients, and second, as a multinational organization we have been studying its effects on us ourselves and we are somewhat concerned about these problems.

We are only going to comment briefly on the issues which concern us but we have also submitted a complete statement for the record.

Senator MATSUNAGA. Without objection, your statement will appear in the record.

Mr. GERVER. Thank you, sir.

STATEMENT OF ELI GERVER, TOUCHE ROSS & CO.

Mr. GERVER. Thank you, sir.

The statutory wording of section 274(h) is extremely broad in its reference to any convention or similar meeting in the Code, and the discussion of that phrase in the committee reports leaves it most unclear as to the status of business meetings and training meetings which may be sponsored by an organization for its employees or, such as in our own case, a meeting for our own partners or staff.

It really is not clear that bona fide business meetings are exempt from section 274(h) and, in this regard, I should mention that several years ago, we ourselves submitted a request for a ruling in connection with a meeting we proposed to hold for our partners, and IRS refused to consider our request because regulations had not been issued. In fact, only recently one of the tax newsletters referred to the fact that IRS still is not ruling on this issue.

We cannot believe that intrafirm meetings or intracompany meetings, meetings with employees and so forth, provide the abuse situations which were described earlier and which were clearly intended to be covered by the 1976 act, and we discuss this in a little more detail in our statement.

There is one rather interesting aspect to this whole question of intrafirm meetings, and that is that our neighbors to the north, Canada, have a more sweeping provision with respect to conventions. They just do not allow any deduction whatsoever for attendance at any convention. However, their Internal Revenue Department has defined a convention as not including an in-firm meeting.

And unless our administration can come to similar conclusions, we would suggest that Congress perhaps should clarify the law in this regard.

We have a number of technical problems in the present statutory wording which apply regarding intrafirm meetings or association meetings and we discuss these in our statement. I do not want to spend time on them except just to refer to the fact that there are problems concerning such issues as the status of a speaker at a convention; the consequences of having business affairs attended to at the same time you are at the convention, even though you can meet the prime requirements of attendance; going to two or three meetings in a row; the treatment of foreign employees of an overseas branch—the 1978 Revenue Act took care of U.S. employees of an overseas branch, but we still do not have the clarification as foreign employees attending a convention outside the United States but in their own country of residence.

The need for exemptions on meetings held in the North American area has been referred to by others and we would agree with them. We do not think it is necessary to restate the problems or the economic interdependence of the area. Present rules produce anomalous results—and in fact we had a situation last year where an employee in our Buffalo office attended a training meeting in Toronto and that might have been a foreign convention, but if our Buffalo employee went to Honolulu it would not be a problem. As a matter of fact, if somebody in San Diego goes 15 miles to a training seminar in Tijuana, there may be a foreign convention, but if the

San Diego person goes to St. Thomas, there is no problem. These results are somewhat difficult to understand.

The reporting and certification requirements are particularly puzzling to us, because they seem to be unique. We are not aware of any other areas in the Code where the substantiation of a deduction must be supplied with the return, or you lose the entire deduction.

In all fairness, any of us that have attended meetings in any place are aware that, when you walk into the room and there are 500 people present, there is no way in which anybody can keep track of you and make sure that you were there for every hour that you claimed that you were there. You may have to leave for a moment; you may come back; you may not come back. But if you signed in once, then that is all the organization needs, and we suggest that this is really not too much to rely upon for tax substantiation.

Nevertheless, the sponsoring organizations must go ahead and supply all that detail.

I think that concludes what I have to say at this time. I will be happy to answer any questions.

Senator MATSUNAGA. Thank you very much, Mr. Gerver.

[The prepared statement of Mr. Padwe follows:]

STATEMENT OF GERALD W. PADWE, ASSOCIATE NATIONAL DIRECTOR, TAX SERVICES, TOUCHE ROSS & CO.

Senator Matsunaga, members of this distinguished subcommittee: My name is Gerald W. Padwe. I am a partner and Associate National Director of Tax Services for Touche Ross & Co. Touche Ross is one of the country's largest international public accounting firms: we have as clients numerous multinational businesses who have found themselves affected by the foreign convention rules, and we are ourselves a multinational organization with substantial first-hand exposure to the problems presently being caused by the ambiguities and lack of interpretive guidance in the foreign convention tax rules of Internal Revenue Code section 274(h)—even as amended by the 1978 Revenue Act.

We recognize that this Subcommittee is interested in the effect of the 1976 rules on tourism and the convention trade. However, we trust you will also recognize—as you consider appropriate changes to section 274(h)—that there are inherent problems of interpretation and administration in that Code subsection which should be resolved regardless of the significance of their specific impact on tourism.

My testimony today will deal with a number of points. First, and foremost, we would urge amendment of section 274(h) to specifically exclude from the definition of "foreign convention" any meeting at which substantially all the participants are from one organization or firm (including related or associated firms). Second, we would like to bring to your attention some problems in interpreting the present statute—problems we find particularly difficult in the context of intra-firm meetings, but which can have a broader effect. Third, we believe a North America-Caribbean exemption from the foreign convention rules is appropriate on policy grounds. Next, we would urge repeal of the present requirement that deduction be allowed unless supporting documentation is attached to the return (as opposed to being available on audit to substantiate the deduction). Finally, we believe the present rules requiring certification by an officer of the sponsoring group should also be repealed.

DEFINITION OF FOREIGN CONVENTION SHOULD EXCLUDE INTRAFIRM MEETINGS

Prior to enactment of the 1976 Tax Reform Act, the term "foreign convention" had no tax significance; nor have we been able to discover other cases where the definition of the word "convention" (referring to a meeting rather than a treaty or insurance report form) has been important enough for regulatory or judicial attention. Further, while the provisions of subsection 274(h) have been in effect for over 2½ years, there have still been no regulations proposed by Treasury in this area, so there has been no guidance or interpretation to date as to the application of the present rules.

In the absence of regulation, IRS is reluctant to issue any rulings interpretating section 274(h). The May 24 edition of Weekly Alert, issued by Research Institute of America, noted this fact in an article entitled: "Do foreign convention rules apply to meeting abroad of firm's employees?" RIA stated: "But while the law has been in effect for some years, IRS has yet to answer whether a bona fide business meeting abroad solely of a firm's employees is a 'convention' subject to the strict deduction rules. A recent check with a spokesman for IRS revealed that it still has not arrived at an answer."

Because of the ambiguities and interpretive difficulties of applying section 274(h) to bona fide intra-firm business meetings abroad (some of which problems are spelled out below), we believe it appropriate for Congress to write a specific exemption for such meetings into the Internal Revenue Code, so that it will be clear that they are not covered by the foreign covention deductibility limits.

Under present statutory language, a foreign convention is defined as any "convention, seminar, or similar meeting" held outside prescribed areas. We believe, by utilizing such broad and sweeping language in the statute, Congress may permit an interpretation whereby intra-firm business meetings or training programs held outside the United States by a multinational organization will fall within the statutory definition of a foreign convention, and be subject to the limitations of section 274(h). It is our view that such intra-firm meetings or training programs should not be subject to the limitations of section 274(h), as a matter of both policy and pragmatism. Our arguments may be summarized as follows.

(1) Intra-firm business meetings are not within the purview of the areas of convention abuse southt to be curtailed by the 1976 Tax Reform Act.

(2) While there seem to be no precedents under U.S. rules defining "convention," at least one country (Canada) whose legal system has developed from the same roots as ours has addressed this question and resolved it in accordance with the solution we are urging.

(3) The present statute creates major problems of interpretation, both for government and for business, which problems are inappropriate in the context of intra-firm meetings.

Let us consider these points in order.

Intrafirm business meetings are not within the abuses for which the 1976 Tax Reform Act was intended

In 1975, as part of drafting what was to become the Tax Reform Act of 1976, the House Ways and Means Committee was concerned "* * * that the lack of specific detailed requirements has resulted in a proliferation of foreign conventions, seminars, cruises, etc. which, in effect, amount to government subsidized vacations and serve little, if any business purpose. Your committee is aware that the promotional material often highlights the deductibility of the expenses incurred in attending a foreign convention or seminar and, in some cases, describes the meeting in such terms as a 'tax-paid vacation' in a 'glorious' location. In addition, your committee has been made aware that there are organizations that advertise that they will find a convention for the taxpayer to attend in any part of the world at any given time of the year." (H. Rep. 94-658, 169).

The House rules would have allowed the attendance at two conventions per year with a limit on the deductibility of expenses.

The Senate Finance Committee noted, "* * * that in some cases it is reasonable for an organization to sponsor a meeting of its members outside the United States." (S. Rep. 94-938, 157). The Senate Finance Committee then proceeded to draft a stricter set of rules for deducting the expenses of foreign conventions than had the House. The Senate version would have required a specific business purpose to hold the meeting outside the United States. However, in the law as enacted, the House version prevailed, which only provides a ceiling on the number of conventions for which a person can claim a deduction during the year and a ceiling on the amount that can be deducted for the expenses of attending a particular convention.

In today's world of multinational business, it often becomes necessary to hold meetings outside the United States, which meetings can include a fairly substantial number of individuals all of whom (except, perhaps, for some outside speakers) are employees of or partners in the business. Such meetings may be oriented to operations, sales, management, training, or a host of other completely bona fide business activities. To limit the deductibility of attendance at such meetings solely because the meeting is held outside the U.S. (even though numerous non-U.S. personnel may also be present) would be, we feel, inappropriate.

Consider, as an example, the following actual (rather than hypothetical) situation: the tax department of a Canadian business, located in Toronto, gives a seminar for its executives on changes in U.S. tax laws affecting Canadians. To help give the training seminar, the company's Buffalo, New York office sends two individuals

from Buffalo who are knowledgeable in U.S. tax matters to Toronto—a 1½ to 2 hour drive around Lake Ontario. These two individuals participate in the seminar and lead some of the discussions. At the end of the two-day program, they drive back to Buffalo.

This is hardly an abuse situation, yet under the literal working of present section 274(h) the two New Yorkers may be held to have attended a foreign convention, with possible disallowance in part of their subsistence expenses.

Even with respect to intra-firm meetings, there may be some concern in Congress about permitting deductions for the employer who takes his sales force and their spouses to Paris for a week at the end of a particularly good sales year, and charges half the cost to Uncle Sam. We would respond to this in two ways: First, present Treasury regulations prohibit a deduction for "lavish or extravagant" entertainment expenses, and we feel that standard should also be sufficient to deny deductibility of the intra-firm abuse situations. Second, we would be quite certain the number of intra-firm abuse cases which might be covered by the present statutory language is insignificant in contrast to the bona fide intra-firm business meetings that should be exempt from the foreign convention limitations, but may not be under today's rules.

Canadian precedent

The Income Tax Act of the Dominion of Canada has contained, since 1956, language restricting the deductibility of convention expenses. Unlike section 274(h), such restrictions are not based upon whether the convention is held within or without Canada but are applicable across the board to all conventions which an individual taxpayer may attend. Section 20(10) of the Canadian Income Tax Act was actually a liberalizing section in the law, since it overturned a 1956 decision, *Griffith* v. *Minister of National Revenue*, 55 DTC 470, affirmed 56 DTC 1013. In that case, the Income Tax Appeal Board disallowed the expenses of a medical specialist attending conventions in the U.S. and Europe on the grounds that the expenses were nto related directly to the earning of his income, and while the taxpayer may have increased his knowledge of the subject through attendance, such knowledge was a capital asset and the expense accordingly were capital expenditures. Section 20(10) was the parliamentary answer to this decision, to permit at least some deduction for attending business related conventions.

Section 20(10) reads as follows: "Notwithstanding paragraph 18(1)(b), there may be deducted in computing a taxpayer's income for a taxation year from a business an amount paid by the taxpayer in the year as or on account of expenses incurred by him in attending, in connection with the business, not more than two conventions held during the year by a business or professional organization at a location that may reasonably be regarded as consistent with the territorial scope of that organization."

On November 22, 1973, the Canadian Department of National Revenue (equivalent in Canada to the Internal Revenue Service) issued an Interpretation Bulletin, IT-131. These Bulletins are equivalent to published rulings in the United States, and while a Bulletin may not have the force of law in Canada it does represent policies of the Department of Revenue, and government auditors would be bound to assess on the basis of Bulletin interpretations.

IT-131 (a copy is attached as an Appendix) covers certain aspects of the convention deductibility rules under section 20(10), and holds in relevant part as follows: "9. Intra-company meetings, seminars, courses, etc., will not be regarded as conventions as far as employees of the company and its parent, subsidiary or associated companies are concerned * * *"

In our view, it is of more than casual interest that our northern neighbor has seen fit to exempt intra-company meetings from the deduction restrictions on conventions. We submit that this is a highly practical solution to the problems which would result otherwise under section 274(h), and would urge the Congress to adopt the same approach.

INTERPRETIVE PROBLEMS IN THE PRESENT STATUTE

In our discussion of the background of section 274(h), it becomes clear that the abuse situations arise primarily in the context of a sponsoring organization having an existence completely separate from those of the individuals attending the convention. That is not the case with the multinational business meeting where the sponsoring organization is also the firm supplying the livelihood of the conferees. The drafting of statutory language to cover one group causes a number of interpretive difficulties when applied to the other.

The comments that follow are discussed in the context of intra-firm meetings. However, it should be understood that they need not be limited to such gatherings.

While the results may appear more inequitable when only a group of common employees is involved, they can occur for virtually any convention attended.

Speakers

Section 274(h) applies if any individual "attends" more than two foreign conventions in a taxable year. What is the proper tax treatment of a speaker or discussion leader at the convention. If the speaker comes from outside the group, is he considered to be "attending" the convention, so that the business organization paying for his services may have to take a partial disallowance on the costs of having him come and speak? This problem, clearly, is not limited to intra-firm meetings—the same question arises with respect to any foreign convention speaker, and argues strongly for a change in present law to permit the expenses of convention speakers to be deductible in full.

Assuming that the outside speaker qualifies for full deductibility of expenses, what of speakers from within the firm holding the meeting: here, an individual may act as speaker for two to three hours, but then remain to participate in the rest of the convention for three or four days. Has he now been converted into an "attendant"? Must the sponsoring firm allocate his convention costs between those of a speaker and those of a conferee, part of which become fully deductible and part of which are subjet to limitation? The administrative problems can clearly become immense, and we would anticipate as much difficulty by IRS as by business in trying to come up with appropriate answers.

Successive meetings

Many multinational businesses will hold more than one meeting consecutively, in order to take advantage of the presence of certain key personnel. Thus, a series of firm meetings could take place in a foreign city, starting with an executive committee, followed by an operations meeting, followed by a sales meeting, followed by the major annual meeting of all employees in middle and upper management. At the conclusion of the formal meetings, there might be two or three training seminars tacked on for cost saving purposes, and to get particular groups together from around the world. A given individual might attend two or three of these meetings. Is each one a separate foreign convention? Should the entire series of meetings be considered one foreign convention, even though any given employee may only be invited to attend one, two, or three of the various meetings? Again, the interpretation problems are most difficult.

Other business activities during convention

Present law should be clarified to permit full deduction of ordinary and necessary business expenses incurred for non-convention related activities while attending a foreign convention. An individual may be in attendance at such a convention, but also take the opportunity to visit a supplier, a subcontractor, or a client in the non-U.S. city where the convention is being held. To the extent that present law limits deductibility of subsistence (including meals and local transportation) because of foreign convention attendance, we believe an unintended hardship is created. Such non-convention related expenses should be deductible in full, subject only to the normal "ordinary and necessary" tests, but not to those of section 274(h).

Foreign employees of a foreign branch

The section 274(h) disallowance rules are applicable both at the employer and the employee level. Thus, a U.S. business operating overseas through a foreign branch, and employing foreign nationals in its branch operations, could conceivably incur a disallowance of costs it pays to send those foreign nationals to a firm meeting in their own country of residence. Because those nationals do not file U.S. tax returns, and therefore do not claim a personal deduction for the costs of attending the meeting, IRS might argue that the deduction should be disallowed to the employer reimbursing the expenses. This is clearly unintended and inequitable, and should be remedied by statute: an intra-firm meeting exception to section 274(h) would accomplish this end.

We recognize that the employer can solve its U.S. tax problem by treating the reimbursement as income to the employee, thus meeting the new exception of Code section 274(h)(6)(D)(ii)—added by the 1978 Revenue Act. However, that might well cause the foreign national employee certain problems with the tax return he files for his own country, and we do not see this as the proper way to address the issue.

Note that the 1978 Revenue Act also introduced a new rule which permits individuals residing outside the United States to attend conventions in their country of residence without being subject to section 274(h). However, that new provision applies only to U.S. citizens residing abroad, not to foreign nationals in their own or other countries.

The situation with respect to foreign subsidiaries of a U.S. parent is less clear. To the extent the subsidiary is liable for U.S. taxes, the same reasoning as above would apply; even if it is not, however, it would take an ultimate determination as to the effect of section 274(h) disallowance on the subsidiary's earnings and profits (which presumably will have to await regulation, ruling, or court decision) for the U.S. parent to know whether it would lose foreign tax credits as a result of foreign nationals attending foreign conventions.

Conclusion

Our point in the above discussion is not to try and deal here with highly technical issues. Rather, it is to recognize that overbroad draftsmanship in 1976 has created a host of policy and technical issues—particularly as applied to firm meetings and seminars—which, in the absence of new statutory language, will have to be dealt with through many pages of regulations and revenue rulings, and will undoubtedly ultimately result in added burdens on the courts.

While a statutory exception from the foreign convention rules for intra-firm meetings will not completely solve these interpretive difficulties, it will remove from their purview those meetings least likely to result in abuses. We consider such exemption a most practical solution to the problems raised in the first two parts of our testimony.

NORTH AMERICAN EXEMPTION

We proposed to Congress last year, in its consideration of the 1978 Act, that the foreign convention rules be amended to permit an exemption for meetings held in the North American area. We still believe such an exemption is appropriate. Canada, Mexico, and the Caribbean (including Bermuda) have economies that are either dependent on or interdependent with that of the United States. In some of the countries which would be covered by such an exemption, U.S. currency is accepted as if it were the national currency. In many of the Caribbean islands, tourism—and particularly that which comes from the U.S.—is a major (if not principal) segment of the local economy.

We believe it completely appropriate to recognize the role played by the United States in the economies of North America—and the growing economic role of certain of these countries as they affect the United States—by allowing a specific exemption from the section 274(h) rules for conventions held in these countries.

With respect to this subject, the committee might consider the logic of requiring partial disallowance for the Buffalo, New York businessman referred to earlier in our testimony for attending a convention in Toronto, but permitting full deductibility for that same individual to attend a convention in Honolulu or Guam; or denying part of the deduction to a San Diego businessman attending a seminar in Tijuana (15 miles away), but permitting full deductibility of attending that same seminar in St. Thomas or San Juan.

The committee might also consider that, at the time the 1976 Tax Reform Act initially enacted section 274(h), the Senate voted a North American exemption, but this exemption was removed in the Senate-House conference. Last year, in considering the 1978 Act, the Finance Committee debated whether to recommend a North American exemption, and the subject was dropped after Assistant Treasury Secretary Lubick (on September 26) asked the committee not to consider such an exemption until 1979, on the grounds that Treasury was then engaged in negotiations with Canada on a range of issues affecting relations between the two countries, and that the limitations on deductibility of attending conventions in Canada represented a diplomatic pressure point of some significance.

We would hope that this would no longer be a reason for not considering such an exemption. While sympathetic to political and diplomatic needs, we believe problems of a bilateral nature should not be permitted to deny an appropriate policy decision which would affect a geographic region consisting of substantially more than one country. Statutory language could deprive specific North American countries of their right to the exclusion, from time to time, if it was determined they were discriminating in some unacceptable way against the United States. Such a statutory approach would, we believe, be preferable to not permitting any North American countries to be exempted from the foreign convention rules.

DOCUMENTATION INCLUDED WITH RETURN

We are, frankly, at a loss to understand why—of all parts of the Internal Revenue Code—the foreign convention area alone has been singled out for requiring substantiation of the deduction to be included with the return, as opposed to being available for audit by IRS. First, with respect to taxpayers preparing their own returns, the statutory requirement for inclusion of the written statement with the return in

order to obtain any part of the deduction, represents a trap for the unwary—particularly since we have not found another Code section requiring submission of supporting documentation with the return. Second, to the extent the return is prepared by another (CPA, lawyer, or other preparer), the requirement of submitting taxpayer's statement with the return essentially shifts from the government to the outside preparer the role of auditing that part of the return—an unfortunate precedent, and one we believe to be wrong as a policy matter.

We see no reason why the same return preparation and audit standards should not apply to the foreign convention areas as to other areas of tax reporting: surely, what abuses there have been (or are now) cannot be so great as to require a separate and more stringent standard of reporting than for any other part of our tax laws. The provision should be repealed.

SPONSORING ORGANIZATION CERTIFICATION

Present rules require an officer of the sponsoring organization to certify attendance of the individual at the requisite number of convention hours which would entitle him or her to the limited deductions of section 274(h). Further, that certification must be attached to the return claiming the deduction in order for the taxpayer to be entitled to any part of the deduction.

For all the reasons set forth above with respect to the individual's statement, we believe it inappropriate to require the sponsoring organization certification to be included with the return, and we would urge repeal of that requirement.

More importantly, we believe that such certification should not be required at all, as it does not recognize the facts of running large meetings or conventions. First, officers of the sponsoring organization are not going to take up positions at the doors every day to personally check out what time someone comes in and what time he or she leaves; this will obviously be done by people on the meeting staff of the sponsoring organization, and the officer will rely on those individuals' report to sign the certification. Thus, the fact that the certification is by an officer is virtually meaningless.

Second, as a practical matter, people attending conventions do not walk in in the morning, sit down, and not leave until lunch—followed by the same routine in the afternoon. They will leave during the course of the meeting to use the restroom, to return a telephone call, to have a business discussion in the hall with another conferee, etc. They will leave the meeting by one door ad reenter by another. The problems of keeping track of when an individual found it necessary to step out and when he or she returned can be so administratively burdensome as to negate the value of the certification. What the certification requirement does is invite a good deal of completely unintended abuse, in the name of expediency.

As with the individual reporting discussed above, we believe this rule was included to satisfy a "reform" climate in 1976, but that it did not square with practical reality then and it does not apply today. We would urge its repeal.

Mr. Chairman, thank you for the opportunity to present our views today. I hope they are helpful to your subcommittee in its efforts to draft more equitable rules in this important area.

Touche Ross & Co.
DEPARTMENT OF NATIONAL REVENUE TAXATION

INTERPRETATION BULLETIN

MINISTÈRE DU REVENU NATIONAL, IMPÔT

BULLETIN D'INTERPRÉTATION

SUBJECT INCOME TAX ACT
Convention Expenses

OBJET LOI DE L'IMPOT SUR LE REVENU
Dépenses pour congrès

SERIAL NO IT-131 DATE November 22, 1973
REFERENCE Subsection 20(10) (also section 67)

NO DE SÉRIE IT-131 DATE le 22 novembre 1973
RENVOI Paragraphe 20(10) (également article 67)

This Bulletin cancels and replaces Information Bulletin No. 38 dated March 15, 1968.

Self-employed Individuals

1. Subsection 20(10) of the Income Tax Act permits a self-employed taxpayer who is carrying on a business or practising a profession to deduct, in computing his income, the expenses incurred by him in attending not more than two conventions a year provided that the conventions

(a) were held by a business or professional organization, and

(b) were attended by the taxpayer in connection with a business or professional practice carried on by him.

The taxpayer need not be a member of the organization sponsoring the convention but, to qualify for a deduction, his attendance at the convention must be related to his business or professional practice.

2. The Act provides that deductions can be made only for expenses in attending conventions at locations consistent with the territorial scope of the organization holding them. Accordingly this would generally require that a convention sponsored by a Canadian business or professional organization be held in Canada where the organization is national in character, or in the particular province, municipality or other area in Canada where the activities of the organization are limited to such area. Consequently, expenses incurred in attending a convention sponsored by a Canadian organization outside those geographical limits will normally be viewed as not deductible in computing income. For this purpose a convention held during an ocean cruise will be considered as being held outside Canada. This restriction is not intended, however, to deny a taxpayer a deduction of reasonable expenses incurred by him in genuine attendance at, and participation in, convention in another country that is organized or sponsored by a business or professional organization of that country that is related to his business or practice.

Le présent Bulletin annule et remplace le Bulletin d'information nº 38 du 15 mars 1968.

Particuliers établis à leur propre compte

1. Le paragraphe 20(10) de la Loi de l'impôt sur le revenu autorise un contribuable établi à son propre compte qui exerce une entreprise ou pratique une profession, à déduire, dans le calcul de son revenu, les dépenses supportées pour assister à deux congrès au plus dans une année, aux conditions suivantes:

a) que les congrès aient été tenus par une organisation commerciale ou professionnelle, et

b) que les congrès auxquels le contribuable a assisté aient des rapports avec l'entreprise qu'il exerce ou la profession qu'il pratique.

Le contribuable ne doit pas nécessairement être un membre de l'organisation sous les auspices de laquelle se tient le congrès mais, pour être admissible à une déduction, sa présence au congrès doit être en relation avec l'exercice de son entreprise ou la pratique de sa profession.

2. La Loi prévoit que les déductions ne peuvent être faites qu'à l'égard des dépenses que le contribuable a supportées pour assister à des congrès à des lieux qui sont en rapport avec le territoire sur lequel l'organisation exerce son activité. Par conséquent, il faudrait ordinairement qu'un congrès tenu sous les auspices d'une organisation canadienne commerciale ou professionnelle soit tenu au Canada, ou l'organisation a un caractère national, ou dans une province, municipalité ou autre région particulière, au Canada, lorsque les activités de l'organisation sont limitées à de tels territoires. Par conséquent, les frais supportés pour assister à un congrès organisé sous les auspices d'une organisation canadienne et tenu hors de ces limites géographiques, seront ordinairement considérés comme n'étant pas déductibles dans le calcul du revenu. A cette fin, un congrès tenu au cours d'une croisière sera considéré comme ayant été tenu hors du Canada. Cette restriction n'a pas pour but, cependant, de refuser à un contribuable une déduction de dépenses raisonnables supportée par lui en assistant et en participant dans un autre pays à une conférence organisée ou tenue sous les auspices d'une organisation commerciale ou professionnelle du pays en question, conférence qui serait en relation avec l'exercice de son entreprise ou la pratique de sa profession.

PUBLISHED UNDER THE AUTHORITY OF THE DEPUTY MINISTER OF NATIONAL REVENUE FOR TAXATION

PUBLIÉ AVEC L'AUTORISATION DU SOUS-MINISTRE DU REVENU NATIONAL POUR L'IMPÔT

3. A taxpayer who combines attendance at a convention, wherever it is, with a vacation trip must allocate his expenses on some reasonable basis to eliminate those that are essentially for vacation purposes. A reasonable basis is considered to be one that allows the taxpayer to deduct the full cost of travel (i.e., transportation and necessary meals and accommodation en route) from his place of business to the convention and back by the most direct route available, and the costs and accommodation while participating in the convention. All such costs must be reasonable as required by section 67.

4. It should be noted that expenses incurred by or for the taxpayer's wife and children while accompanying him to or at a convention or on a combined convention and vacation trip are normally considered to be personal. As such, they are not deductible.

Employees

5. Where an employer requires an employee to attend a convention as part of the duties of his employment and reimburses him for reasonable costs incurred in so doing, such reimbursement would not normally constitute income in the hands of the employee. On the other hand, if the employer gives an employee a non-accountable allowance to cover the cost of attendance at such a convention, the employee will, as a rule, be taxable on that allowance. Employees are not in any case entitled to deduct any of the costs of attending conventions in computing their income.

Travelling Expenses of Employee's Wife

6. Where an employee's wife accompanies him on a business trip, the payment or reimbursement by the employer of her travelling expenses is a taxable benefit to the employee unless she went at the request of the employer and the main purpose of her going was to assist in attaining the business objectives of the trip.

Corporations

7. The provisions of subsection 20(10) apply to corporations as well as to individual taxpayers and, where the rules of a particular convention allow a corporation to register at the convention quite independently of who its officers may be, then a corporation can "attend" a convention through one or more of its agents or employees. A corporation generally will be subject to the usual limitation of two conventions per year in connection with its business but may send more than one representative to each.

8. However, a corporation which has diversified business interests and many employees, may take the limit of two conventions per year to apply to each such interest. For example, a large integrated oil company might be interested in conventions of personnel people,

3. Un contribuable qui fait coïncider sa présence à un congrès, où qu'il ait lieu, avec ses vacances, doit répartir ses dépenses de façon raisonnable afin d'éliminer les dépenses qui sont essentiellement des frais de vacances. "De façon raisonnable" veut dire de façon à permettre au contribuable de déduire le coût entier de déplacement (c'est-à-dire le transport et les frais nécessaires d'hébergement et des repas en cours de route) de son lieu pour se rendre de son lieu d'affaires au congrès et en revenir par la voie la plus directe possible, de même que les frais d'hébergement pendant qu'il assiste au congrès. Toutes ces dépenses doivent être raisonnables, comme l'exige l'article 67.

4 Il faut noter que les dépenses supportées par ou pour l'épouse et les enfants d'un contribuable qui l'accompagnent pour se rendre ou pour assister à un congrès ou lors d'un voyage qui combine congrès et vacances, sont ordinairement réputées être personnelles Comme telles, elles ne sont pas déductibles.

Employés

5. Lorsqu'un employeur demande à un employé d'assister à un congrès dans le cadre des fonctions de son emploi, et lui rembourse une somme pour des frais raisonnables supportés à cette occasion, ce remboursement en constitue pas ordinairement un revenu pour l'employé. D'un autre côté, si l'employeur accorde à un employé une allocation dont il n'est pas tenu de rendre compte, pour acquitter les dépenses supportées lors d'un tel congrès, cette allocation sera ordinairement imposable entre les mains de l'employé. Lorsque les employés calculent leurs revenus, ils n'ont jamais le droit de déduire les coûts supportés pour assister à des congrès.

Frais de déplacement de l'épouse d'un employé

6. Lorsque l'épouse d'un employé accompagne ce dernier lors d'un voyage d'affaires, le paiement ou le remboursement par l'employeur de ses frais de déplacement constitue un avantage imposable entre les mains de l'employé, à moins qu'elle n'y soit allée à la demande de l'employeur et que le principal but de son déplacement ait été d'aider à atteindre les objectifs commerciaux du voyage.

Corporations

7. Les dispositions du paragraphe 20(10) s'appliquent aux corporations de même qu'aux particuliers et, advenant que les règlements d'un congrès particulier autorisent une corporation à s'inscrire au congrès, quels que soient les dirigeants de la corporation, une corporation peut alors "assister" à un congrès en y délégant un ou plusieurs de ses mandataires ou employés. Une corporation sera ordinairement assujettie à la restriction habituelle de deux congrès par année en rapport avec son entreprise, mais elle peut envoyer plus d'un représentant à chacun de ces congrès.

8. Toutefois, une corporation qui a des intérêts commerciaux diversifiés et un grand nombre d'employés, peut interpréter la restriction de deux congrès par année comme s'appliquant à chacun de ses intérêts. Par exemple, une grande compagnie intégrée de pétrole peut être intéressée aux congrès

accountants, chemists, geologists, and other groupings and the limit would be applicable separately to each.

9. Intracompany meetings, seminars, courses, etc., will not be regarded as conventions as far as employees of the company and its parent, subsidiary or associated companies are concerned but the rule of reasonableness in section 67 will still apply both to the amounts and the locale. The employees of an association organizing a convention would be considered as attending an intracompany meeting.

des agents du personnel, des comptables, des chimistes, des géologues et d'autres groupements et la restriction serait applicable à chacun de ces genres de congrès.

9. Les réunions, les séminaires, les cours, etc., internes d'une compagnie ne seront pas considérés comme des congrès en ce qui concerne les employés de la compagnie et de sa compagnie-mère, de ses filiales ou de ses compagnies associées. Cependant, la règle de l'article 67 qui demande que les dépenses soient raisonnables s'appliquera toujours aux montants et aux lieux des réunions. Les employés d'une association qui organise un congrès seraient alors considérés comme des personnes qui assistent à une réunion interne d'une compagnie.

Senator MATSUNAGA. We will now hear from Mr. Fait.

STATEMENT OF WILLIAM J. FAIT, PRESIDENT, ON BEHALF OF TAX EXECUTIVES INSTITUTE, INC., WASHINGTON, D.C.

Mr. FAIT. Mr. Chairman and members of the committee; I am William Fait. I am appearing today on behalf of the Tax Executives Institute, Inc. (TEI), and on behalf of TEI I wish to thank you for this opportunity to discuss the rules relating to foreign conventions.

TEI is an organization with approximately 3,360 individual members who represent 1,800 of the largest corporations in the United States and Canada. The membership consists of individuals employed by corporations and other businesses who are charged with the administration of the tax affairs of their employers in an executive, administrative or managerial capacity.

TEI is dedicated to the principle that administration of and compliance with the tax laws in accordance with the highest standards of professional competence and integrity in an atmosphere of mutual trust and confidence between business managements and tax administrators promotes uniform enforcement of taxes and minimization of the costs of administration and compliance to the benefit of both government and taxpayer.

It is in furtherance of that principle that I am appearing today to discuss section 274(h) of the Internal Revenue Code. In general, section 274(h) only permits as ordinary and necessary business expenses the deduction of expenses relating to attendance at two foreign conventions in any year with respect to any one individual.

We can certainly understand that prior to enactment of this section that there was some abuse of the tax laws by some individuals who deducted the expenses of predominately recreational trips under the guise of a business convention. However, we believe the rules represent overkill, and have created certain administrative problems.

Before I address these points, I will note that TEI is reserving judgment with respect to S. 749 which would repeal section 274(h). We are reserving because although section 274(h) was added to the code in 1976, there are still no regulations, temporary or proposed, under this section. This lack of specific guidance makes more difficult compliance with these rules as well as making about impossible a reasoned judgment on the overall value of such a provision.

I would like to give quickly some examples of the unanswered questions as to which we have no regulations guidance.

There is no definition of what is a foreign convention.

There are no rules as to the application of the rules if an individual were to attend two conventions on the same trip.

I shall now return to the matters of overkill and the administrative problems created by the statute itself.

As I previously mentioned, TEI is an organization of 3,360 individual members consisting of 39 chapters located throughout the United States and Canada. Approximately 10 percent of our membership is located in Canada. We have two chapters on the east coast, Montreal and Toronto, both chartered in 1956. There are also two chapters in the West, Calgary, chartered in 1971, and Vancouver, chartered in 1972.

Since the institute's inception, we have held in excess of 200 continuing education meetings and never once held a convention, seminar, school, or any type of meeting in other than the country, city, State or Province where our members are located. We have held two institute annual conferences and four schools on Canadian taxes in Canada during this period.

Our 1964 annual conference was in Montreal and 10 years later our 1974 annual conference was in Toronto. A seminar was held in Toronto in 1976 and in Montreal in 1978. We are scheduled to hold our 1980 annual conference in Vancouver. All other meetings were held in the U.S.A.

While we recognize there have been abuses in the area of foreign conventions, we feel these abuses can be corrected without all organizations being penalized. TEI stands ready to assist with recommendations which allow organizations like ours, having United States and Canadian membership, to continue carrying out its responsibility in the continuing education field. TEI endorses the promulgation of appropriate rules that will not allow abuse by taxpayers in the selection of conference sites by scheduling such events to take place in foreign countries where such meetings cannot be justified.

We would strongly recommend a rule which would exclude from any penalty under section 274(h) conventions, meetings, seminars, schools, et cetera, held in a location which is reasonable or appropriate keeping in mind the subject matter and attendees of the gathering. Thus, we support S. 589 as a step in the right direction.

I would like now to turn to a discussion of several administrative problems which have been caused by section 274(h).

The rules provide that the deduction for transportation is limited generally to the lowest coach or economy fare of a commercial airline during the calendar month the foreign convention begins. With airline deregulation, it can be a full time job determining the lowest coach or economy fare during any given month. Further, the statute as written would deny a deduction for a portion of the actual cost of coach or economy fare during any given month.

Surely, this cannot be intended. TEI believes this rule is too restrictive and should be modified.

Also, the law currently requires a signed statement from the employee indicating the number of days he attended the foreign convention and the number of hours of attendance at business

related activities. Further, the law requires that an officer of the group sponsoring the foreign convention certify virtually this same information. This record collection is a burdensome tax compliance requirement especially as it relates to obtaining a statement from an officer of the group sponsoring the foreign convention. Human nature being what it is, it is often that in order to secure the various tax documentation, individuals must request this duplicative documentation some time after the convention.

It appears that certification by a convention official is unnecessary and unwarranted. In this connection, TEI lauds the tenor of S. 940.

However, we do not believe that S. 940 goes far enough to relieve the administrative burdens imposed by section 274(h). The law requires that the documentation required to substantiate a deduction under section 274(h) must be attached to the return. It is this requirement which is especially onerous. In very few areas does the law require substantiation of a deduction to be attached to a return. These data unnecessarily complicate the return and can, in some cases, be quite voluminous, and thus add to the costs of processing a return for both the taxpayer and, it would seem, the IRS. Thus, TEI supports the elimination of the requirement that the supporting data be attached to the return. We believe the general recordkeeping requirements regarding travel and entertainment expenses are more than sufficient for sound tax administration without the additional burden of attaching these data to the return.

Mr. Chairman, I would like to impress upon this committee that Tax Executives Institute, Inc., believes that some relief type of legislation is necessary to undo the prohibition caused by section 274(h) and I thank you for your attention and would be pleased to entertain any questions.

Senator MATSUNAGA. You have a chapter in Hawaii, you say?

Mr. FAIT. Yes, sir. We are going to have our convention there in 1981.

Senator MATSUNAGA. How many members?

Mr. FAIT. In the chapter?

Senator MATSUNAGA. Yes.

Mr. FAIT. Around 20 at the present time.

Senator MATSUNAGA. You do not have any permanent office in Hawaii, do you?

Mr. GERVER. Yes, sir. We do. We have an office in Hawaii and have had an office in Hawaii, oh, I would say, for the last 20 years.

Senator MATSUNAGA. I see.

Mr. GERVER. I regret to hear that you were not aware of that.

Senator MATSUNAGA. There are many things big and small, that a Senator does not know about his State, but he is expected to know everything. Unfortunately, he may answer 99 questions correctly, but if he does not have the answer for the 100th one, he is deemed stupid. So as an afterthought, let me say that I may have been contacted by your chapter members at one time or other, but have no recollection at this moment.

Thank you very much, Mr. Fait. We certainly appreciate your being with us this morning.

Senator Baucus has requested that his statement appear in the record, so following the statement made by Senator Moynihan, the statement by Senator Baucus will appear, and the record will be kept open for that purpose.

Senator MATSUNAGA. Our next panel will consist of Mr. Michael Bradfield, attorney on behalf of the American Express Co.; Mr. John P. Hollihan III, on behalf of the Institute of Electrical and Electronics Engineers; Mr. Stanley Bregman on behalf of Hilton International Inc.; and Mr. John Bertram. Mr. Bertram are you here?

The other person on your panel, Mr. Bertram, has been rescheduled. If you do not mind, would you join this panel? You have someone accompanying you, Mr. Bertram? Before you make your statement, would you state his name for the stenographer to include in the record.

Mr. Bradfield, we would be happy to hear from you.

STATEMENT OF MICHAEL BRADFIELD ON BEHALF OF AMERICAN EXPRESS CO.

Mr. BRADFIELD. Thank you, Mr. Chairman.

Mr. Chairman, my name is Michael Bradfield. I am a partner in the law firm of Cole, Corette & Bradfield and I appear today on behalf of the American Express Co.

From 1968 to 1975, I served in the U.S. Treasury as Assistant General Counsel for International Affairs where I was responsible for advising on international trade, monetary, and balance-of-payments matters.

The concern of the American Express Co. is particularly related to the aspects of this law, which create, in effect, discriminatory provisions which discriminate against foreign travel. This point has been made by other witnesses, including Senator Goldwater and Senator Mathias. We would like to endorse their comments and associate ourselves with them.

I would like to have my statement included in the record, Mr. Chairman, and to make several points which can be drawn from the testimony that has been presented today.

Senator MATSUNAGA. Without objection, your statement will appear in full in the record as though delivered in full, and we would be happy to hear your summation.

Mr. BRADFIELD. Thank you, Mr. Chairman.

The first point is that I think what we have here is essentially a trade measure. This provision of law was an attempt to do tax equity but instead it has been a trade diverting measure. The testimony here today has shown that, for example, Puerto Rico and the Virgin Islands and other domestic interests have gained and certain foreign interests and American interests have lost.

Canada and Mexico, Bermuda, American airlines, the American-owned hotels have lost, and yet it would seem that this law has not really done tax equity. On the other side, as others have pointed out, you can have your convention in Puerto Rico and travel from Hawaii to Puerto Rico for the convention, spend twice as much as you would to go across the border from San Diego to Tijuana, or a border city. There is no tax equity created by this.

It would seem to me that what is really necessary is more effective enforcement of the ordinary and necessary business test. I noticed that in your opening statement you referred to research that had been done on the laws of other countries. We have done some research on these countries and we find that most of the major Western European countries, the major countries that send tourists and conventioneers, do not have restrictive rules where foreign conventions are concerned. They apply essentially the ordinary and necessary business test, which would seem to demonstrate to me that it is possible and practical to do so.

I wonder if our own tax authorities could really review the question and look at it in the light of the enforcement that takes place in other countries, because it seems that it is possible to enforce those laws, and I believe that they are being enforced.

The third point is that it seems from this testimony that the loss has been very great, the effect of this loss and the effect of this law has been a very great loss in terms of precedential value, in terms of employment, in terms of its trade effects and the gain has been very small on the other side. The gain has been small in terms of tax equity and the gain has been small in terms of the revenue for the U.S. Government.

My fourth point really relates to the question of what is the proper framework, considering these factors, considering that this law is mainly an issue of trade diversion—what should be the proper framework for its consideration?

For example, the trade law now before the Congress has elaborate provisions for considering the various questions of injury, the necessity of going before the International Trade Commission, to prove injury in order to get protection. Here in contrast, we have created a protective law without including these considerations, without following the elaborate rules that Congress has established for giving Americans trade protection in other contexts.

What we have, essentially, is a trade protection law. It would seem that if this kind of protection is desirable, if it is necessary, it ought to be considered within the context of the trade law and not within the context of the tax law, and thus more effective measures should instead be taken in the administration of the tax law to deal with the tax equity issues.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Bradfield.

We will now hear from Mr. Hollihan.

Mr. HOLLIHAN. I would ask that my written statement also be included in the record.

Senator MATSUNAGA. Without objection, your statement will appear in the record.

Mr. HOLLIHAN. Thank you.

STATEMENT OF JOHN P. HOLLIHAN ON BEHALF OF THE INSTITUTE OF ELECTRICAL AND ELECTRONICS ENGINEERS, INC.

Mr. HOLLIHAN. My name is Jack Hollihan and I represent the Institute of Electrical and Electronics Engineers, Inc., otherwise known as IEEE. IEEE is the world's largest professional engineering society with over 190,000 members. More than 35,000 of those members reside outside the United States and foreign electrical

engineers represent the most rapidly growing segment of IEEE's membership.

As you know, electronics technology has been advancing at an exponential rate. For example, the capacity of computer chips, by methods not even imagined a decade ago, has been increased from several to thousands of bits of information per chip at dramatically lower costs to the consumer.

In light of such rapidly advancing technology, electrical engineers must learn quickly about the technological bases for those developments, or they will be technologically left behind. This vital educational role is, by and large, filled in the electronics field by conventions, where electrical engineers present the latest theorems and discuss current technological problems, both formally and also informally.

More and more of those conventions are being held abroad as the electronics field is becoming increasingly international in character.

For example, there were at least six important conventions in Western Europe and Japan during 1978 for electrical engineers working with computer technology.

To many electrical engineers, attending such conventions is not a matter of choice; it is a matter of professional necessity. In fact, it is quite common for many of the electrical engineers attending conventions to have paid their own way without any reimbursement from their employers. Nevertheless, such engineers are now unable to deduct such obviously necessary business expenses if they happen to attend more than two foreign conventions a year.

To the extent American electrical engineers are thereby discouraged from attending such foreign conventions by an arbitrary tax rule, America's technological base will suffer, and this is occurring in a multibillion dollar industry that is a vital contributor to the exporting plus side, of our balance of payments.

Moreover, the international electronic field suffers because of lack of American input.

One other factor must be considered. Working committees of electrical engineers often meet over a series of multinational conventions to develop and then to promulgate international standards for electronic materiel. Those standards, in many nations, have the force of law.

When American electrical engineers are discouraged from attending those multinational conventions because of the two convention tax rule, they also are not regularly attending the working committee meetings where the international standards for electronic materiel are hammered out.

Thus, America cannot be appropriately represented in the determination of those international standards and the potential cost to America can be enormous.

If, for example, the safety standard for electrical measurement instruments such as oscilloscopes is defined so as to exclude American equipment, we lose several billion dollars in exports and some of our companies may go out of business.

Those are the sort of stakes that can be involved.

Thus, to avoid any further harm to the electrical engineering profession, IEEE is strongly in favor of the two convention tax rule

being replaced by, at the very least, a reasonableness of convention site test, or some variation on the theme.

We believe that adequate standards can be developed to assure that under such a reasonable test attendance at bona fide foreign conventions for valid business purposes would not be arbitrarily penalized, while deductions for foreign convention junkets would be foreclosed.

I thank you very much for your consideration of these remarks.

Senator MATSUNAGA. Thank you, Mr. Hollihan.

We will now hear from Mr. Stanley I. Bregman. We are happy to hear from you, Stan.

Mr. BREGMAN. Thank you, Mr. Chairman. I would like to submit for the record my written statement.

Senator MATSUNAGA. Without objection, your written statement will appear in the record in full.

STATEMENT OF STANLEY L. BREGMAN ON BEHALF OF HILTON INTERNATIONAL, INC.

Mr. BREGMAN. I am Stanley Bregman, Washington counsel for Hilton International.

Hilton is a 100-percent-owned American corporation. We operate 77 hotels throughout the world, including the United States and its territories. Mr. Chairman, we have what most people believe to be one of the most beautiful hotels in the world in the State of Hawaii.

We believe that 274(h) is most discriminatory and a restraint on international trade. This point has been made over and over again today.

International travel is the second largest element in international trade, ranking just behind petroleum. It has always been the policy of the Government of removing as many trade barriers as possible. And it has always been the policy not to impede the freedom of travel.

It appears, then, that 274(h) is inconsistent with our present policy.

You communicated in your opening statement that you would like to know something of what 274(h) has meant, or what effect it has had on American business. Let me give you one small example.

In Canada, in 1977, at four Hilton hotels when this law went into effect, there were cancellations resulting in $11 million in gross sales lost to the hotel. Now, this is just a small element when you take into consideration all the conventions that were not booked because of the present restrictions.

I do not think there is too much more that I can add to what has already been said today, and there has been a lot said, so we would just like to say that we do urge repeal of 274(h) or, at the very least, as a first step, a North American exemption.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you, Mr. Bregman, and I appreciate your brevity. There might be another vote and my luncheon guests are waiting.

We will now hear from Mr. Bertram.

STATEMENT OF JOHN BERTRAM ON BEHALF OF EUROPEAN TRAVEL COMMISSION

Mr. BERTRAM. Thank you, sir. My name is John Bertram. I am director of the Netherlands National Tourist Office in North America, but today I am representing the 23 countries of the European Travel Commission (ETC).

I am accompanied by Paul S. Quinn, a partner in the Washington law firm of Wilkinson, Cragun and Barker.

Mr. Chairman, I would like you to know that we Europeans feel that we, too, are very good neighbors and that we, too, have very close ties with the United States of America in a political, cultural, economic and military sense, and so we certainly feel that we rank with countries that may be geographically nearer to you. After all, you can cross the Atlantic nowadays in 3 hours and if there were a traffic jam on the Liberty Bridge, I think it would take you about as long to enter Canada.

We feel, Mr. Chairman, that the issue before the subcommittee is not the narrow question of how your tax laws should treat the deductibility of expenses by U.S. citizens attending conventions abroad, but rather a much more important and fundamental issue of whether the United States will reassert its leadership in the promotion of travel and tourism and the expansion of international trade and commerce.

I would like the members of this subcommittee to know, that I certainly am not here this afternoon to lecture you on tax laws or tax policies of your country. As a citizen of the Netherlands and as spokesman for the European Travel Commission, it would be presumptuous of me to do so and I would feel rather that I am here to urge this subcommittee and the Congress to repeal the restrictive, unnecessary and, according to us, unworkable provision of section 274 of the Internal Revenue Code.

We feel that that particular provision discourages U.S. citizens from attending out-of-the-country conventions and meetings.

Our position is very clear. We strongly favor the enactment of S. 749. We are extremely, very strongly, opposed to the enactment of S. 589 and, although we believe that S. 940 would be a step in the right direction, it will not cure the basic defects of your tax laws as they affect expenditures for attending foreign conventions.

In ETC's view, sir, the existing restrictions contained in your tax laws concerning attendance at foreign conventions are not good for those countries desiring to attract such conventions but, what is more important as your friends, we feel that they are not good for the United States and for U.S. citizens.

We have submitted a written statement, and I would appreciate, it sir, if that statement could be submitted for the record.

In that statement, we make the following point. We feel that reciprocity in trade and travel relations is clearly in the best interests of the United States; the existing law is inconsistent with that philosophy and the enactment of 749 would eliminate that inconsistency.

We feel that adoption of a proposal that would exempt the North American area from your current restriction would greatly aggravate the existing inconsistency in your country's commitment to reciprocity and would discriminate against countries outside the

North American area. Therefore, we feel that S. 598 should be rejected.

It is in the best interests, we feel, of the United States to further increase foreign business travel and expand export markets and these objectives can be obtained through adoption of a more liberal tax policy for the attendees at conventions held abroad.

The ordinary and necessary test contained in your tax laws prior to the 1976 laws was adequate to regulate the legitimacy of deductions for attending foreign conventions and therefore, retention of section 274 is unnecessary.

We feel that the adoption of section 274 and the failure of the Internal Revenue Service to publish rules and regulations governing its provisions have had a severe negative effect on travel and tourism, business travel and conventions to the 23 member countries of the European Travel Commission and other countries throughout the world.

Now, by listening to my competitors, Mr. Chairman, this morning, I would like to say that they should come and talk to us. We are very willing to identify the vast, potential market in highly industrialized Europe for Puerto Rico, for Hawaii, and Canada. Americans we feel, should go out and sell this beautiful country and the possibilities for Europeans to attend meetings here and benefit from an exchange of views.

We feel that any losses that might be incurred for instance, by Puerto Rico, could well be made up, more than made up, by going over to Europe and trying to get European meetings to come to the U.S. area. We have no restrictions in travel abroad at all, and a lot of European companies and organizations would love to meet in a country that has been traditionally one of the closest to us, the country that we have always admired for what they did for Europe. And we sincerely believe that the best political and economic solution would be to get as many European meetings to come to the United States of America.

When coming to Europe, people can meet counterparts; they could broaden their horizons; they could bring delegates back to the United States. We feel that if any part of the world has an opportunity for Americans to learn new technics and to meet people that are at their same level; it is certainly Europe. Consequently, we feel somewhat hurt if there should be restrictions in your law that would be difficult for Europe to overcome.

Thank you very much, sir, for giving me this opportunity.

Senator MATSUNAGA. Thank you very much, Mr. Bertram.

Where do you call home?

Mr. BERTRAM. The Netherlands, sir. At the moment, I live in New York City. It may be of interest to you, I am a faithful taxpayer.

Senator MATSUNAGA. You are a U.S. taxpayer?

Mr. BERTRAM. Yes, sir.

Senator MATSUNAGA. I am certainly glad to know that and I hope you did not have to make a special trip from the Netherlands to testify before this committee.

Mr. BERTRAM. No, I have not, sir, but I do know that a lot of Europeans would gladly have made the trip to see you and be heard here, because we certainly feel that in the ties between your

country and the 23 countries of Europe it would be to your benefit and to our benefit if there are no restrictions to creating meetings.

I am particularly pleased to be on this panel today because I heard so many expressions that go in that direction.

Senator MATSUNAGA. Thank you very much. We certainly appreciate the sentiments you have expressed and I certainly am sure that Members of the Senate feel the same toward the 23 countries you represent.

Are you going to testify, Mr. Quinn?

Mr. QUINN. I would just like to add one thought, if I may, Mr. Chairman.

Senator MATSUNAGA. Would you state your name for the record, please?

Mr. QUINN. Paul S. Quinn of Wilkinson, Cragun and Barker in Washington.

Throughout the last 3½ hours it appears clear that everybody is in agreement that this is a terrible piece of legislation. As Senator Goldwater said, it is nitpicking, it is stupid and it makes no sense.

The other theme is that those who do not have the restrictions applied to them do not seem to mind; those who do, do mind.

As Mr. Bertram has said, the answer is to eliminate the restrictions completely. We have referred to the basic tax test that has existed since 1976. We are talking about a $5 million potential tax loss, which can be overcome easily through the kind of promotional efforts that those who have testified in favor, we feel, can verify.

We hope that the committee will take that in mind when it considers the important issues involved.

Senator MATSUNAGA. Mr. Bertram, do you have any idea as to how many tourists come to the United States from the 23 nations which you represent?

Mr. BERTRAM. I have a pretty good idea, sir. At the moment, there are about 2.8 million annually and we feel that this year, and certainly next year, that we will grow to about 3.5 million tourists, and consequently we believe that in the next few years there will be an absolute balance between tourism from the United States to Europe and from Europe to the United States.

At the moment, for your information, there are about 4 million Americans visiting Europe, but there is a rapidly growing interest in the European countries to come to the United States. There is growth, as we have put in our papers, recorded at about 35 percent per year from countries such as Great Britain, the Benelux countries and Germany.

So I feel that the trend is very, very encouraging indeed. The trade balance between most European countries and the United States is already very much in favor of the United States. Growing European travel is rapidly approaching a balance in tourism. There would seem to be no reason to restrict travel from the United States to Europe.

The situation is solving itself. The income earned by your country is equal to the expenditure of your compatriots in our part of the world.

Senator MATSUNAGA. Thank you very much.

Mr. Hollihan, the experience of your group struck me as being truly an injustice imposed upon your membership, because of the lack of clear definition more than anything else.

Is the thrust of your position that when your members go to foreign countries to attend meetings with other engineers of foreign countries to set standards for international use that after two of these meetings you are not allowed to deduct, as business expenses, the expenses incurred in the third meeting, and thereafter?

Mr. HOLLIHAN. I do not think that that would be a problem except that oftentimes those meetings are regularly held in conjunction with foreign conventions and both are attended by American volunteers. We are very much afraid that upon, say, the audit of an engineer's return who went to four working committee meetings on the international standards for voltmeters, his deductions for expenses incurred in attending those meetings will be denied if the auditing agent asks, "Did you go to conventions there, too?" And the engineer says, "yes."

It is the connection of the working committee meetings with foreign conventions—to save the engineers money in attending both those meetings and the conventions in the first place—that creates the problem. Further, many engineers who are not on these working committees with respect to standards may well need to attend more than two foreign conventions a year in order to stay competitive in their business, so the problem is not one of definition.

Senator MATSUNAGA. Thank you very much.

I did have some others questions, but I now have less than 4 minutes to go to the Senate floor and vote on the amendment being considered. Stan, I can talk to you later informally—and Mike, too.

I would like to note the presence of constituents from Hawaii. I would like to remain here and show them how the Senator from Hawaii functions as the lone member of the committee chairing these hearings, but I must leave to vote now. If you will excuse me, I will order the inclusion in the record at the appropriate places of other statements submitted and order the subcommittee to recess subject to the call of the Chair.

[The prepared statements of the preceding panel follow:]

STATEMENT OF MICHAEL BRADFIELD ON BEHALF OF THE AMERICAN EXPRESS CO.

SUMMARY

American Express is concerned that the foreign convention provisions of the 1976 law create new non-tariff trade barriers that discriminate against foreign travel. In doing so they undermine a basic principle of United States foreign economic policy—to secure a world economy with the fewest possible restrictions on the free flow of goods and capital among nations, and where restrictions are necessary, to subject them to international rules to assure administration on a nondiscriminatory basis and under international review.

The travel limitations of the Tax Reform Act of 1976 not only impair United States international policy objectives, but also have the effect of limiting the ability of other countries to follow the same liberal trade objectives. Discriminatory restrictions imposed by the United States make it difficult to persuade other governments to adopt the outward looking economic policies most likely to promote growth in their own economies and the international economy. The economies of our nearest neighbors—Canada and Mexico—are most significantly, directly and adversely affected by our restrictions on foreign conventions.

Our position is all the more untenable because other major industrial countries have not attempted to utilize their tax systems to discriminate against foreign travel. In preparation for this hearing, we researched foreign rules on the deduct-

ibility of the costs of attending foreign conventions and consulted with corresponding counsel. This research shows that most Western European countries, including the United Kingdom, Belgium, Germany, the Netherlands, France, Switzerland, Italy, and Japan apply a version of the "ordinary and necessary" test to both domestic and foreign conventions.

It might be suggested that other countries do not have the same administrative burdens which the United States has, or that in other countries foreign travel is restricted, so that they do not face a problem of the same relative magnitude as ours. Our research indicates that this is not the case.

We would suggest that it is appropriate for the Congress to remove the foreign convention restrictions which are entirely unnecessary. In contrast with those measures that have been adopted to assist U.S. firms in meeting foreign competition, the discriminatory limitations on foreign convention travel contained in the Tax Reform Act of 1976 are strongly opposed by U.S. industry, in this case the travel industry which is both efficient and highly competitive with foreign competition. Thus, without adversely affecting U.S. industry, the United States can set an example by removing highly resented and unnecessary non-tariff barriers to trade. This can be done, as the experience of other countries proves, without compromising fair administration of our tax laws.

STATEMENT

Mr. Chairman, members of the Committee, my name is Michael Bradfield. I am a partner in the law firm of Cole Corette and Bradfield, and I appear today on behalf of the American Express Company. From 1968 to 1975, I served in the United States Treasury as Assistant General Counsel for International Affairs where I was responsible for advising on international trade, monetary, and balance-of-payments matters.

Mr. Chairman, American Express welcomes the opportunity to testify today on the tax treatment of expenses incurred attending a foreign convention.

The provisions of the Tax Reform Act of 1976 on this subject introduce a new kind of international trade barrier by granting a preference to domestic business travel over foreign business travel. Under the deductibility restrictions of the Act, including the two foreign conventions per year rule and other limiting provisions, business travelers are not prevented from traveling abroad; rather, the cost of foreign travel is made significantly more expensive than comparable domestic travel.

There are three proposals now before the Committee—S. 749, S. 589 and S. 940—that would make changes in these rules. S. 749 would repeal the amendments on foreign conventions enacted under the Tax Reform Act of 1976, resulting in the reapplication of the time-honored ordinary and necessary test for eligibility to take tax deductions for convention travel, both foreign and domestic.

S. 589 would go only part way toward the objective of S. 749 by providing that all conventions held in the "North American area," defined as Canada, Mexico, the United States and its possessions, would be treated as domestic conventions under present law. Finally, S. 940 would not make major modifications in the treatment of foreign conventions under the 1976 law, but instead would simplify, slightly, the reporting requirements for taxpayers who have attended foreign conventions.

Instead of dealing with the specific provisions of these bills, I believe I could be most helpful to the Committee today by focusing my testimony on a basic and fundamental issue underlying the position of the American Express Company—that the foreign convention provisions of present law are unnecessary and undermine United States foreign economic policy objectives.

Our concern is that the foreign convention provisions of the 1976 law create new non-tariff trade barriers that discriminate against foreign travel. In doing so they undermine a basic principle of United States foreign economic policy—to secure a world economy with the fewest possible restrictions on free flow of goods and capital among nations, and where restrictions are necessary, to subject them to international rules to assure administration on a nondiscriminatory basis and under international review.

The United States has adhered to this policy not only because we have been the victim of foreign trade barriers, but also because experience has shown that our people, and the world as a whole, prosper best in a framework that promotes the freest exchange of goods and services. As a worldwide provider of financial services, the American Express Company subscribes to these fundamental policies.

Since the end of World War II, the principles advocated by the United States have become embodied in the basic instruments that govern the conduct of international trade and payments. Removal of trade barriers is a basic principle of the GATT. The International Monetary Fund Articles of Agreement—the fundamental regulations governing international payments—prohibit members from imposing restrictions on current international payments and subject limitations on capital move-

ments to international review. Elimination of economic and politically troublesome restrictions on the international movement of goods, services and capital is also a basic principle of the Organization for Economic Cooperation and Development, and a numerous Treaties of Friendship, Commerce and Navigation which the United States has entered into in the course of the past thirty years.

The travel limitations of the 1976 Act not only impair United States international policy objectives but also have the effect of limiting the ability of other countries to follow the same liberal trade objectives. Discriminatory restrictions imposed by the United States make it difficult to persuade other governments to adopt the outward looking economic policies most likely to promote growth in their own economies and the international ecomony. The economies of our nearest neighbors—Canada and Mexico—are most significantly, directly and adversely affected.

The 1976 travel deduction rules also present an inherent limitation on overseas business contacts, with a resulting potentially negative impact on U.S. export possibilities, proportionately curtailing the opportunity for expanded growth at home. In addition, to the extent there is retaliation by foreign governments, our present large balance of payments deficit, which is a major drag on growth, will be increased by a decline in foreign conventions held in the United States.

The fundamental international economic policy objectives we have outlined above have been endorsed by Congress time and time again. The Congress has approved and continues to approve our participation in the International Monetary Fund. It has approved the policy of reducing barriers to trade, and has endorsed the results of six rounds of trade negotiations within the context of GATT, which when the current Tokyo Round accords are implemented, will reduce the weighted average tariff for the United States to approximately 4.5 percent on dutible imports.

The concept of promoting free and fair trade was strongly endorsed by the Congress in the Trade Act of 1974, which authorized negotiations on the elimination of non-tariff barriers and set up the streamlined procedure for consideration of the results of those negotiations.

The Congress now has before it the results of the Tokyo round, which set a major new international precedent by adding the reduction and elimination of non-tariff barriers to trade, as part of the trade negotiation process carried out in the GATT. The Administration has presented legislation to approve and implement new international codes of conduct in such areas as subsidies, customs valuation, government procurement, and product standards.

The 1974 Trade Act, for the first time, brought services within the ambit of the President's trade negotiating power, evidencing the Congress' intent that the same rules of free and fair trade which govern the exchange of goods should apply equally to services. In the case of business travel, this makes particularly sound economic sense for this essentially consists of the purchase of food, transportation, hotel space and other services.

Unfortunately, trade in services has not yet been a major focus of international negotiations for the reduction of trade barriers. However, the Congress has indicated its concern about the lack of progress in this area. For example, the Senate Finance Committee has stated that it will recommend the establishment of a Services Sectoral Advisory Committee under the private sector advisor system created by the Trade Act of 1974 in order to assure that the need for reduction of barriers to trade in services will be brought to the attention of the Executive Branch and the GATT. Moreover, the Subcommittee on Trade of the Committee on Ways and Means has specifically recommended that services be brought within the scope of the Government Procurement Code prior to its first review within three years of its effective date.

We have brought these facts to the attention of this Subcommittee because we believe the present discriminatory U.S. limitations on foreign business travel under mine our basic economic policy of removing barriers to trade, as well as our specific desire to bring services within the scope of these international trade rules. They will encourage other countries to adopt discriminatory restrictions on business expenditures—thus opening wide a whole new field for trade barriers. Other countries have cited in the past, and will cite in the future, our restrictions as a justification for their own. On the other hand, the removal of the 1976 limitations will set a precedent for keeping the area of deduction of business expenses free from a competitive race to erect new barriers to trade.

The U.S. position is all the more untenable because other major industrial countries have not attempted to utilize their tax systems to discriminate against foreign travel. In preparation for this hearing, we researched foreign rules on the deductibility of the costs of attending foreign conventions and consulted with correspondent counsel. This research shows that most Western European countries, including the United Kingdom, Belgium, Germany, the Netherlands, France, Switzerland,

Italy, and Japan apply a version of the "ordinary and necessary" test to both domestic and foreign conventions.

Canada applies the same "ordinary and necessary" rules to both foreign and domestic convention expenses, and such expenses, whether foreign or domestic, may be deducted with respect to two conventions per year at places reasonably related to the organization's purposes. The Canadian rules were adopted in 1956 in an attempt to liberalize a restrictive court decision which disallowed the deduction of expenses for convention attendance on the grounds that they were capital expenditures and as such not deductible.

It might be suggested that other countries do not have the same administrative burdens which the United States has or that in other countries foreign travel is restricted so that they do not face a problem of the same relative magnitude as ours. Our research indicates that this is not the case.

The tax administrations of all the countries surveyed must make the same types of judgments as to whether convention travel is related to business purposes or is primarily of a personal nature. This experience should demonstrate to our own tax authorities that successful administration of the ordinary and necessary test with respect to foreign travel is entirely feasible. If our non-tariff barriers in this area were repealed, the present requirement that foreign convention and seminar travel qualify as ordinary and necessary business expense would continue to apply and domestic and international travel for such purposes would be put on the same basis for tax purposes.

Moreover, my impression is that in most of the countries listed above, and particularly in Western Europe, with its highly developed private business economy and many borders, there is a considerable amount of convention travel. Foreign business travel to the United States in general has been increasing at a rate of 5-6 percent per year, from about 1,760,000 in 1976 to 1,980,000 in 1978. In 1978 an estimated 140,000-160,000 foreigners attended business conventions or seminars in the United States. Thus the administrative burden of dealing with foreign convention travel in the major foreign countries is probably comparable to that of the United States authorities.

Because of the heavy dependence of Western Europe on foreign trade, undoubtedly much of the business travel overseas is export promotion oriented. In this, there may be a lesson for the United States: to improve our balance-of-payments performance without import restrictions, more rather than less foreign business travel may be necessary.

On the other hand, numerous countries, particularly developing countries, with balance-of-payments problems do maintain foreign exchange controls on foreign travel, in contrast with the United States where such measures have been rejected as an unwarranted restriction on freedom of movement. These countries are under continuing international pressure in such fora as the IMF to remove these restrictions as their balance-of-payments conditions improve. In many cases these restrictions may not be imposed without adequate justification since, as I noted earlier, developed IMF members are prohibited from imposing exchange restrictions on current account transactions, including foreign travel, without first obtaining the approval of the Fund.

For members of the Organisation of Economic Cooperation and Development (OECD), there are additional obligations imposed by the Code of Liberalisation of Current Invisible Operations. Under the Code, member countries undertake to eliminate any restrictions on so-called "invisible operations," including business travel and tourism, and may derogate from "liberalisation" measures only for balance-of-payments reasons and only after careful considerations by the Organisation. In addition, both the IMF and OECD require that any restrictions imposed for balance-of-payments reasons must be nondiscriminatory in application. Thus while there has been some increase in the number of measures taken by the governments to protect domestic goods and services from foreign competition and to restrict foreign trade in response to balance-of-payments problems, a general movement towards protective measures has largely been avoided.

In the services sector, however, and particularly with respect to travel, the general movement towards liberalization, which was slowed by the dislocations caused by the 1973-74 oil price increases, has continued. For example, in 1978 Japan, Singapore and Argentina eliminated all currency restrictions on overseas travel, and those in Italy, India, the United Kingdom, Israel, Sri Lanka, and Zambia have been liberalized.

Nevertheless, pressures for restrictive measures will intensify as many countries seek to adjust, once again, to the recent increases in oil prices. The adoption by the Congress of the results of the multilateral trade negotiations in Geneva will be a significant step towards counteracting these pressures.

We would suggest that it is appropriate for the Congress to remove the foreign convention restrictions which are entirely unnecessary. In contrast with those measures that have been adopted to assist U.S. firms in meeting foreign competition, the discriminatory limitations on foreign convention travel contained in the Tax Reform Act of 1976 are strongly opposed by U.S. industry, in this case the travel industry which is both efficient and highly competitive with foreign competition. Thus, without adversely affecting U.S. industry, the United States can set an example by removing highly resented and unnecessary non-tariff barriers to trade. This can be done, as the experience of other countries proves, without compromising fair administration of our tax laws.

It is in this context that we believe that the rules of deductibility of foreign convention travel need a careful Congressional reappraisal. The advantages which the Congress has sought to achieve in terms of tax administration are likely to be much more than offset by both foreign adoption of the same type of trade limitations and, perhaps more importantly, by the undermining of the fundamental position of the United States in opposition to the trade restrictive actions of others. For these vital policy reasons, the American Express Company urges that the present discriminatory provisions be repealed.

STATEMENT OF JOHN P. HOLLIHAN III, FOR THE INSTITUTE OF ELECTRICAL AND ELECTRONICS ENGINEERS, INC.

SUMMARY

Electrical and electronics engineers work in an area of rapidly advancing technology and, as a matter of business necessity, must regularly attend conventions to keep technologically "current". As the electronics field is becoming increasingly international, more and more of those conventions are being held overseas.

The "two convention" tax rule arbitrarily penalizes those American electrical and electronics engineers who need to attend more than two foreign conventions per year by not allowing those engineers to deduct their expenses in attending such conventions. As such, the "two convention" tax rule acts as an unwarranted impediment to American electrical and electronics engineers staying competitive, by keeping their technological base current. Further, the "two convention" tax rule discourages American electrical and electronics engineers from attending working committee meetings on international standards for electrical and electronic materiel (which are often held in conjunction with foreign conventions) so American input in the formulation of those standards is disproportionately reduced.

The "two convention" tax rule should therefore be replaced by a "reasonableness of convention site" test, or some variation on that theme. Adequate standards can be developed to insure that, under such a reasonableness test, attendance at bona fide foreign conventions for valid business purposes would not be penalized, while deductions for "foreign convention junkets" would be foreclosed.

STATEMENT

The Institute of Electrical and Electronics Engineers, Inc. ("IEEE") is strongly opposed to the continuation of the "two convention" tax rule regarding the deductibility of expenses incurred in attending foreign conventions, because of that rule's adverse impact on the electrical and electronics field in general, and on American electrical and electronics engineers in particular. IEEE is the world's largest professional engineering society of some 191,000 members, with more than 35,000 of those members residing outside the United States. Foreign electrical and electronics engineers represent the most rapidly growing segment of IEEE's membership.

Electrical and electronics technology has been advancing at an exponential rate. An obvious example is in the area of computer chip capacity, where by methods not even imagined a decade ago, chip capacity has been increased from several, to thousands of bytes of information per chip—at dramatically lower costs per byte to the consumer.

In light of such rapidly advancing technology, electrical and electronics engineers must learn quickly about the technological bases for such developments, or be technologically "left behind." This vital educational role is by and large filled in the electrical and electronics field by conventions, where the latest theorems are presented, and where current technological problems are discussed and analyzed, both in formal workshops and in informal discussions. To many electrical and electronics engineers, attending such conventions is not a matter of choice; it is a matter of professional necessity. In fact, it is quite common for many of the electrical and

electronics engineers attending a given convention to have "paid their own way," without being reimbursed by their employers.

As the electrical and electronics field is becoming increasingly international in character, with thousands of electrical and electronics engineers living and working abroad (particularly in Western Europe and Japan), and increasing number of the conventions which American electrical and electronics engineers need to attend are held abroad. The cost of travelling to and attending such foreign, rather than domestic, conventions is high enough without having the additional disincentive of being unable to deduct such costs.

Even though many electrical and electronics engineers, and particularly those working in the forefront of electronics technology, vitally need to attend such foreign conventions, such engineers are now unable to deduct such obviously necessary business expenses to the extent they happen to attend more than two such foreign conventions per year. When American electrical and electronics engineers are, as a result, discouraged from attending such foreign conventions by an arbitrary tax rule, America's technological base (as compared with the rest of the world's) suffers—and this is occurring in an industry which is a multi-billion dollar component of our gross national product and which is, among other things, a vital contributor to the export "plus" side of our balance of payments. Moreover, the international electrical and electronics field suffers, because of lack of input at foreign conventions from those American electrical and electronics engineers who, because of the "two convention" tax rule, cannot afford to attend.

Though IEEE has not attempted to quantify the extent to which electrical and electronics engineers have been dissuaded from attending necessary foreign conventions by the "two convention" tax rule, common sense, as well as IEEE member complaints about that tax rule, indicates that there is a problem—which only gets worse with the passage of time.

One other factor must be considered. Working committees of electrical and electronics engineers often meet over a series of multinational conventions to develop and then to promulgate international standards for electrical and electronic materiel. When American electrical and electronics engineers do not attend those multinational conventions because of the "two convention" tax rule, they obviously are not also attending, at least with any regularity, the working committee meetings where the international standards for electrical and electronic materiel are hammered out. As a result, America, to its competitive detriment, cannot maintain an appropriate level of representation in the determination of those international standards.

Thus, IEEE is strongly in favor of the "two convention" tax rule being replaced by a "reasonableness of convention site" test, or some variation on that theme. IEEE believes that adequate standards can be developed to ensure that, under such a reasonableness test, attendance at bona fide foreign conventions for valid business purposes would not be penalized, while deductions for "foreign convention junkets" would be foreclosed. The present "two convention" tax rule does not achieve that end. Instead, the rule undermines the continuing education of American electrical and electronics engineers in particular, and harms the international electrical and electronics field in general, because the rule unnecessarily discourages American engineers from attending and participating in valid electrical and electronics conventions that happen to be held outside the United States.

Thus, IEEE strongly urges that the "two convention" tax rule be promptly replaced by a "reasonableness of convention site" test, or some variation of that theme.

STATEMENT OF STANLEY I. BREGMAN FOR HILTON INTERNATIONAL, INC.

Mr. Chairman, I am Stanley I. Bregman of the law firm of Bregman, Abell, Solter & Kay. We represent Hilton International, Inc. on whose behalf I am testifying today. Hilton International, Inc. a 100% American owned corporation, operates 77 hotels throughout the world, including the United States and its territories. We now have under construction a new 800-room hotel in the city of New York, and we have what most people believe to be one of the most beautiful hotels in the world located in the State of Hawaii.

When Congress adopted Section 602 of the Tax Reform Act in 1976, it adopted a provision which, in our opinion, was discriminatory and created an impediment to international trade without providing corresponding justification or compensation.

The United States Department of Commerce estimated that in 1978, international visitors to this country spent about 6.7 billion dollars in foreign exchange earnings which supported 270,000 U.S. jobs. The Department testified before the Senate Appropriations Committee that these earnings provided about 880 million dollars in

federal, state and local tax receipts. This 6.7 billion in travel dollars was recycled an estimated 3.3 times and had an impact on our economy of roughly 22.1 billion dollars.

International travel is a close second to petroleum as the largest dollar item in world trade. It has always been the policy of the United States to work for the removal of trade barriers among the trading partners of the world, yet by creating an economic penalty for Americans attending business conventions abroad, a new barrier is established. This is a period when government policy should be to stimulate American exports and improve the American image abroad. It is, therefore, particularly unfitting at this time to curtail travel of Americans abroad. The restrictions on overseas conventions are inconsistent with these policies.

Many American organizations that hold their conventions overseas have members who are not American nationals. By putting restrictions on Americans, we are then in effect also putting restrictions on non-Americans.

When the legislation concerning overseas conventions went into effect in January 1977, it caused irreparable harm to Hilton International. In Canada, at four Hilton International hotels, convention cancellations in 1977 caused a loss of 11 million dollars in gross sales. This figure does not include convention business which, but for the legislation, would have been booked into Hilton International hotels. thus, the 11 million dollars may be a small fraction of actual dollars lost. Although the legislation is a non-tariff restriction, it has the same effect as a trade barrier.

The restrictions on overseas business conventions do not mean increased profits for United States businesses. They do not create a benefit for the United States economy. They only create a burden upon it. If the restrictions are allowed to continue, we can only expect retaliation from foreign countries. Of the six foreign countries who supply the largest number of tourists to the United States, only one has restrictions similar to those in Section 602.

For these reasons, we urge Congress to eliminate the restrictions imposed by Section 602 of the Tax Reform Act of 1976, or at the very least, as a first step to create an exemption for North America.

Mr. Chairman, thank you very much for giving us the opportunity to testify.

Testimony of John G. Bertram on Behalf of the European Travel Commission

EXECUTIVE SUMMARY

Mr. Chairman and members of the subcommittee: I am John G. Bertram, Director for North America of the Netherlands National Tourist Office and Immediate past U.S. Chairman of the European Travel Commission (E.T.C.).[1] I appear here this morning on behalf of the official national tourist organizations of the 23 European countries which comprise E.T.C. and I am accompanied by Paul S. Quinn, a partner in the Washington, D.C. law firm of Wilkinson, Cragun & Barker and by Donald N. Martin of Donald N. Martin Co. of New York, consultants to E.T.C.

Mr. Chairman, the issue before this Subcommittee is not the narrow question of how your tax laws should treat the deductibility of expenses by United States citizens attending conventions abroad, but rather, a much more important and fundamental issue of whether the United States will reassert its leadership in the promotion of travel and tourism and the expansion of international trade and commerce.

I am certainly not here this morning to lecture this Subcommittee on tax laws or tax policies of the United States. As a citizen of the Netherlands and spokesman for E.T.C., it would be presumptuous of me to do so. Rather, I am here to urge this Subcommittee and the Congress to repeal the restrictive, unnecessary and unworkable provision of Section 274(h) of the Internal Revenue Code which discourages United States citizens from attending out of the country conventions and meetings.

There are three bills pending before the Subcommittee; S. 749, which would repeal Section 274(h); S. 940, which would modify the reporting requirements of that section; and S. 589, which would exempt the North American area from the restrictions contained in Section 274(h). The E.T.C. strongly favors the enactment of S. 749 and is strongly opposed to the enactment of S. 589. We further believe that the enactment of S. 940, while a step in the right direction, would not cure the basic defects of your tax laws as they affect expenditures for attending foreign conventions.

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[1] The E.T.C. and its counsel have filed with the Department of Justice registration statements required from agents of foreign principals. The Subcommittee has been provided with copies of these statements.

As spokesman for E.T.C., I am not merely here as an objective observer of your deliberations, but rather as a representative of 23 European countries who have a substantial interest in urging the elimination of Section 274(h).

In our view, the existing restrictions contained in your tax laws concerning attendance at foreign conventions are not good for those countries desiring to attract such conventions and, more importantly, are not good for the United States or its citizens.

In my written statement, which I request be submitted for the record, I support E.T.C.'s position by making the following points:

Reciprocity in trade and travel relations is clearly in the best interests of the United States. The existing law is inconsistent with that philsophy, and the enactment of S. 749 would eliminate that inconsistency.

Adoption of a proposal which would exempt the North American area from your current restrictions would greatly aggravate the existing inconsistency in your country's commitment to reciprocity, would discriminate against countries outside the North American area, therefore S. 598 should be rejected.

It is in the best interests of the United States to further increase foreign business travel and expand export markets. These objectives can be attained through adoption of a more liberal tax policy for the attendees at conventions held abroad.

The "ordinary and necessary" test contained in your tax laws prior to 1976 were adequate to regulate the legitimacy of deductions for attending foreign conventions; therefore, retention of Section 274(h) is unnecessary.

The adoption of Section 274(h) and the failure of the Internal Revenue Service to promulgate rules and regulations governing its provisions have had a severe negative effect on travel and tourism, business travel and conventions in the 23 member countries of E.T.C. and other countries throughout the world.

The elimination of Section 274(h) would be consistent with President Carter's trade policy, and the longstanding commitment of your country to reciprocity, evenhandedness and openness in your foreign trade policy.

Thank you Mr. Chairman for the opportunity to appear here this morning.

TESTIMONY OF JOHN G. BERTRAM ON BEHALF OF THE EUROPEAN COMMISSION

Mr. Chairman and members of the subcommittee: My name is John G. Bertram. I am Director for North America of the Netherlands National Tourist Office and Immediate Past U.S. Chairman of the European Travel Commission (E.T.C.), an association comprised of representatives of the official national tourist organizations of 23 European countries.[1] I am accompanied today by Paul S. Quinn, a partner in the Washington, D.C. law firm of Wilkinson, Cragun & Barker, and by Donald N. Martin of Donald N. Martin Co., Inc., New York, consultants to E.T.C.

On behalf of E.T.C., I would like to thank the Subcommittee for the opportunity to present testimony concerning Section 274(h) of the U.S. Internal Revenue Code which restricts the amount of expenses United States citizens can deduct for attendance in out-of-this-country conventions.

The E.T.C. member national tourist organizations are dedicated to cooperative efforts to further international goodwill and understanding as well as economic growth through the promotion of travel and tourism. The member organizations work on behalf of their governments and all segments of their national tourism industries to accomplish these objectives.

In addition, we work closely with the official and commercial tourism organizations of the United States. The E.T.C. is a non-profit association deriving its financial support solely from funds supplied by its members.

I. INTRODUCTION

A. The E.T.C. position: Section 274(h) should be repealed

The European Travel Commission believes that Section 274(h) of the Internal Revenue Code should be repealed in its entirety and we respectfully urge that Congress adopt Senator Goldwater's bill, S. 749 which would accomplish this. The other proposal to alter Section 274(h) through the enactment of the so-called North American exemption is, in our view, inadvisable, and we urge that it be rejected. In

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[1] The E.T.C.'s 23 member countries are Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Great Britain, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, Monaco, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, and Yugoslavia.

Both the E.T.C. and its counsel have filed with the U.S. Department of Justice statements required from agents of foreign principals. The Subcommittee has been provided with copies of these statements.

support of the total repeal of Section 274(h), we would like to address the following issues:

The importance to the United States of reciprocity in trade and travel relations;
The increase in foreign business travel to the United States;
The impact of tourism on the economies of the U.S. and E.T.C. countries;
The sufficiency of the statutory standard and I.R.S. regulations on "ordinary and necessary" business expenses prior to the adoption of Section 274(h) in 1976;
The discriminatory aspects of the proposed North American exemption; and
The unreasonableness of any so-called "more reasonable" test.

B. The stringent provisions of section 274(h)

As this Subcommittee is aware, Section 274(h) was added to the Code by Section 602 of the Tax Reform Act of 1976. That section permits taxpayers to deduct expenses incurred at only two foreign conventions[1] per year, and imposes the following additional requirements:

Deductions for subsistence may not exceed the federal per diem rate for the location where the convention is held;

Taxpayers must include with their tax returns a written statement signed by an officer of the organization sponsoring the convention attesting to the business activities attended by the taxpayer; and

Deductions for subsistence expenses are not allowed unless the individual attends two-thirds of the scheduled business activities of the convention.[2]

These limitations have severely curtailed the freedom of Americans to attend meetings which would aid their business and professional interests and have greatly inhibited efforts to promote successful conventions outside the U.S.

II. THE IMPORTANCE TO THE UNITED STATES OF RECIPROCITY IN TRADE AND TRAVEL RELATIONS

A. Openness and reciprocity are the hallmarks of U.S. economic policy

The adoption of Section 274(h) was both surprising and disappointing since it is contrary to the basic principle of U.S. economic policy: equal access to world markets. Congress, President Carter, and Robert Strauss, chief U.S. trade negotiator, have all recently reaffirmed that reciprocity and openness are central to a successful foreign trade policy. For example:

Congress, in the Trade Act of 1974, identified several goals for U.S. trade policy: the strengthening of economic relations between the United States and foreign countries through open and non-discriminatory world trade; the establishment of fairness and equity in international trading relations; and the reduction or elimination of barriers to trade on a basis which assures substantially equivalent competitive opportunities for the commerce of the U.S.

In his January 4, 1979 report to Congress on the progress of the multilateral trade negotiations, President Carter emphasized his confidence that the negotiations will embody the objectives outlined by Congress in the 1974 Act, and that the new trade agreements will be designed to "ensure that the international trading system is both fair and open."

Following the President's message to Congress, Mr. Strauss told the press that while not all problems can be resolved at the Geneva negotiations, "we can assure that [international trade] be conducted more fairly and openly by reducing the competitive disadvantages which increasing government intervention in world markets creates."[4]

B. Foreign conventions facilitiate identification of export opportunities

It seems to us that the philosophy and effect of Section 274(h) as contrary to the trade policy outlined by Congress and endorsed by President Carter and we believe that its provisions obstruct U.S. citizen opportunities for foreign contacts which could otherwise lead to increased U.S. exports. In view of the United States' unfavorable balance of trade, we would think that the Congress would wish U.S. businessmen to go abroad to seek out export opportunities, not discourage them from doing so.

Foreign conferences provide an environment conducive to the establishment of good working relationships with foreign businessmen, professionals, and government officials. In addition, they offer an excellent opportunity for increasing U.S. exports

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[1] Section 274(h) defines a foreign convention as one outside the United States, its possessions, and the Trust Territory of the Pacific.

[2] See Appendix A for a more detailed description of the provisions of Section 274(h) of the Internal Revenue Code.

[4] The Wall Street Journal, Jan. 5, 1979, at p. 3.

through trade show displays and promotion of U.S. goods. There are literally hundreds of illustrations of this. For example, in April 1978, 2,500 members of the gas turbine engine division of the American Society of Mechanical Engineers attended a convention in Wembley, England. The business environment of the meeting proved so successful as a method of identifying U.S. export opportunities that the Society plans to reconvene at Wembley in 1982. In the meantime, you can be sure that those in attendance will follow through on the valuable contacts they made at that convention.

C. Foreign conferences aid the international flow of information

Foreign meetings also contribute to the advancement of education, medicine, science, and industrial technology by enhancing the international flow of information, discoveries, and new techniques. U.S. business and professional persons are valued participants in conferences held abroad, as Americans are often the pioneers of important technological developments. But that is not to say that U.S. representatives leave such conventions empty-handed; on the contrary, they become aware of refinements in their techniques as well as discoveries by scientists and technicians from other countries.

The inability to deduct expenses beyond the arbitrary two conventions per year falls particularly hard on international businessmen, educators, and researchers. The very nature of these professions dictate that many of the meetings vital to their professional interests will be held outside the United States.

Section 274(h) makes no special provision for an individual such as an international banker who must annually attend many international conferences such as that held by the International Monetary Fund in London last May. Nor does Section 274(h) contain special qualifications for doctors spearheading important medical research who have an interest in traveling to meetings such as the International Symposium on the Detection and Prevention of Cancer which is scheduled to be held in Wembley, England next July.

It strikes me as contrary to its interests for the United States, through its tax laws, to actively discourage its citizens from attending foreign conferences which could aid them in remaining at the forefront of their fields and facilitate the international exchange of information. The international nature of the membership of an organization or unique study and contact opportunities often call for a convention to be held in a country other than the United States. As a result of Section 274(h), an American member of such organizations is faced with a difficult choice: either limit participation to two out-of-country conferences and forego the professional opportunities a third or fourth convention could well offer; or absorb the financial consequences of attending more than two gatherings which would, absent 274(h), otherwise qualify as bona fide business expenses.

III. THE INCREASED FOREIGN BUSINESS TRAVEL TO THE UNITED STATES

A. Successful efforts by the federally funded United States Travel Service to attract foreign business visitors to the United States

Most nations recognizes that it is in their best interests to encourage business-related travel. It benefits a nation's economy both directly and indirectly. The economy profits directly from the expenditures of the traveler and the employment opportunities created to service his needs. Indirect benefits flow from the economic growth that results from decisions made at or ideas generated by convention participants. For these reasons, the policy contained in Section 274(h) is inconsistent with the policies of nations—including the United States—desirous of encouraging business travelers. The U.S., through its United States Travel Service (U.S.T.S.), devotes tax dollars to promote business and pleasure travel to America. At the same time your own tax laws discourage American businessmen from attending conferences in other countries.

Most recent statistics show that 1.9 million foreign residents come to the United States on business each year. To stimulate the growth of this segment of the U.S. travel market, the U.S.T.S. conducts promotional programs to attract international conventions to U.S. sites, to encourage international participation in and attendance at trade shows held throughout the United States, and to boost incentive and special interest travel to U.S. destinations.

U.S.T.S. promotional efforts results in U.S. cities hosting 24 international congresses in fiscal year 1978. Foreign attendees at these conventions reached almost 14,000 who generated foreign exchange earnings estimated at $5.9 million. Already, 35 more international congresses have made plans to hold conventions in the U.S. between now and 1983. The Service estimates that these already-scheduled congresses alone will draw about 18,550 foreign delegates and result in nearly $8.6 million in foreign exchange earnings.

This Congress has long recognized the importance of attracting foreign businessmen to the United States. Twenty years ago you passed the Trade Fair Act of 1959, a measure designed to facilitate foreign participation in U.S. trade shows. A keystone of that Act is the ability of foreign exhibitors to bring their products into the U.S. duty free for display during scheduled events. Evidence of the success of this program is demonstrated by U.S.T.S.'s report that over 75 U.S. trade shows were certified in fiscal year 1978, alone.[5]

Additional innovative U.S.T.S. programs include the yearly distribution of a trade show/convention/exposition directory to tour operators to prompt the promotion to foreign businesses of travel packages centered around these events. Additionally, U.S.T.S. encourages tour operators to develop for their corporate clients employee incentive travel packages featuring U.S. destinations. The U.S.T.S. estimates that their program efforts generated 8,550 international visitors and $6.5 million in foreign exchange earnings annually.

U.S.-flag carriers also spend substantial sums abroad to stimulate tourism to the U.S.; special efforts are directed at foreign businessmen to encourage them to hold their business meetings in the United States. This produces many benefits: it stimulates airline traffic, attracts foreign visitors to the United States, improves your balance of payments, stimulates United States exports and helps fill your hotels and motels.

B. Senate recognition of the importance of business travel to the U.S. economy

Senate approval of the National Tourism Policy Act on May 14, 1979 re-emphasized that tourism, whether undertaken for recreation or business reasons, is vital to the economy. Designed to provide the tourism industry with coordination and guidance, the measure establishes a national tourism policy and creates the mechanisms for implementing that policy.

The express purposes of the Act are to "encourage the free and welcome entry of individual's traveling to the United States in order to enhance international understanding and goodwill", and to "eliminate unnecessary trade barriers to the United States tourism industry operating throughout the world."

A focal point of the new Act is the creation of the United States Travel and Tourism Development Corporation. This Corporation is to concentrate on encouraging "travel to the United States by residents of other countries for the purposes of study, culture, international congresses, recreation, business, and other activities."

In our view, the goals set by the Senate in this legislation are indeed laudable. That same international travel policy, we would suggest, would be further enhanced by eliminating the artificial barriers erected by Section 274(h) which inhibit the ability of American businessmen to travel abroad.

IV. THE IMPACT OF TOURISM ON THE ECONOMIES OF THE U.S. AND E.T.C. COUNTRIES

A. The importance of tourism to the U.S. economy

Recent eforts by both U.S. government and private organizations to increase foreign business tourism to the United States have been a dramatic success. Between 1965 and 1977, foreign visitor arrivals to the United States substantially more than doubled from 7.8 million to 18.6 million. It is predicted that in 1979, international visitors to the United States will reach 21 million, a 6 percent increase over the 1978 volume. This will represent the first time that foreign visitors have exceeded the 20 million mark. Visitor arrivals from overseas are expected to show the strongest increase in 1979 with European visitors a strong factor in the upswing.[6] In fact, over the past ten years, the number of Europeans visiting the United States has practically tripled, increasing from 826,000 to almost 2.5 million.[7]

In 1979, European travelers will spend approximately $1.72 billion in the United States, a 28 percent increase over 1978. And Europeans are not the only foreign nationals spending a lot of money in the U.S. In fact, the United States is among the world's leaders in international tourist receipts; in 1978, foreign travelers spent

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[5] "Twenty-Third program report of the United States Travel Service" (April, 1979).

[6] This year, travelers from the United Kingdom, West Germany, and France, all E.T.C. member countries, are expected to increase substantially over the 1978 figures. About 860,000 visitors are expected from the United Kingdom in 1979, a 21 percent increase over 1978. West Germany will account for nearly 525,000 visitors, an increase of 17 percent from last year, and 295,000 Frenchmen are expected to travel to the United States in 1979, up 18 percent from 1978.

[7] In the first ten months of 1978, U.S.T.S. reported increased numbers of visitors from the United Kingdom (+42.3 percent), Belgium (+35.4 percent), the Netherlands (+35.7 percent), Switzerland (+35.1 percent), West Germany (+31.3 percent), Austria (+26.4 percent), France (+19.4 percent), Sweden (+26.2 percent), Finland (+25.5 percent), Denmark (+24.4 percent), and Norway (+18.4 percent) over the 1977 figures for the same period.

between $7.2 and $7.5 billion in the U.S.[8] and that figure is expected to increase to $8.73 billion this year.

B. The importance of tourism to the economies of E.T.C. countries

The United States is clearly enjoying an influx of foreign travelers. At a time when the number of foreign business and vacation visitors to the U.S. is at an all-time high and continues to climb, the United States has no good reason to discourage its own citizens from traveling abroad to conventions and meetings.

Not surprisingly, the economies of many E.T.C. countries depend to a great extent on their tourism receipts. For instance, both Ireland and Portugal report that foreign tourism is their second largest revenue-producing industry. Any substantial reduction in the number of U.S. visitors would, predictably, significantly impact upon the economies of these countries.

A large sector of the E.T.C. tourism industries rely on attracting successful foreign conventions, including those with attendees from the United States. In addition to the substantial revenue generated directly from convention-related activities, E.T.C. member countries recognize the economic importance of subsequent pleasure travel by conference attendees.

Americans do spend substantial amounts while traveling in Europe. U.S. nationals visiting Switzerland in 1977 spent $147 million; in 1978 Americans traveling in France spent $285 million and U.S. visitors touring Portugal spent $90 million. While substantial, these U.S. citizen expenditures are dwarfed by the value of certain commodities these countries purchase from the United States: in 1977, Switzerland bought $970 million worth of U.S. machines and metal products; in the same year, France bought nearly $6 billion worth of U.S. chemical and organic products; and in 1978 Portugal purchased $264 million worth of food and live animals from the U.S. These purchases of American goods serve, of course, to stimulate the U.S. economy and produce a balance of trade favorable to the United States.[9]

E.T.C. member countries have good reason to believe that Section 274(h) has had an adverse effect upon their efforts to promote the convention and meetings market. For instance, at least two conventions previously scheduled for German locations were cancelled as a direct result of the enactment of Section 274(h). In 1976, soon after the provision was adopted, the Health Projects International congress scheduled for Frankfurt was cancelled. Additionally, the National Renderers Association called off its 1977 meeting in Germany.

Switzerland, a frequent location for various international gatherings reports declines as high as 51 percent in U.S. citizen overnights in its major convention cities in 1978. Similarly, we have learned that Yugoslavia has realized at least 3,000 less American participants per year at international meetings held in that country.

Undoubtedly, these reports are merely the "tip of the iceberg." It is impossible to measure the number of groups who, as a result of Section 274(h), do not now even consider out-of-U.S. convention sites. This attitude was keenly in evidence at the recent Dallas conference of the Meeting Planners International. Many association executives in attendance expressed unwillingness to consider any offshore events while the current U.S. tax law is in effect.

V. THE I.R.S. REGULATIONS ON ORDINARY AND NECESSARY BUSINESS EXPENSES WERE SUFFICIENT PRIOR TO THE ADOPTION OF SECTION 274(H)

A. The key is whether the expenses were ordinary and necessary business expenses

We can certainly understand Congress's displeasure with persons who abuse the U.S. tax laws by taking joyrides at the taxpayers' expense. Undoubtedly, there are instances of conventions which are long on recreation and short on business whose attendees attempt to claim all expenses incurred as "business-related". However, we would suggest that the curative attempts of Section 274(h) are an overbroad response to a few reported examples of abuse and fail to remedy the problem while causing considerable unintended harm.

How are these few instances of abuse related to *location*? Conventions held in Honolulu or Palm Beach can be vacations in disguise just as similar gatherings in London or Paris. Lawyers familiar with U.S. tax laws have advised me that your previously-existing statute and regulations promulgated thereunder were more than adequate to deal with any such abuses, regardless of the location of the convention. For example:

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[8] Travel & Leisure's "World Tourism Overview", Table 19—International Tourist Receipts 1977-1978 (New York, April 1979). [International fare receipts excluded.]

[9] The chart in Appendix B reveals that the U.S. enjoys a favorable balance of trade with most E.T.C. countries.

Section 262 of the Internal Revenue Code makes it clear that no deduction shall be allowed for personal or living expenses;

Section 162 allows only the deduction of "ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business"; and

The substantiation regulations of Code Section 274 provide that no deduction will be permitted for "lavish and extravagant" entertainment.[10]

Before the adoption of Section 274(h), the I.R.S. regulations provided that the deductibility of travel expenses incurred at a convention "will depend upon whether there is a sufficient relationship between the taxpayer's trade or business and his attendance at the convention or other meeting so that he is benefitting or advancing the interests of his trade or business by such attendance." [11] Where the primary purpose of the trip is personal in nature, no deduction is permitted.

We suggest that the above regulation should apply again to all conventions, whether foreign or domestic. Section 274(h), with its arbitrary limit of two foreign conventions per year—no matter how educational or reasonable the meetings are—stifles what would otherwise be justifiable attendance by Americans at meetings held abroad.

Apparently, Congress did not intend Section 274(h) to be a means of generating additional revenue, as the Internal Revenue Service estimated that it would produce less than $5 million in annual budget receipts.[12] When measured against the adverse impact on the tourist industries of America's trading partners, the resulting ill-will those countries may feel toward the U.S., and the very real potential for retarding the advancement of U.S. science and technology as well as the export opportunities flowing therefrom, one can readily see that this ever-so-slight revenue gain is quickly turned into a substantial liability.

B. The substantiation requirements of section 274(h).

Unfortunately, the provisions in Section 274(h) are so restrictive that the section has had the same effect in many instances as if it were a total ban. The situation has been exacerbated by the fact that the I.R.S. has not yet, almost three years after the Tax Reform Act of 1976 was passed, promulgated regulations for Section 274(h).

The rigorousness of the current substantiation requirements and the accompanying uncertainty that surrounds Section 274(h) in the absence of clarifying regulations, cannot help but exacerbate the inhibiting effect on attendance by U.S. citizens at foreign conventions.

Recognizing that the substantiation requirements of Section 274(h) are unnecessarily burdensome, Senator Mathias has introduced S. 940 which would rescind the statutory requirement that U.S. taxpayers who attend business meetings abroad submit to the I.R.S. attendance slips signed by the convention sponsors to verify that the taxpayer attended the meetings. Although the European Travel Commission would, of course, prefer that Section 274(h) be totally repealed, we would encourage Congress, at a minimum, to endorse Senator Mathias's legislation.

The need for verification in order for the I.R.S. to enforce the "ordinary and necessary" business expense provision is understandable. However, the responsibility for providing additional substantiation should be placed on the taxpayer, not on the sponsoring organization, especially those organizations which have no familiarity whatsoever with U.S. tax laws. The success of a conference largely depends on the ability of the sponsor to design educational and productive events for the attendees. It seems unreasonable to require foreign conference sponsors to become familiar with U.S. tax laws and provide the mechanisms for verifying U.S. taxpayers' attendance records. Moreover, although American organizations that sponsor meetings abroad may be more familiar with U.S. tax laws, such organizations can better spend their time planning an informative conference schedule rather than to developing attendance verification systems.

VI. THE PROPOSED NORTH AMERICAN EXEMPTION

Senator Bentsen's legislation, S. 589, proposing a North American exemption to Section 274(h), which would exclude conventions held in Mexico and Canada from being designated as foreign conventions comes as a shocking surprise.

The European Travel Commission can certainly embrace the arguments made by the proponents of such an exemption—that is, the importance of maintaining open and friendly relations between nations and the need to stimulate the tourism

[10] Treas. Reg. § 1.274-1.

[11] Treas. Reg. § 1.162-2.

[12] H.R. Rep. No. 658, 94th Cong., 1st Sess. 171 (1975); S. Rep. No. 938, 94th Cong., 2d Sess. 159 (1976).

industry—but we strongly believe that these arguments should not be limited to Canada and Mexico. Rather, they apply equally to the European countries as well as to all countries throughout the world where such meetings might be held.

In this regard, I want to call particular attention to the Helsinki Agreement signed in 1975 by the U.S., Canada, and all 23 member countries of the European Travel Commission. The Canadian interests have pointed out that Section 274(h) is contrary to this Agreement which calls for all signatory countries to "facilitate wider travel by their citizens for personal or professional reasons" and to "encourage increased tourism."

We agree. Section 274(h) does indeed violate the policy expressed by that multinational pact. The harm created by that tax code provision falls not only upon Canada, but upon all countries who have, in good faith, agreed to facilitate international travel.

Congressional sanction of a special exemption for North American countries (Canada and Mexico) would, I suggest, be both a further violation of the Helsinki Agreement and an act of discrimination against the U.S.'s major trading partners who are among the top sources of foreign visitors to your country. In my view, such an action has no viable foundation. Many European countries depend heavily upon American tourists and have tailored their laws to accommodate and encourage such visitors. For example, those countries that have a value-added-tax allow exemptions from such levies for foreign visitors.

By the same token, European countries do not place unreasonable tax impediments in the way of their citizens who want to travel to the U.S. or other foreign destinations. None of the E.T.C. member countries has an arbitrary limitation on the number of foreign business conventions that qualify for tax deductions in a year, such as that established by Section 274(h) of the U.S. tax code, or the even more restrictive provision in the Canadian tax laws. (A Canadian taxpayer can deduct expenses incurred at only two conventions per year regardless of the location.)[13]

VII. THE UNREASONABLENESS OF THE PROPOSED MORE REASONABLE TEST

The E.T.C. also wishes to take this opportunity to express its strong opposition to past proposals to permit deduction of expenses incurred at foreign conventions only if it is "more reasonable" to hold a meeting outside the North American area than within it.

The House Ways and Means Committee, in adopting the "more reasonable" test last Congress, expressed its hope that the U.S. Treasury Department and I.R.S. "will give high priority to the promulgation of regulations and rulings explaining the application of these rules to frequently recurring types of factual situations and will establish procedures whereby taxpayers may receive, in an expedient manner, advance rulings as to whether or not their conventions will meet the reasonableness test."[14] Since the I.R.S. has not yet, after three years, issued regulations to implement Section 274(h) it would seem very optimistic to expect that the I.R.S. would issue advance rulings on the reasonableness of attending a convention overseas.

In the likely event that the I.R.S. will not have the time to rule in advance on individual cases, fear of having to reckon later with the I.R.S. and prove that it was not only "reasonable" but "more reasonable" to hold a meeting abroad will dissuade most American businessmen and professionals from attending foreign conferences that could prove valuable to their work.

Furthermore, even if the I.R.S. were willing and able to issue such advance opinions, little or no opportunity would be available for parties to appeal adverse rulings. More than likely, a simpler alternative of scheduling a convention within the geographic area requiring no advance opinion, or a decision not to attend a foreign convention at all, would be selected. Thus, adoption of the "more reasonable" test would further discourage participation by U.S. citizens in conventions abroad.

VIII. CONCLUSION

Mr. Chairman, the United States has traditionally stood for the principle of free trade and the free movement of people and the interchange of ideas regardless of international boundaries. Such exchange between countries contributes significantly to the promotion of world peace and understanding. In addition, it aids businessmen worldwide in identifying commercial and industrial opportunities that benefit their national economies. Such have been the traditional benefits that results from the

[13] See Appendix C outlining selected travel-related laws of several European countries and Canada.

[14] H.R. Rept. No. 95-1684, 95th Cong., 2d Sess. 7 (1978).

freedom to travel which has long been advocated by the United States and the European Travel Commission.

At this juncture in world history, it seems to us imperative that the free interchange of people between countries not only be continued but expanded. We would hope that the United States, which has consistently promoted international travel, would strengthen, not further restrict, that policy; U.S. economic interests and worldwide goodwill demand it.

Mr. Chairman, modification of Section 274(h) in the form of approving either the proposed North American exemption or the proposed "more reasonable" test will only serve to further damage the U.S. economy by denying American entrepreneurs the opportunity to travel overseas to develop foreign business contacts. Instead, the European Travel Commission urges this Subcommittee to endorse the repeal of Section 274(h) with its arbitrary and restrictive provisions; the I.R.S. could then be instructed to focus on eliminating invalid claims for expenses whether the taxpayer incurred them at a convention in New Orleans, Louisiana, or Geneva, Switzerland.

The European Travel Commission appreciates this opportunity to present its views on Section 274(h) and would be pleased to provide this Subcommittee with any additional data or information you would find useful.

Thank you Mr. Chairman and Members of the Subcommittee.

Appendix A.—The Provisions of I.R.C. Section 274(h)[1]

The expenses incurred in attending foreign conventions (or seminars or any similar meetings) are deductible only to a limited extent. The rules on deductibility are as follows:

The expenses on only two foreign conventions per year are deductible at all. The taxpayer may choose which two conventions if he attended more than two.

Expenses for meals, lodging, tips, taxis, etc. (subsistence expenses), are deductible only for days on which the taxpayer had a substantial amount of business scheduled and attended at least two-thirds of the scheduled business.

The amount of deductible subsistence expense for any single day is limited to the per diem rate applying to U.S. civil servants at that time in that place.

The amount of the deductible expense for transportation to the convention city is limited to the coach or economy air fare.

Transportation expenses are only deductible in full if half or more of the total days of the trip are spent on business-related activities.

If less than half the days are for business, the taxpayer must allocate the transportation costs according to the number of business days and the number of personal days.

To prove the deduction, the taxpayer must file with his/her return a detailed report signed by someone who attended the convention indicating the time spent on business activities and a statement from the sponsor of the convention showing the activities scheduled at the convention and the taxpayer's attendance or nonattendance at each.

APPENDIX B.—BALANCE OF TRADE WITH CERTAIN E.T.C. COUNTRIES[1]

[In millions of dollars]

Country	Imports from U.S.	Exports to U.S	U.S surplus
United Kindgom:			
1977	6,628	5,540	1,088
1978	8,426	6,903	1,523
Ireland: 1977	566	323	243
Switzerland: 1978	1,866	1,749	117
France: 1978	6,369	4,561	1,808
Belgium: 1979	1,989	683	1,306
Portugal: 1978	528	183	345
Turkey:			
1977	503	122	381
1978	281	153	128
Yugoslavia: 1978	616	371	245

[1] All information presented was obtained from questionnaires distributed to representatives of E.T.C. countries. The United States enjoys a positive balance of trade with all E.T.C. countries that responded to the survey. The United States may have a positive balance of trade with other E.T.C. countries that did not return the questionaire.

[1] Iadarola, A. A. and Lambert, S. C., presentation at NSPA's Second National Tax Institute, Dec. 4-5, 1978 (mimeographed paper).

PERTINENT TAX AND TRAVEL LAWS IN CERTAIN E.T.C. COUNTRIES */
THE U.S. AND CANADA

Country	General Tax Deductibility of Expenses Incurred at Foreign Conventions	Limit on number of foreign conventions for which can take deductions	Other limitations on the deductibility of expenses incurred at foreign conventions	Currency Limitations	Benefits designed to attract business and vacation travel
United States	Yes	2 per year	1) Deductions for subsistence may not exceed federal per diem rate for convention location 2) Sponsoring organization must substantiate attendance 3) Individuals must attend 2/3 of scheduled business activities	No	Duty-free imports for trade show display
Canada	Yes	2 per year, whether within or without Canada's borders	1) Convention must be related to business of the taxpayer 2) Expenses incurred must be reasonable 3) Location of convention must be consistent with scope of sponsoring organization.	No	Not Known
United Kingdom	Yes	No	Eligibility for deductions is determined on a case-by-case basis by England's Board of Inland Revenue	Tourists: The sum has just been increased from £ 500 per journey to £ 1000 per journey in foreign currency notes. Business: A maximum of £ 5000 per year	Duty-free imports for trade show displays

*/ Information on E.T.C. was compiled from responses to questionnaires distributed to representatives of E.T.C. nations.

France	Yes	No	No	Tourists and Business Travel: 5,000 francs per person per trip (about $1250) France's ministry of Finance may permit additional sums to be taken out on a trip.	1) Duty-free imports for trade show display. 2) VAT */ refund for purchases over $95.00
West Germany	Yes	No	Deductible where individual sent to conference as representative of his firm.	No	Not known
Netherlands	Yes	No	No	No	Not known
Ireland	Yes	No	No	Tourists: $1,035 per person per journey; Business: Maximum of $6,210 per journey	Duty-free imports for trade show display
Switzerland	Yes	No	No	No	1) Duty-free imports for display at certain trade fair centers 2) No VAT in Switzerland

*/ VAT refers to value added tax.

Belgium	Yes	No	No	No	1) Duty-free imports for trade show display 2) Not subject to VAT if purchase sent out of Belgium
Portugal	Yes	No	No	Tourists: $410 per person Business: No currency limitation	1) Duty-free imports for trade show display 2) No VAT at all.
Turkey	Yes	No	No	Tourists: Between $250 and $500 per person Business: Between $1,500 and $25,000 per person.	Duty-free imports for trade show display
Yugoslavia	Yes	No	No	No	Duty-free imports for trade show display.

APPENDIX D

Pan American World Airways, Inc.
Pan Am Building
New York, New York 10017

July 16, 1979

Paul S. Quinn, Esq.
Wilkinson, Cragun & Barker
1735 New York Avenue, N.W.
Washington, D.C. 20006

Dear Mr. Quinn:

Thank you for your letter of June 26th which Tom Cody asked me to look into for you. You correctly state that Pan Am, like your client, the European Travel Commission, would like to see the limits on the deductibility of expenses incurred at foreign conventions repealed in the IRC. There is no doubt that the antagonistic treatment of conventions held overseas discourages foreign conventions from coming to the U.S.

It may be helpful for you to know that only last September Pan Am reestablished within its Marketing Department a Meetings and Convention Sales division. The division is charged with promoting Pan Am's interest in serving conventions both in the United States and overseas with emphasis on the former. Much of the groundwork for such promotion is done through Pan Am marketing personnel in local Pan Am offices in the U.S. and throughout the world.

The division functions largely by maintaining contact with conference organizers, large associations, including the International Congress and Convention Association, travel agents specializing in conventions, hotels, and tour organizers, in order than Pan Am may learn of organizations planning conventions. Pan Am then may offer its transportation and travel-related services. Such services include air transportation, and, where desired, hotel arrangements, coordination with professional conference organizers, and preparation

of pre and post convention tours, using the services of our travel agents and tour operators. Pan Am may also seek to be designated the official convention airline. In return Pan Am often agrees to provide for publication of convention brochures and for solicitation of convention attendance.

In the course of providing these services, Pan Am may suggest possible convention sites, again emphasizing sites in the United States. The decision, of course, must be left to the convention sponsor. Since the inception of the Meetings and Convention Sales division, Pan Am has been named official airline to four conventions, three in the U.S. and one overseas.

Pan Am also publishes a five-page booklet outlining our convention services as part of our promotional effort. The pamphlet is distributed by the division largely through Pan Am's field offices and registered travel agents. Although the division intends to do so, it has not recently advertised convention services through the overseas media market. We do, however, spend more than half our advertising budget, or over $15 million, overseas, mostly in the general promotion of Visit U.S.A. traffic. We have been actively involved in booklet distribution and personal contacts by Pan Am marketing representatives overseas.

In the U.S. Pan Am has advertised its convention services in the Associated Management Magazine sponsored by the American Society of Association Executives. Pan Am has also brought several groups of convention organizers to the U.S. to study convention facilities here.

I hope that this information is helpful to your efforts. I would appreciate receiving a copy of the testimony for review if you specifically refer to Pan Am.

Very truly yours,

Alan R. Twaits

Alan R. Twaits
Attorney

UNITED STATES DEPARTMENT OF JUSTICE
WASHINGTON, D.C. 20530

SUPPLEMENTAL STATEMENT

Pursuant to Section 2 of the Foreign Agents Registration Act of 1938, as Amended

For Six Month Period Ending JUN 30 1979
(Insert date)

Name of Registrant EUROPEAN TRAVEL COMMISSION Registration No. 574

Business Address of Registrant c/o Greek National Tourist Organization
645 Fifth Avenue
New York, New York 10022

I - REGISTRANT

1. Has there been a change in the information previously furnished in connection with the following:

(a) If an individual:

(1) Residence address	Yes ☐	No ☐
(2) Citizenship	Yes ☐	No ☐
(3) Occupation	Yes ☐	No ☐

(b) If an organization:

(1) Name	Yes ☐	No ☒
(2) Ownership or control	Yes ☐	No ☒
(3) Branch offices	Yes ☐	No ☒

2. Explain fully all changes, if any, indicated in Item 1.

IF THE REGISTRANT IS AN INDIVIDUAL, OMIT RESPONSE TO ITEMS 3, 4, and 5.

3. Have any persons ceased acting as partners, officers, directors or similar officials of the registrant during this 6 month reporting period? Yes ☒ No ☐

If yes, furnish the following information:

Name	*Position*	*Date Connection Ended*
John G. Bertram	U.S. Chairman	March 1, 1979

(Mr. Bertram continues as a member of the European Travel Commission and heads the Netherlands National Tourist Office.)

4. Have any persons become partners, officers, directors or similar officials during this 6 month reporting period? ☒ Yes ☐ No

If yes, furnish the following information:

Name	*Residence Address*	*Citizenship*	*Position*	*Date Assumed*
Harry Haralambopoulos	200 E. 64 St., NYC	Greek	U.S. Chairman	3/1/79
Hermann Krueger	4 Kenneth Rd., Hartsdale	German	Vice Chairman	3/1/79
Anne Bastian	333 East 46 Street, NYC	Luxembourg	Secretary	3/1/79

5. Has any person named in item 4 rendered services directly in furtherance of the interests of any foreign principal? Yes ☒ No ☐

If yes, identify each such person and describe his services.

Each is director for his/her country's national tourist office in New York City and reports to his/her home office in the country the person represents.

6. Have any employees or individuals other than officials, who have filed a short form registration statement, terminated their employment or connection with the registrant during this 6 month reporting period?
Yes ☐ No ☒

If yes, furnish the following information:

Name	*Position or connection*	*Date terminated*

7. During this 6 month reporting period, have any persons been hired as employees or in any other capacity by the registrant who rendered services to the registrant directly in furtherance of the interests of any foreign principal in other than a clerical or secretarial, or in a related or similar capacity?
Yes ☐ No ☒

If yes, furnish the following information:

Name	*Residence Address*	*Position or connection*	*Date connection began*

II - FOREIGN PRINCIPAL

8. Has your connection with any foreign principal ended during this 6 month reporting period?
Yes ☐ No ☒

If yes, furnish the following information:

Name of foreign principal	*Date of Termination*

9. Have you acquired any new foreign principal[1] during this 6 month reporting period? Yes ☐ No ☒

If yes, furnish following information:

Name and address of foreign principal	*Date acquired*

10. In addition to those named in Items 8 and 9, if any, list the foreign principals[1] whom you continued to represent during the 6 month reporting period.

See attached list marked "Item 10."

III - ACTIVITIES

11. During this 6 month reporting period, have you engaged in any activities for or rendered any services to any foreign principal named in Items 8, 9, and 10 of this statement? Yes ☒ No ☐

If yes, identify each such foreign principal and describe in full detail your activities and services:

For foreign principals jointly (see Item 10), participated in "Your Invitation To Europe '79" advertising supplement to the New York Times of April 1, 1979.

Broadcast one 60-second commercial in 12 major U.S. markets in June.

Sponsored 15 trade shows in 15 U.S. markets bringing together suppliers of European travel-products with travel agents.

Advertised in newspapers and trade publications.

Produced European Travel Commission Handbook.

[1] The term "foreign principal" includes, in addition to those defined in section 1(b) of the Act, an individual or organization any of whose activities are directly or indirectly supervised, directed, controlled, financed, or subsidized in whole or in major part by a foreign government, foreign political party, foreign organization or foreign individual. (See Rule 100(a)(9)).

A registrant who represents more than one foreign principal is required to list in the statements he files under the Act only those foreign principals for whom he is not entitled to claim exemption under Section 3 of the Act. (See Rule 208.)

12. During this 6 month reporting period, have you on behalf of any foreign principal engaged in political activity[2] as defined below?

Yes ☐ No ☒

If yes, identify each such foreign principal and describe in full detail all such political activity, indicating, among other things, the relations, interests and policies sought to be influenced and the means employed to achieve this purpose. If the registrant arranged, sponsored or delivered speeches, lectures or radio and TV broadcasts, give details as to dates, places of delivery, names of speakers and subject matter.

13. In addition to the above described activities, if any, have you engaged in activity on your own behalf which benefits any or all of your foreign principals?

Yes ☐ No ☒

If yes, describe fully.

[2] The term "political activities" means the dissemination of political propaganda and any other activity which the person engaging therein believes will, or which he intends to, prevail upon, indoctrinate, convert, induce, persuade, or in any other way influence any agency or official of the Government of the United States or any section of the public within the United States with reference to formulating, adopting, or changing the domestic or foreign policies of the United States or with reference to the political or public interests, policies, or relations of a government of a foreign country or a foreign political party.

IV - FINANCIAL INFORMATION

14. (a) RECEIPTS - MONIES

During this 6 month reporting period, have you received from any foreign principal named in Items 8, 9 and 10 of this statement, or from any other source, for or in the interests of any such foreign principal, any contributions, income or money either as compensation or otherwise?
Yes [X] No [ ]

If yes, set forth below in the required detail and separately for each foreign principal an account of such monies.[3]

Date	*From Whom*	*Purpose*	*Amount*
4/23	European Travel Commission, Dublin	Membership Contribution	$100,000.00
5/10	European Travel Commission, Dublin	Membership Contribution	100,000.00
5/21	European Travel Commission, Dublin	Membership Contribution	100,000.00
various	various	Supermarts '79	69,017.55
6/25	United States Travel Service	Research — Consumer Attitudes	5,000.00
		Total	$374,017.55

14. (b) RECEIPTS - THINGS OF VALUE

During this 6 month reporting period, have you received any thing of value[4] other than money from any foreign principal named in Items 8, 9 and 10 of this statement, or from any other source, for or in the interests of any such foreign principal?
Yes [ ] No [X]

If yes, furnish the following information:

Name of foreign principal	*Date received*	*Description of thing of value*	*Purpose*

[3] A registrant is required to file an Exhibit D if he collects or receives contributions, loans, money, or other things of value for a foreign principal, as part of a fund raising campaign. See Rule 201(e).

[4] Things of value include but are not limited to gifts, interest free loans, expense free travel, favored stock purchases, exclusive rights, favored treatment over competitors, "kickbacks," and the like.

15. (a) DISBURSEMENTS - MONIES

During this 6 month reporting period, have you

(1) disbursed or expended monies in connection with activity on behalf of any foreign principal named in Items 8, 9 and 10 of this statement? Yes [X] No [ ]

(2) transmitted monies to any such foreign principal? Yes [ ] No [X]

If yes, set forth below in the required detail and separately for each foreign principal an account of such monies, including monies transmitted, if any, to each foreign principal.

Date	To Whom	Purpose	Amount
various	Donald N. Martin and Company	Office space, secretarial, servicing, etc.	$ 13,500.00
various	Donald N. Martin and Company	Advertising magazine "Your Invitation to Europe '79"	50,000.00
various	Donald N. Martin and Company	Newspaper advertising	145,746.15
various	Donald N. Martin and Company	Trade Promotion	24,603.04
various	Donald N. Martin and Company	"Lively Months" Supermarts	22,500.68
various	Donald N. Martin and Company	Supermarts '79	131.783.48
various	Donald N. Martin and Company	Radio advertising	4,035.52
various	Donald N. Martin and Company	Industry Relations	8,135.15
various	Donald N. Martin and Company	Public Relations	37,434.70
1/15	Donald N. Martin and Company	Trans-Atlantic Travel Marketing Conference	13,934.01
3/21	Donald N. Martin and Company	ETC Handbook	8,441.19
5/11	Waldorf-Astoria Hotel	Trans-Atlantic Travel Marketing Conference - deposit	1,500.00

$461,613.92

Total

15. (b) DISBURSEMENTS - THINGS OF VALUE

During this 6 month reporting period, have you disposed of anything of value[5] other than money in furtherance of or in connection with activities on behalf of any foreign principal named in items 8, 9 and 10 of this statement?

Yes ☐ No ☒

If yes, furnish the following information:

Date disposed	*Name of person to whom given*	*On behalf of what foreign principal*	*Description of thing of value*	*Purpose*

(c) DISBURSEMENTS - POLITICAL CONTRIBUTIONS

During this 6 month reporting period, have you from your own funds and on your own behalf either directly or through any other person, made any contributions of money or other things of value[5] in connection with an election to any political office, or in connection with any primary election, convention, or caucus held to select candidates for political office? Yes ☐ No ☒

If yes, furnish the following information:

Date	*Amount or thing of value*	*Name of political organization*	*Name of candidate*

V - POLITICAL PROPAGANDA

(Section 1(j) of the Act defines "political propaganda" as including any oral, visual, graphic, written, pictorial, or other communication or expression by any person (1) which is reasonably adapted to, or which the person disseminating the same believes will, or which he intends to, prevail upon, indoctrinate, convert induce, or in any other way influence a recipient or any section of the public within the United States with reference to the political or public interests, policies, or relations of a government of a foreign country or a foreign political party or with reference to the foreign policies of the United States or promote in the United States racial, religious, or social dissensions, or (2) which advocates, advises, instigates, or promotes any racial, social, political, or religious disorder, civil riot, or other conflict involving the use of force or violence in any other American republic or the overthrow of any government or political subdivision of any other American republic by any means involving the use of force or violence.)

16. During this 6 month reporting period, did you prepare, disseminate or cause to be disseminated any political propaganda as defined above? Yes ☐ No ☒

IF YES, RESPOND TO THE REMAINING ITEMS IN THIS SECTION V.

17. Identify each such foreign principal.

[5] Things of value include but are not limited to gifts, interest free loans, expense free travel, favored stock purchases, exclusive rights, favored treatment over competitors, "kickbacks," and the like.

18. During this 6 month reporting period, has any foreign principal established a budget or allocated a specified sum of money to finance your activities in preparing or disseminating political propaganda?
Yes ☐ No ☐

If yes, identify each such foreign principal, specify amount, and indicate for what period of time.

19. During this 6 month reporting period, did your activities in preparing, disseminating or causing the dissemination of political propaganda include the use of any of the following:
☐ Radio or TV broadcasts ☐ Magazine or newspaper articles ☐ Motion picture films ☐ Letters or telegrams
☐ Advertising campaigns ☐ Press releases ☐ Pamphlets or other publications ☐ Lectures or speeches
☐ Other *(specify)* _____

20. During this 6 month reporting period, did you disseminate or cause to be disseminated political propaganda among any of the following groups:
☐ Public Officials ☐ Newspapers ☐ Libraries
☐ Legislators ☐ Editors ☐ Educational institutions
☐ Government agencies ☐ Civic groups or associations ☐ Nationality groups
☐ Other *(Specify)* _____

21. What language was used in this political propaganda:
☐ English ☐ Other *(specify)* _____

22. Did you file with the Registration Section, Department of Justice, two copies of each item of political propaganda material disseminated or caused to be disseminated during this 6 month reporting period?
Yes ☐ No ☐

23. Did you label each item of such political propaganda material with the statement required by Section 4(b) of the Act? Yes ☐ No ☐

24. Did you file with the Registration Section, Department of Justice, a Dissemination Report for each item of such political propaganda material as required by Rule 401 under the Act?
Yes ☐ No ☐

VI - EXHIBITS AND ATTACHMENTS

25. EXHIBITS A AND B

(a) Have you filed for each of the newly acquired foreign principals in Item 9 the following:
Exhibit A[6] Yes ☐ No ☐
Exhibit B[7] Yes ☐ No ☐
If no, please attach the required exhibit.

(a) Have there been any changes in the Exhibits A and B previously filed for any foreign principal whom you represented during this six month period?
Yes ☐ No ☒
If yes, have you filed an amendment to these exhibits? Yes ☐ No ☐
If no, please attach the required amendment.

[6] The Exhibit A, which is filed on Form OBD-67 (Formerly DJ-306) sets forth the information required to be disclosed concerning each foreign principal.
[7] The Exhibit B, which is filed on Form OBD-65 (Formerly DJ-304) sets forth the information concerning the agreement or understanding between the registrant and the foreign principal.

26. EXHIBIT C

If you have previously filed an Exhibit C[8], state whether any changes therein have occurred during this 6-month reporting period.
Yes ☐ No ☒

If yes, have you filed an amendment to the Exhibit C? Yes ☐ No ☐

If no, please attach the required amendment.

27. SHORT FORM REGISTRATION STATEMENT

Have short form registration statements been filed by all of the persons named in Items 5 and 7 of the supplemental statement?
Yes ☐ No ☐

If no, list names of persons who have not filed the required statement.

The undersigned swear(s) or affirm(s) that he has (they have) read the information set forth in this registration statement and the attached exhibits and that he is (they are) familiar with the contents thereof and that such contents are in their entirety true and accurate to the best of his (their) knowledge and belief, except that the undersigned make(s) no representation as to the truth or accuracy of the information contained in attached Short Form Registration Statement, if any, insofar as such information is not within his (their) his (their) personal knowledge.

(Type or print name under each signature)

(Both copies of this statement shall be signed and sworn to before a notary public or other person authorized to administer oaths by the agent, if the registrant is an individual, or by a majority of those partners, officers, directors or persons performing similar functions who are in the United States, if the registrant is an organization.)

Hermann Krueger, Vice Chairman*

Subscribed and sworn to before me at New York, N.Y.

this 11th day of July, 19 29

FRITZ WEINSCHENK
Notary Public, State of New York
No. 30-9581115
Qualified in Nassau County
Certificate Filed in New York County
Term Expires March 30, 1930

(Signature of notary or other officer)

[8] The Exhibit C, for which no printed form is provided, consists of a true copy of the charter, articles of incorporation, association, constitution, and bylaws of a registrant that is an organization. (A waiver of the requirement to file an Exhibit C may be obtained for good cause shown upon written application to the Assistant Attorney General, Criminal Division, Internal Security Section, Department of Justice, Washington, D.C. 20530.

*The U.S. Chairman of the European Travel Commission is Harry Haralambopoulos; however, he is presently out of the country.

DOJ

Item 10

Austrian National Tourist Office

Belgian National Tourist Office

Consulate General of Cyprus

Danish National Tourist Office

Finland National Tourist Office

French Government Tourist Office

German National Tourist Office

British Tourist Authority

Greek National Tourist Office

Icelandic National Tourist Office

Irish Tourist Board

Italian Government Travel Office

Luxembourg National Tourist Office

Consulate General of Malta

Monaco Government Tourist Office

Netherlands National Tourist Office

Norwegian National Tourist Office

Portuguese National Tourist Office

Spanish National Tourist Office

Swedish National Tourist Office

Swiss National Tourist Office

Turkish Tourism and Information Office

Yugoslav National Tourist Office

FORM OBD-63
OMB No. 43-R0209
Approved Expires Oct. 31, 1981

UNITED STATES DEPARTMENT OF JUSTICE
WASHINGTON, D.C. 20530

Received Dept. of Justice 4:40. JDC

REGISTRATION STATEMENT

Pursuant to Section 2 of the Foreign Agents Registration Act of 1938, as Amended

G.O. 8.0.2 6.15.79

I - REGISTRANT

1. Name of the registrant.

WILKINSON, CRAGUN & BARKER

2. Business address.

1735 New York Avenue, N.W.
Washington, D.C. 20006

3. If the registrant is an individual, furnish the following information:

(a) Residence address.

N/A

(b) Date and place of birth.

N/A

(c) Present citizenship.

N/A

(d) If present citizenship not acquired by birth, state when, where and how acquired.

N/A

(e) Occupation.

N/A

4. If the registrant is not an individual, furnish the following information:

(a) Type of organization: Committee ☐ Association ☐ Partnership ☒
Corporation ☐ Other (specify) _____

(b) Date and place of organization.
1951, Washington, D.C.

(c) Address of principal office.
1735 New York Avenue, N.W.
Washington, D.C. 20006

(d) Name of person in charge.

Glen A. Wilkinson, Esq., Managing Partner

(e) Locations of branch or local offices in United States.

None

(f) If a membership organization, give number of members.

Not applicable

(g) List all partners, officers, directors or persons performing the functions of an officer or director of the registrant.

Name	Residence Address	Position	Citizenship

See attached sheet identified as Form OBD-63, item 4(g).

(h) Which of the above named persons renders services directly in furtherance of the interests of any of the foreign principals?

Paul S. Quinn

(i) Describe the nature of the registrant's regular business or activity.

General Practice of Law

(j) Give a complete statement of the ownership and control of the registrant.

Registrant is wholly owned and controlled by individuals listed in item 4(g) above.

5. List all employees who render services to the registrant directly in furtherance of the interests of any of the foreign principals in other than a clerical, secretarial, or in a related or similar capacity.

Name	Residence Address	Nature of Services

N/A

(b) RECEIPTS - THINGS OF VALUE

During the period beginning 60 days prior to the date of your obligation to register to the time of filing this statement, did you receive from any foreign principal named in Item 6 any thing of value[3] other than money, either as compensation, or for disbursement, or otherwise? Yes ☐ No ☒

If yes, furnish the following information:

Name of Foreign Principal	Date Received	Description of thing of value	Purpose for which received

9. (a) DISBURSEMENTS - MONIES

During the period beginning 60 days prior to the date of your obligation to register to the time of filing this statement, did you spend or disburse any money in furtherance of or in connection with your activities on behalf of any foreign principal named in Item 6? Yes ☐ No ☒

If yes, set forth below in the required detail and separately for each such foreign principal an account of such monies, including monies transmitted, if any, to each foreign principal.

Date	To Whom	Purpose	Amount

(b) DISBURSEMENTS - THINGS OF VALUE

During the period beginning 60 days prior to the date of your obligation to register to the time of filing this statement, did you dispose of any thing of value[3] other than money in furtherance of or in connection with your activities on behalf of any foreign principal named in Item 6? Yes ☐ No ☒

If yes, furnish the following information:

Date	Name of person to whom given	On behalf of what foreign principal	Description of thing of value	Purpose in giving

(c) DISBURSEMENTS - POLITICAL CONTRIBUTIONS

During the period beginning 60 days prior to the date of your obligation to register to the time of filing this statement, did you make any contribution of money or other thing of value from your own funds and on your own behalf in connection with an election to any political office or in connection with any primary election, convention, or caucus held to select candidates for political office? Yes ☒ No ☐

If yes, furnish the following information:

Date	Amount or thing of value	Party or Candidate	Identify location of election, convention, etc. if any

See attached sheet identified as Form OBD-63, item 9(c).

[3] Things of value include but are not limited to gifts, interest free loans, expense free travel, favored stock purchases, exclusive rights, favored treatment over co itors, "kickbacks," and the like.

II - FOREIGN PRINCIPAL

6. List every foreign principal[1] for whom the registrant is acting or has agreed to act.

Name of Foreign Principal	*Principal Address*
European Travel Commission	c/o Greek National Tourist Office 645 Fifth Avenue New York, New York 10022

III - ACTIVITIES

7. In addition to the activities described in any Exhibit B to this statement, will you engage or are you now engaging in activity on your own behalf which benefits any or all of your foreign principals? Yes ☐ No ☒

If yes, describe fully

IV - FINANCIAL INFORMATION

8. *(a)* RECEIPTS - MONIES

During the period beginning 60 days prior to the date of your obligation to register to the time of filing this statement, did you receive from any foreign principal named in Item 6 any contribution, income or money either as compensation or for disbursement or otherwise? Yes ☐ No ☒

If yes, set forth below in the required detail and separately for each such foreign principal an account of such monies.[2]

Name of Foreign Principal	*Date Received*	*Purpose*	*Amount*

Total

[1] The term "foreign principal" includes a foreign government, foreign political party, foreign organization, foreign individual and, for the purpose of registration, an organization or an individual any of whose activities are directly or indirectly supervised, directed, controlled, financed or subsidized in whole or in major part by a foreign government, foreign political party, foreign organization or foreign individual.

[2] A registrant is required to file an Exhibit D if he collects or receives contributions, loans, money, or other things of value for a foreign principal, as part of a fund raising campaign. There is no printed form for this exhibit. See Rule 201(e).

V - POLITICAL PROPAGANDA

(Section 1 (j) of the Act defines "political propaganda" as including any oral, visual, graphic, written, pictorial, or other communication or expression by any person (1) which is reasonably adapted to, or which the person disseminating the same believes will, or which he intends to, prevail upon, indoctrinate, convert, induce, or in any other way influence a recipient or any section of the public within the United States with reference to the political or public interests, policies, or relations of a government of a foreign country or a foreign political party or with reference to the foreign policies of the United States or promote in the United States racial, religious, or social dissensions, or (2) which advocates, advises, instigates, or promotes any racial, social, political, or religious disorder, civil riot, or other conflict involving the use of force or violence in any other American republic or the overthrow of any government or political subdivision of any other American republic by any means involving the use of force or violence.)

10. Will the activities of the registrant on behalf of any foreign principal include the preparation or dissemination of political propaganda as defined above? Yes [X] No [ ]

IF YES, RESPOND TO THE REMAINING ITEMS IN THIS SECTION V.

11. Identify each such foreign principal.

European Travel Commission

---

12. Has a budget been established or a specified sum of money allocated to finance your activities in preparing or disseminating political propaganda? Yes [X] No [ ]

If yes, identify each such foreign principal, specify amount and for what period of time.

European Travel Commission; approximately $5,000.00; beginning June 5, 1979, and concluding on or about July 20, 1979.

---

13. Will any public relations firms or publicity agents participate in the preparation or dissemination of such political propaganda material? Yes [X] No [ ]

If yes, furnish the names and addresses of such persons or firms.

Donald N. Martin & Co.
488 Madison Avenue
New York, New York 10022

---

14. Will your activities in preparing or disseminating political propaganda include the use of any of the following:

- [ ] Radio or TV broadcasts
- [ ] Motion picture films
- [ ] Advertising campaigns
- [ ] Pamphlets or other publications
- [ ] Magazine or Newspaper articles
- [ ] Letters or telegrams
- [ ] Press releases
- [ ] Lectures or speeches
- [X] Other (specify) written testimony for Finance Committee, U.S. Senate

---

15. Will the political propaganda be disseminated among any of the following groups:

- [ ] Public Officials
- [ ] Civic groups or associations
- [X] Legislators
- [ ] Libraries
- [ ] Government agencies
- [ ] Educational institutions
- [ ] Newspapers
- [ ] Nationality groups
- [ ] Editors
- [ ] Other (specify) _____

---

16. Indicate language to be used in political propaganda:

- [X] English
- [ ] Other (specify) _____

VI - EXHIBITS AND ATTACHMENTS

17. *(a)* The following described exhibits shall be filed in duplicate with an initial registration statement:

Exhibit A - This exhibit, which is filed on Form DJ-306, sets forth the information required to be disclosed concerning each foreign principal named in Item 6.

Exhibit B - This exhibit, which is filed on Form DJ-304, sets forth the information concerning the agreement or understanding between the registrant and the foreign principal.

(b) An Exhibit C shall be filed when applicable. This exhibit for which no printed form is provided consists of a true copy of the charter, articles of incorporation, association, constitution, and bylaws of a registrant that is an organization. A waiver of the requirement to file an Exhibit C may be obtained for good cause shown upon written application to the Assistant Attorney General, Internal Security Division, Department of Justice, Washington, D.C. 20530. See Rule 201 (c) and (d).

(c) An Exhibit D shall be filed when applicable. This exhibit for which no printed form is provided sets forth an account of money collected or received as a result of a fund raising campaign and transmitted for a foreign principal. See Rule 201 (e).

(d) A Short Form Registration Statement shall be filed for each person named in Items 4 (h) and 5.

The undersigned swear(s) or affirm(s) that he has (they have) read the information set forth in this registration statement and the attached exhibits and that he is (they are) familiar with the contents thereof and that such contents are in their entirety true and accurate to the best of his (their) knowledge and belief, except that the undersigned make(s) no representation as to the truth or accuracy of the information contained in attached Short Form Registration Statement, if any, insofar as such information is not within his (their) personal knowledge.

(Type or print name under each signature)

Glen A. Wilkinson

Glen A. Wilkinson, Managing Partner

(Both copies of this statement shall be signed and sworn to before a notary public or other person authorized to administer oaths by the agent, if the registrant is an individual, or by a majority of those partners, officers, directors or persons performing similar functions who are in the United States, if the registrant is an organization.)

Subscribed and sworn to before me at WASHINGTON, D C

this 15th day of June, 1979

Patricia A. McCarthy

(Signature of notary or other officer)

My commission expires Jan. 31, 1982

DOJ-1973-08

(g) List all partners, officers, directors or persons performing the functions of an officer or director of the registrant.

NAME	ADDRESS	POSITION	CITIZENSHIP
Glen A. Wilkinson, Esq.	4308 Forest Lane, N.W. Washington, D.C. 20007	Partner	U.S.
Robert W. Barker, Esq.	9913 Hillridge Drive Kensington, Maryland 20795	Partner	U.S.
Charles A. Hobbs, Esq.	33 West Kirke Street Chevy Chase, Maryland 20015	Partner	U.S.
Angelo A. Iadarola, Esq.	8600 Stirrup Court Potomac, Maryland 20854	Partner	U.S.
Paul S. Quinn, Esq.	4051 41st Street North Arlington, VA 22207	Partner	U.S.
Leon T . Knauer, Esq.	2213 46th Street, N.W. Washington, D.C. 20007	Partner	U.S.
Richard A. Baenen, Esq.	1526 34th Street, N.W. Washington, D.C. 20007	Partner	U.S.
Jerry C. Straus, Esq.	6255 29th Street, N.W. Washington, D.C. 20015	Partner	U.S.
Herbert E. Marks, Esq.	5317 Cardinal Court Washington, D.C. 20016	Partner	U.S.
Pierre J . LaForce, Esq.	1310 35th Street, N.W. Washington, D.C. 20007	Partner	U.S.
Gordon C. Coffman, Esq.	1733 Westwind Way McLean, Virginia 22102	Partner	U.S.
Patricia L . Brown, Esq.	#416, 3901 Cathedral Ave., N.W. Washington, D.C. 20016	Partner	U.S.
Stephen R. Bell, Esq.	4700 Connecticut Avenue, N.W. Apt. 303, Washington, D.C. 20008	Partner	U.S.
R. Anthony Rogers , Esq.	4600 Newcomb Place Alexandria, Virginia 22304	Partner	U.S.
Foster De Reitzes , Esq.	2737 Devonshire Place, N.W. Washington, D.C. 20008	Partner	U.S.
John M. Facciola , Esq.	2614 Stirrup Lane Alexandria, Virginia 22308	Partner	U.S.
Philip A. Nacke , Esq.	2836 Arizona Terrace, N.W. Washington, D.C. 20016	Partner	U.S.
Thomas E. Wilson, Esq.	3221 Oliver Street, N.W. Washington, D.C. 20015	Partner	U.S.

OBD-63, Item 9(c)

Registrant: Wilkinson, Cragun & Barker

DATE	AMOUNT	NAME OF POLITICAL ORGANIZATION	NAME OF CANDIDATE
April 2, 1979	$ 250.00	Alaskans for Don Young	Don Young
April 4, 1979	$ 50.00	Neverson for City Council (D.C. Government)	Neverson
April 5, 1979	$ 500.00	Bill Bradley for U.S. Senate Committee	Bill Bradley
April 25, 1979	$5000.00	Dem. National Committee	Democratic Party
April 26, 1979	$ 200.00	Congressman Jim Santini's People	Jim Santini
May 7, 1979	$ 100.00	Blanchard for Congress Committee	Jim Blanchard
May 9, 1979	$1000.00	Democratic Congressional Dinner	Democratic Party
June 12, 1979	$ 55.00	Democratic National Committee	A. Vernon Weaver
June 12, 1979	$ 250.00	Citizens for Congressman John M. Murphy	John H. Murphy
June 12, 1979	$ 250.00	Friends for Florio Committee	Jim Florio
June 12, 1979	$ 250.00	Citizens for Hanley	Jim Hanley

FORM OBD-67
JAN 1977

UNITED STATES DEPARTMENT OF JUSTICE
WASHINGTON, D.C. 20530

OMB No. 43-R0216
Approval expires Oct. 31, 1981

Received Dept of Justice 4:40 JDCW

EXHIBIT A

TO REGISTRATION STATEMENT

Under the Foreign Agents Registration Act of 1938, as amended

Furnish this exhibit for EACH foreign principal listed in an initial statement and for EACH additional foreign principal acquired subsequently. G.O. 8.0.2

1. Name and address of registrant: Wilkinson, Cragun & Barker
1735 New York Avenue, N.W.
Washington, D.C. 20006

2. Registration No.

3. Name of foreign principal: European Travel Commission

4. Principal address of foreign principal: c/o Greek National Tourist Office, 645 Fifth Avenue New York, New York 10022

5. Indicate whether your foreign principal is one of the following type: 6-15-79

☒ Foreign government

☐ Foreign political party

☐ Foreign or ☐ domestic organization: If either, check one of the following:

☐ Partnership ☐ Committee

☐ Corporation ☐ Voluntary group

☐ Association ☐ Other (specify) _____

☐ Individual - State his nationality _____

6. If the foreign principal is a foreign government, state:

a) Branch or agency represented by the registrant: Foreign principal is a commission comprised of representatives of official national tourism offices of 23 European governments. (See item 9 for a list of the 23 governments represented.)

b) Name and title of official with whom registrant deals. Harry Haralamboupoulos, Chairman

7. If the foreign principal is a foreign political party, state:

a) Principal address N/A

b) Name and title of official with whom the registrant deals. N/A

c) Principal aim N/A

8. If the foreign principal is not a foreign government or a foreign political party,

a) State the nature of the business or activity of this foreign principal N/A

b) Is this foreign principal

Owned by a foreign government, foreign political party, or other foreign principal ..... Yes [X] No [ ]

Directed by a foreign government, foreign political party, or other foreign principal.... Yes [X] No [ ]

Controlled by a foreign government, foreign political party, or other foreign principal .. Yes [X] No [ ]

Financed by a foreign government, foreign political party, or other foreign principal ... Yes [X] No [ ]

Subsidized in whole by a foreign government, foreign political party, or other foreign principal ..... Yes [ ] No [X]

Subsidized in part by a foreign government, foreign political party, or other foreign principal ..... Yes [X] No [ ]

9. Explain fully all items answered "Yes" in Item 8(b). (If additional space is needed, a full insert page may be used.)

ee attached sheet identified as Exhibit A, item 9.

10. If the foreign principal is an organization and is not owned or controlled by a foreign government, foreign political party or other foreign principal, state who owns and controls it.

N/A

Date of Exhibit A	Name and Title	Signature
June 15, 1979	Glen A. Wilkinson, Managing Partner	Glen A. Wilkinson

Exhibit A, item 9 Registrant: Wilkinson, Cragun & Barker

The foreign principal is a commission comprised of the official national tourist organizations of 23 European countries. Because each organization has one vote on the Commission, each of the 23 official national tourist organizations represented can exercise an equal degree of "direction" and "control" over Commission affairs.

The Commission is financed by the official national tourist organization members. The amount of each organization's contribution varies from time to time based, as it is, upon a variety of factors including the number of American visitors it receives and each country's gross national product. The 1979 ETC budget calls for each organization to contribute the following approximate percentage of that budget:

Austria	2.3%
Belguim	3.0%
Cyprus	.4%
Denmark	3.0%
Finland	1.3%
France	13.6%
Germany	14.0%
Greece	3.2%
Iceland	.4%
Ireland	3.0%
Italy	10.4%
Luxembourg	.4%
Malta	.4%
Monaco	.4%
Netherlands	5.7%
Norway	1.8%
Portugal	2.0%
Spain	7.0%
Sweden	2.6%
Switzerland	5.3%
Turkey	3.4%
United Kingdom	14.0%
Yugoslavia	2.5%

Form OBD-65
Rev. 4-27-77
(Formerly DJ-304)

OMB
No. 43-R435
Approval Expires Oct. 31, 1981

UNITED STATES DEPARTMENT OF JUSTICE
Washington, D.C. 20530

Received Dept. of Justice
4:40 pm
6.0.8.0.2

EXHIBIT B

TO REGISTRATION STATEMENT
Under the Foreign Agents Registration Act
of 1938, as amended

INSTRUCTIONS: A registrant must furnish as an Exhibit B copies of each written agreement and the terms and conditions of each oral agreement with his foreign principal, including all modifications of such agreements; or, where no contract exists, a full statement of all the circumstances, by reason of which the registrant is acting as an agent of a foreign principal. This form shall be filed in duplicate for each foreign principal named in the registration statement and must be signed by or on behalf of the registrant.

6-15-79

Name of Registrant	Name of Foreign Principal
WILKINSON, CRAGUN & BARKER	European Travel Commission

Check Appropriate Boxes:

1. ☐ The agreement between the registrant and the above-named foreign principal is a formal written contract. If this box is checked, attach two copies of the contract to this exhibit.

2. ☐ There is no formal written contract between the registrant and foreign principal. The agreement with the above-named foreign principal has resulted from an exchange of correspondence. If this box is checked, attach two copies of all pertinent correspondence, including a copy of any initial proposal which has been adopted by reference in such correspondence.

3. ☒ The agreement or understanding between the registrant and foreign principal is the result of neither a formal written contract nor an exchange of correspondence between the parties. If this box is checked, give a complete description below of the terms and conditions of the oral agreement or understanding, its duration, the fees and the expenses, if any, to be received.

Agreement: Registrant agreed to research and compose congressional testimony for foreign principal as described in items 4 and 5 below.
Duration: June 5, 1979 through date of testimony (on or about July 20, 1979).
Fees: Approximately $5,000.
Expenses: As incurred for photocopying, local transportation, long distance telephone, secretarial services, etc.

4. Describe fully the nature and method of performance of the above indicated agreement or understanding.

Registrant will research and compose written testimony for foreign principal to orally deliver to Committee on Finance, U.S. Senate advocating repeal of Section 274(h) of the Internal Revenue Code. Foreign principal will compensate registrant for this service in U.S. currency as described in item 3 (above).

5. Describe fully the activities the registrant engages in or proposes to engage in on behalf of the above foreign principal.

Registrant will perform research and composition activities for Foreign Principal's written testimony to be delivered to Committee on Finance, U.S. Senate. Registrant will also make arrangements for Foreign Principal's appearance before the Committee.

6. Will the activities on behalf of the above foreign principal include political activities as defined in Section 1(o) of the Act?1/ Yes ☒ No ☐

If yes, describe all such political activities indicating, among other things, the relations, interests or policies to be influenced together with the means to be employed to achieve this purpose.

Registrant will research and compose written testimony for Foreign Principal to orally deliver to Committee on Finance, U.S. Senate. Testimony will advocate repeal of Section 274 (h) of the Internal Revenue Code.

Date of Exhibit B	Name and Title	Signature
June 15, 1979	Glen A. Wilkinson, Esquire Wilkinson, Cragun & Barker	Glen A. Wilkinson

1/ Political activity as defined in Section 1(o) of the Act means the dissemination of political propaganda and any other activity which the person engaging therein believes will, or which he intends to, prevail upon, indoctrinate, convert, induce, persuade, or in any other way influence any agency or official of the Government of the United States or any section of the public within the United States with reference to formulating, adopting, or changing the domestic or foreign policies of the United States or with reference to the political or public interests, policies, or relations of a government of a foreign country or a foreign political party.

OMB No. 43-R0215
Approval Expires Oct. 31, 1981

UNITED STATES DEPARTMENT OF JUSTICE
WASHINGTON, D.C. 20530

Received Dept. of Justice 4:40 pm

SHORT-FORM REGISTRATION STATEMENT

Under the Foreign Agents Registration Act of 1938, as amended

G.O. 8.0.2

Each partner, officer, director, associate, employee and agent of a registrant is required to file a short form registration statement unless he engages in no activities in furtherance of the interests of the registrant's foreign principal or unless the services he renders to the registrant are in a secretarial, clerical, or in a related or similar capacity.

6-15-81

1. Name: Paul Stephen Quinn	Registration No.
2. Residence Address: 4051 — 41st Street N. Arlington, VA 22207	3. Business Address: Wilkinson, Cragun & Barker 1735 New York Avenue, N.W. Washington, D.C. 20006
4. Date and Place of Birth: 12/24/34 Pawtucket, Rhode Island Present Citizenship	5. If present citizenship was not acquired by birth, indicate when, where, and how acquired. N/A

6. Occupation: Attorney

7. What is the name and address of the individual or organization whose registration made it necessary for you to file this statement?

Name: Wilkinson, Cragun & Barker Address: 1735 New York Avenue, N.W. Washington, D.C. 20006

8. List every foreign principal of the individual or organization named in Item 7.

European Travel Commission

9. Indicate your connection with the individual or organization named in Item 7:

☒ partner ☐ director ☐ employee
☐ officer ☐ associate ☐ agent
☐ other (specify)_____

10. Describe in detail all services which you have rendered or will render to the individual or organization named in Item 7. If you are no longer rendering such services, indicate period of past services. (If space is insufficient, a full insert page must be used.)

I am directing the research and composition of written testimony for the foreign principal to present to the Committee on Finance, U.S. Senate advocating the repeal of Section 274(h) of the Internal Revenue Code. I have also made arrangements for the foreign principal to appear before that Committee to orally deliver the testimony.

11. Do any of the above described services include political activity as defined in the footnote below?
[X] Yes [ ] No

If yes, fully describe such political activity
Directing research and composition of testimony and arranging for foreign principal's appearance before Senate Finance Committee, as described in item 10.

12. The services described in Item 10 are to be rendered on a
[ ] full time basis [ ] part time basis [X] special basis

13. What compensation are you receiving or will receive for above services? My compensation is based upon regular services performed on behalf of the law firm. I will receive no additional compensation or thing of value for the representation of this foreign principal.
[ ] Salary: Amount $_____ per_____ [ ] Commission at _____% of_____
[ ] Fee: Amount $_____ [ ] Other thing of value _____

14. What compensation or thing of value have you received to date for above services?

Date	From Whom Received	Amount
	None	

15. During the period beginning 60 days prior to the date of your obligation to register to the time of filing this statement, did you make any contributions of money or other things of value from your own funds or possessions and on your own behalf in connection with an election to political office or in connection with any primary election, convention, or caucus held to select candidates for political office? Yes [ ] No [ ]

If yes, furnish the following information:

Date	Amount of thing of value	Name of political organization	Name of candidate

See attached sheet identified as Short Form Registration Statement, item 15.

June 15, 1979
Date of Signature

Paul D. Zimmerman
Signature

Subscribed and sworn to before me at WASHINGTON, D C
this 15th day of June, 1979

Patricia A McGinley
Signature of notary or other officer

My commission expires Jan. 31, 1983

Footnote: Political activities as defined in Section 1(o) of the Act means the dissemination of political propaganda and any other activity which the person engaging therein believes will, or which he intends to, prevail upon, indoctrinate, convert, induce, persuade, or in any other way influence any agency or official of the Government of the United States or any section of the public within the United States with reference to formulating, adopting, or changing the domestic or foreign policies of the United States or with reference to political or public interests, policies, or relations of a government of a foreign country or a foreign political party.

Short Form Registration Statement, Item 15

Registrant: Paul S. Quinn

DATE	AMOUNT	NAME OF POLITICAL ORGANIZATION	NAME OF CANDIDATE
April 2, 1979	$ 13.88	Alaskans for Don Young	Don Young
April 4, 1979	$ 2.77	Neverson for City Council (D.C. Government)	Neverson
April 5, 1979	$ 27.77	Bill Bradley for U.S. Senate Committee	Bill Bradley
April 25, 1979	$ 312.50	Democratic National Committee	Democratic Party
April 26, 1979	$ 11.11	Congressman Jim Santini's People	Jim Santini
May 7, 1979	$ 5.55	Blanchard for Congress Committee	Jim Blanchard
May 9, 1979	$ 62.50	Democratic Congressional Dinner	Democratic Party
June 12, 1979	$ 3.44	Democratic National Committee	A. Vernon Weaver
June 12, 1979	$ 13.88	Citizens for Congressman John M. Murphy	John M. Murphy
June 12, 1979	$ 13.88	Friends for Florio Committee	Jim Florio
June 12, 1979	$ 13.88	Citizens for Hanley	Jim Hanley

These amounts represent Paul S. Quinn's pro rata share of political contributions made on behalf of some or all of the partners of Wilkinson Cragun and Barker.

WILKINSON, CRAGUN & BARKER
LAW OFFICES
1735 NEW YORK AVENUE, N. W
WASHINGTON, D. C. 20006
(202) 833-9800
CABLE ADDRESS
"WILCBAR"

ERNEST L. WILKINSON (1898-1976)
JOHN W. CRAGUN (1904-1968)

GLEN A. WILKINSON
ROBERT W. BARKER
CHARLES A. HOBBS
ANGELO A. IADAROLA
PAUL S. QUINN
LEON T. KNAUER
RICHARD A. BAENEN
JERRY C. STRAUS
HERBERT E. MARKS
PIERRE J. LAFORCE
FRANCES L. HORN
GORDON C. COFFMAN
PATRICIA L. BROWN
STEPHEN R. BELL
R. ANTHONY ROGERS
FOSTER DE REITZES
JOHN M. FACCIOLA
PHILIP A. NACKE
THOMAS E. WILSON

ROSEL H. HYDE
Counsel

ALAN I. RUBINSTEIN
JERRY R. GOLDSTEIN
EDWARD M. FOGARTY
ROBIN A. FRIEDMAN
JAMES E. MAGEE
ROBERT B. McKENNA, JR.
JOSEPH P. MARKOSKI
STEVEN C. LAMBERT
STEPHEN A. MILDEBRANDT
CHARLES L. APPLER
BARBARA S. WOODALL
TOBEY B. MARZOUK
STEVEN A. LAUER
LAUREL R. BERGOLD
ROBERT A. JOHNSON
VALERIE K. SCHURMAN
BRUCE T. REESE
F. THOMAS MORAN
CAROL L. BARBERO
JACQUELYN R. LUKE
JAMES L. CASSERLY

June 15, 1979

The Honorable Phillip Heyman
Assistant Attorney General
Criminal Division
U.S. Department of Justice
Washington, D.C.

Re: Foreign Agent Registration

Dear Mr. Heyman:

The law firm of Wilkinson, Cragun & Barker is today submitting the requisite forms to register as the agent of a foreign principal, the European Travel Commission, pursuant to the Foreign Agent Registration Act of 1938.

Rule 201(c) of the rules promulgated pursuant to this Act requires that the registration forms of an organization registrant be accompanied by an Exhibit C consisting of the organizational documents of the registrant. For the reasons stated below, Wilkinson, Cragun & Barker respectfully requests a waiver, pursuant to Rule 201(d), of this Exhibit C filing requirement:

1. Wilkinson, Cragun & Barker is a partnership organized under the laws of the District of Columbia. As such, the sole organizational documents for the firm is its partnership agreement. This agreement has no relationship to the European Travel Commission or relevance to the professional services the firm has agreed to perform for the Commission.

2. The partnership agreement is treated by the members of the firm as a privileged and confidential document. Its disclosure pursuant to Rule 201(c) would serve no statutory purpose.

Your prompt concurrence with this request will be greatly appreciated.

Sincerely,

WILKINSON, CRAGUN & BARKER

By: Glen A. Wilkinson
Managing Partner

[Whereupon, at 12 p.m., the subcommittee recessed, to reconvene at 1 p.m. this same day.]

AFTERNOON SESSION

Senator MATSUNAGA. The subcommittee will come to order.

We have, as a panel of witnesses, Mr. Sheldon Cohen on behalf of Wometco Enterprises and Mr. William Duron, on behalf of the Tourism Industry Association of Canada.

Mr. Duron, are you from Canada?

Mr. DURON. Yes, I am. From Toronto.

Senator MATSUNAGA. Well, I am sorry for the delay. Perhaps you understand how the Senate operates. We exert more energy than we try to save, running back and forth from committee meeting to the floor.

Mr. DURON. I understand.

Senator MATSUNAGA. I do not know how your Canadian parliament operates, but——

Mr. DURON. The same.

Senator MATSUNAGA. The same—I'm glad to hear that, each Senator needs three bodies, at least, to do all that he is required to do.

For example, I am supposed to be at three meetings right now. But we have got to make our choice, and as the chairman of this subcommittee, I must be here.

Mr. DURON. We will try not to detain you.

Senator MATSUNAGA. That is all right.

Mr. Cohen, we will be happy to hear from you.

Mr. COHEN. Thank you, Mr. Chairman.

STATEMENT OF SHELDON COHEN ON BEHALF OF WOMETCO ENTERPRISES, INC.

Mr. COHEN. My name is Sheldon Cohen of the law firm of Cohen and Uretz and I am here today on behalf of Wometco Enterprises, the parent company of KVOS television which operates out of Bellingham, Wash.

I will attempt to summarize my statement and ask that you place the remainder of it in the record.

Senator MATSUNAGA. Without objection, that will be done.

Mr. COHEN. I am not here today to discuss the merits of the three bills that are being considered by this committee. Rather I am here to request that the committee delay action on these bills. We do this in order to assure that equity is done as to trade between Canada and the United States. The Canadian Government has certain problems with the way we tax our people and we have certain problems with the way they tax their people.

Heretofore, our Government has said that we are willing to negotiate both of these problems with you, as you heard Mr. Halperin say this morning. The tax treaty is the proper vehicle in which to negotiate on both of these issues.

The Canadian Government, until very recently, has said this is a matter of domestic affairs, to tax Canadian citizens and is nonnegotiable. In that light, we have appeared a number of times both before this committee and before the Ways and Means Committee

in opposition to any North American relief insofar as it applies to the Government of Canada.

We do so——

Senator MATSUNAGA. Was this before the new Canadian Government took office?

Mr. COHEN. Yes, sir. I will get to that in a moment.

The Canadian Government, even before we enacted our 1976 law and foreign convention restrictions, enacted a bill called C. 58. C. 58 restricted the deductibility of advertising expense when it appeared on foreign, in effect, American television stations where any part of the broadcast was aimed at Canadian recipients.

It happened that where there is a juxtaposition of an American TV station and a large Canadian city, the Canadian people like to view our programing, then Canadian advertisers would advertise on the American side—Buffalo, N.Y., Vermont, Detroit, Bellingham, Wash., if you will—are places where this would happen.

It is a minor irritant, really, in Canadian-American relationships. We had about $19 to $20 million worth of advertising before C. 58 and it dropped down to about $9 million, or a little less, after C. 58.

The Canadians on the other hand, are saying that the foreign convention rule as it applies to a close neighbor, is not a good thing to have. I would not object to their having a special rule for good neighbors. I happen to enjoy going to Canada for vacations and for meetings.

However, the United States has a domestic law, if you will, that says that I may not go to foreign conventions except under certain circumstances.

We do not believe you ought to change that domestic law unless the Canadians show some willingness to do likewise. Now, that is just the background.

Within the last week or so, the Canadian Government, the new government under the new Prime Minister, has sent a message to the Special Trade Representative indicating that, for the first time, they are willing to discuss this issue. That first discussion will take place within the first few days, of August.

We are saying that if we knew that this was a meaningful discussion and that it was likely to lead to a modification of positions to come out of it, we would be ready to withdraw our position today. However, in advance of knowing what the agenda is, knowing what the discussion might be, and knowing that there is some rationality now entered into the process, we are saying that until after we have seen the negotiating position and the good faith of the Canadian Government, that we ought not to give up this bargaining chip. The Senate passed a resolution as to just that position: that is, it is in favor of the President negotiating with the Canadian Government and not making changes until that occurred.

The last time this passed the House, this provision with the North American Convention exception, it passed the House with a proviso that exception, would not be effective as long as the Canadians did not negotiate in good faith.

So we are still at that same position, although we are now very much encouraged—in fact, delighted—to hear that these discus-

sions are going to occur. We are hopeful that within the next several months, this situation might work out.

That concludes my summary, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Cohen.

I understand you were formerly Commissioner of the Internal Revenue Service.

Mr. COHEN. Yes, sir.

Senator MATSUNAGA. You are in private practice now?

Mr. COHEN. Yes, sir.

I served as Commissioner for slightly over 4 years, from 1965 through early 1969.

Senator MATSUNAGA. You would conditionally exempt Canada from the present rules on foreign convention expense deduction. Canada is the only country for which you condition an exemption? What about Mexico?

Mr. COHEN. We have no quarrel with Mexico, sir.

Senator MATSUNAGA. No quarrel there. I see.

Well, then we will hear from Mr. Duron. Maybe Mr. Duron might have a few suggestions in that respect. We will be happy to hear from you, Mr. Duron.

Mr. DURON. Thank you, Mr. Chairman.

Thank you, Mr. Chairman. I, too, would request that my statement be part of the official record.

Senator MATSUNAGA. Without objection, it is so ordered.

STATEMENT OF WILLIAM M. DURON ON BEHALF OF TOURISM INDUSTRY ASSOCIATION OF CANADA

Mr. DURON. My name is William Duron and I represent the Tourism Industry Association of Canada and I join with others in respectfully urging a North American exemption into section 602. I would like to concentrate on three major points. If, in fact, it is necessary to produce linkage in order to solve this convention problem, would it not be more appropriate to link the $2.3 billion that Canadians spend in the United States each year?

Florida annually receives more Canadian visitors than 8 of 10 Canadian Provinces. Your own State, Mr. Chairman, regards Canada as its largest foreign tourist customer. Now, this insatiable desire on the part of Canadians to travel into the United States, coupled with the $100 million losses that we have already experienced as a result of section 602, has produced a trade deficit in tourism alone, with the United States, of $925 million, which is contributing to our overall travel deficit of $1.7 billion.

Now, this deficit has prompted some Canadian tax counselors, as well as Canadian businessmen to predict the possibility of legislative travel controls on Canadians.

Now, the official policy of the past Government of Canada was that no such controls would be imposed. However, the record holds true that similar conditions in other countries have forced governments to place travel controls on their own nationals.

The second point that I would like to make is to try to clear up the misunderstanding of labeling Canada's convention legislation somewhat similar to that of the United States. In its intent, the legislation is quite similar. The difference is in the effect.

In summary, Canadian taxpayers may attend two fully deductible conventions anywhere in the world, no stipulations that they be from outside of Canada, and that the expenses be reasonable under the circumstances. This is precisely why over 500,000 Canadians travel to the United States each year. America, with 10 times the population, send approximately the same number of Americans to Canada for conventions each year—this is before section 602.

Now, it is assumed that if Canada were to adopt similar legislation as to that of the United States, then the United States would be equal to what Canada has, because the same number of Canadians travel to the United States as Americans to Canada.

The last point that I would like to make is the persistence of the border broadcasters who have attempted to link section 602 with their own, extraneous complaint. I, too, am not here to debate the validity or invalidity of this particular issue, but I really cannot understand why, after their complaint was heard in their own context before the appropriate trade tribunal with no interference from unrelated parties, I cannot understand why they still persist in attempting to deny an equitable solution to the convention problem.

It appears to me that, on the surface, it reflects on the strength of their case, that they would have to bring in other industries, such as tourism, and any others they may have attempted to do.

I would like to cite a recent development which bears some relevance on this linkage. The airlines industry, as you know, is probably one of the most affected industries because of section 602. One airline in particular, Air Canada, a Government-owned airline, is one of those adversely affected by section 602.

Over the past several months, Air Canada has been seeking proposals for their future aircraft needs. They have been looking at proposals from European manufacturers, as well as U.S. manufacturers.

A few days ago, Air Canada made the decision to purchase $2.5 billion worth of future aircraft with Boeing in the city of Seattle in the State of Washington. As it turns out, another $1 billion order was placed with Lockheed.

There were some people who have said to me that why was it that not one Air Canada executive tried to produce linkage in this order? Why did not one Canadian legislator try to produce linkage in this contract? And no one from our association tried to interfere with this contract at all?

Some people could suggest that linkage could be produced here. We do not find a solution to the broadcaster's problem. No American convention delegates for Canada, no American convention delegates for Air Canada, no aircraft orders for Boeing and Lockheed.

Some say—and I say it right now—that I bring this up after the contract is made. Some would think we were naive in not taking advantage of the situation that the broadcasters have in our particular industry, but I would prefer to think that when the United States and Canada, with their innumerable bilateral opportunities such as energy, tourism—it goes all the way down the line—if they have to start resorting to linkage of unrelated matters to resolve their mutual problems, it occurs to me that her continental future looms very dark indeed.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Duron. You make a very strong case for Canada. I do hope, for those with Mr. Cohen engaged in the present controversy, that your new government might continue the same friendly policy of past governments and be influenced by people such as yourself, Mr. Duron, who believe in free economic activity between our two countries.

Mr. DURON. Thank you, sir.

Senator MATSUNAGA. I am somewhat puzzled by your statement, however, Mr. Duron, wherein you said that Canadians may go anywhere in the world. In your statement, you say the Canadians may attend up to two fully tax deductible conventions per year anywhere in the world.

Mr. DURON. Yes, sir.

Senator MATSUNAGA. Yet your statute provides that deductions can be made only for expenses in attending conventions at locations consistent with the territorial scope of the organization holding them.

According to the interpretation I have received, this provision generally requires that a convention sponsored by Canadian business or professional organizations be held in Canada where the organization is national in character, or in the particular province, municipality, or other area in Canada where the activities of the organization are limited to such area.

The interpretation goes on further to say that expenses incurred in attending a convention sponsored by a Canadian organization outside those geographical limits will normally be viewed as not deductible in computing income. This is the interpretation published by the Canadian Deputy Minister of National Revenue for Taxation, is it not?

Mr. DURON. Yes, sir. I would be delighted to comment on it, if you will.

Senator MATSUNAGA. If you please.

Mr. DURON. Yes.

Both the Canadian law as well as the United States law do not actually deal with the sponsoring, or with the nonprofit associations, that are sponsoring the conventions. They deal with the nationals of both countries, and this is precisely why even under the Canadian legislation a half a million Canadians traveled to the United States for a convention each year.

I think that, in regard to the one statement where it said that the conventions must be held within the territorial scope of the membership, I think that the way—I know that the way—that this is managed by a number, or all, Canadian associations, that they choose to meet in the United States, is that when they do meet in the United States with their counterpart members, some of the members from the state association, for instance, of the Canadian Bar Association wanted to meet in San Francisco, and they had some members from the California Bar Association there, it would be consistent with the territorial scope of the membership because it is, in fact, a joint meeting, and I know that there are a number of provincial associations—for instance, in Manitoba, who consistently meet with their Manitoba counterparts from Minnesota—counterparts in Minnesota.

Again, I think the whole question is the fact that half a million Canadians do travel to the United States each year for their conventions and it is because there is that freedom to do so.

Senator MATSUNAGA. Well, personally, I believe in promoting good will and free trade, especially between neighbors.

Mr. DURON. Yes, sir.

Senator MATSUNAGA. That is my view. Others on the committee may feel otherwise. Some may hold a protective attitude, requiring tit for tat.

Mr. DURON. Which would be unfortunate, sir.

Senator MATSUNAGA. Yes, in my view, it is. Yet, to face reality, they are under pressure from constituents who are affected, such as New Yorkers. You heard Senator Javits testify this morning, I believe. He suggested that the same condition be placed on a Canadian exemption, as Mr. Cohen suggests.

Mr. COHEN. If I may comment a moment?

Senator MATSUNAGA. Mr. Cohen?

Mr. COHEN. The Board of Broadcasters attempted for several years to carry on both private and intergovernmental negotiations with the Government of Canada. They did not come down to this point of opposing a North American exemption until after the Canadian Government refused, on a number of occasions, to even discuss possible amelioration of the problem.

So I want to make clear that this was not a position that was taken on the spur of the moment.

I would hope, as I say, within the next several months with the new government showing good will and willingness to discuss it that the problem will be dissipated and we will be able to go on to the merits of whether conventions ought to be held here, there or elsewhere.

Senator MATSUNAGA. Do you think, Mr. Cohen, that we ought to take a chance; the new government might consider a voluntary action on our part as a gesture of good will that needs to be reciprocated by them?

Mr. COHEN. I debated long and hard before I came in here, Senator, on the position that maybe the timing is right, that we ought to give up our position. However, the first meeting has not occurred yet. It is 2 weeks away.

By saying to you today to delay for a few weeks I hoped the negotiating process could begin. I would expect that by the time that that recess is over and you come back from constituent time, back in your district in September, we may know from the State Department, Treasury, and STR officials who are in attendance with the Canadians that, indeed, meaningful negotiations did occur. I think then we would be more willing to get out of the trenches and shake hands and go on about our business, both of us, and try to do good for the various industries. Our people in the broadcasting industry and Mr. Duron and his people in the trade and commerce industry.

Senator MATSUNAGA. Mr. Duron?

Mr. DURON. My only hope is within the next 2 weeks that you and other members of the community will remember that no such bargaining chip talk was discussed in the Air Canada-Boeing deal.

Thank you, sir.

Senator MATSUNAGA. I personally—again, I say personally, because I cannot speak for the committee, I can speak only for myself—I personally feel that perhaps if we act on our own without placing any conditions, the Canadians will reciprocate. There is a new government in control there and perhaps Mr. Duron, as an influential member of the business community representing the Tourism Industry Association of Canada, may have access to the ear of the new Prime Minister.

Mr. DURON. I would certainly let it be known, Mr. Chairman, that if you did move in the correct direction on this, that I would certainly let it be known that the United States has acted in good faith.

Senator MATSUNAGA. I feel that our closest friends are Canadians.

Mr. DURON. Yes, sir.

Senator MATSUNAGA. I served with Canadians in World War II. They were closer to us than they were to the English or to the Australians, because we talked alike and we thought alike. The Canadians themselves felt as Americans did, that the Australians were foreign and the English were foreign, although allies .

Mr. DURON. Around the world we are still regarded as the same.

Senator MATSUNAGA. That is right.

I think the bond of friendship and brotherhood, or sisterhood, if you wish to call it, ought to continue and even be strengthened.

Mr. DURON. Yes, sir.

Senator MATSUNAGA. I personally am inclined to take a chance on that friendship.

Mr. COHEN. I can agree with that. I am very optimistic. I hope the message has gotten through. It is only a few weeks since the new government is in power. The old government had a position. We will now talk about it, these people are willing to talk about it. I think that is a new and hopeful sign.

If that keeps up, I think we will have a new attitude and will be able to go on to get this through.

Senator MATSUNAGA. I am glad to hear you say that. I am sure that that makes Mr. Duron feel a little better.

As a former Commissioner, Mr. Cohen, what is your view on the proposal to use a reasonableness test for foreign conventions?

Mr. COHEN. I find the Treasury language seems rational to me. The "two" test is too many for some people, and too few for others; too many for most people.

I go to several foreign conventions, but maybe one in 4 or 5 years. I have been to several in Canada. I have been to one or two in Mexico. I have been to some other meetings abroad, but not every year—I go abroad when I have a client problem. That is not a convention.

For most people in the United States, two is more than they will ever take. It is too much, really.

On the other hand, for the technicians we were talking about today, it is too fewer for some small group of people, maybe a few thousand people in the whole United States. It may be very biting.

Therefore, it would seem the tax rule should be one of rationality to the occupation and to the meeting. There ought to be some

relationship between the meeting, the meeting place and the person.

The literature we have all seen of the doctors, pediatricians will put out a brochure, and it will have 455 conventions, one a week; some weeks, two, in Hawaii, Miami and all over Latin America, all over Europe, all over Asia. You pick the spot, you can go to the pediatricians convention. You may not speak the language, but you can go to the convention and get a trip to that particular country or that particular spot.

That is abominable. That is not what the tax law is designed to do. It is designed to make this system work.

If I need, as a lawyer, to go to a meeting of tax lawyers in Germany because I am working with a German tax problem, I ought to be able to go. On the other hand, if I have no German connections, I should not be able to go to the convention in Germany.

The District Bar Association should not have a convention in Spain. It has no rational basis, for the lawyers practicing in Washington to see it, even if they invite the Spanish Bar. They have no reason to have a meeting in Spain.

It ought to be a rule of rationality.

Those rules, relatively detailed, ought to be written.

The difficulty I have found with some of the discussion this morning is that the very same people that would object to a revenue agent going through the detail of their vouchers to determine the rational test are the ones who say there ought to be no test.

You cannot have that. You cannot put on enough revenue agents to go through all the detail.

If a large American corporation has 1,000 executives who go to various meetings, you can imagine what the audit problem would be for revenue agents. You would need a team of five revenue agents to go through just that detail on one item alone.

We cannot have that, so we have to have some test that is relatively self-enforcing. At least we will keep relative honesty.

We know there will be some people who cheat anyway. We have to keep the great bulk of the people on some rational standard, so we have to spell out a rational standard.

Senator MATSUNAGA. The IRS has compounded the problem with present law by not issuing clarifying regulations. This is one of the difficulties faced by the electrical engineers.

Mr. COHEN. I have the same problem, because I have to advise clients in this respect.

Senator MATSUNAGA. Well, I have been reminded that there is another hearing scheduled in this room beginning as of now. So I thank you, Mr. Cohen, and I thank you especially, Mr. Duron, for coming all the way to Washington.

Mr. DURON. You are quite welcome, Mr. Chairman.

Senator MATSUNAGA. I appreciate your being here.

[The prepared statements of Messrs. Cohen and Duron follow:]

STATEMENT OF SHELDON COHEN

Mr. Chairman: My name is Sheldon Cohen of the law firm of Cohen and Uretz in Washington, D.C. I am appearing on behalf of Wometco Enterprises, Inc., parent company of KVOS Television Corporation, licensee of KVOS-TV, Bellingham,

Washington, and Howard Publications, parent company of WIVB-TV, Buffalo, New York.

I am not here today to address the merits of S. 589, S. 749, or S. 940 as desirable or undesirable liberalizations of existing law. Rather, I am here to request that the Committee delay action on these bills. We urge you to recognize that any relaxation of the restrictions on deducting the costs of attending foreign conventions insofar as it would benefit Canada's tourism industry should continue to await reciprocal action by the Canadian government to relax a provision of the Canadian income tax law that discriminates against U.S. television stations whose programs are viewed in Canada. I am hopeful that both problems can be resolved by working with the new Clark government in Canada within the near future, and that the irritation to U.S.-Canadian bilateral relations caused by these problems can be put behind us.

Canadian discrimination against U.S. broadcasters

Section 19.1(1) of the Canadian Income Tax Act provides that no deduction is to be allowed for an otherwise deductible expenditure for an advertisement directed primarily to a Canadian market which is broadcast by a "foreign broadcasting undertaking." The foreign broadcasting undertakings against which the provision is aimed are U.S. television stations in the Northern tier of the United States. The signals from these stations are received either directly "off the air" by Canadian television viewers or are picked up for their subscribers by a highly developed Canadian cable television industry. A deduction is permitted for similar advertisements placed on Canadian stations. Section 19.1(1) was enacted as section 3 of Bill C-58 and became effective in September, 1976.

The U.S. broadcasting industry developed much faster than its Canadian counterpart and Canadians grew accustomed to seeing U.S. programs over-the-air. As Canadians grew increasingly fond of watching U.S. programming, the Canadian cable industry was spurred to development, and U.S. signals were sent all over Canada. It is generally admitted that the immensely profitable Canadian cable system was built up on the strength of the U.S. signals. On the U.S. side, the border broadcast stations received no tangible benefits for the service they were providing to Canada until Canadian advertisers recognized the popularity of U.S. signals with Canadian audiences, and began to purchase time on U.S. stations. The total dollar flow was small compared to the overall Canadian and U.S. television industry revenue base, but became significant to the border stations.

These stations' Canadian advertising revenues fell drastically following implementation of Bill C-58. Gross Canadian advertising revenues dropped by more than 50 percent from $18,185,000 in 1975 to $9,171,000 in 1978. The net amounts, excluding Canadian commissions, dropped from $14,052,665 to $6,133,273. KVOS-TV reduced its rates to enable its Canadian advertisers to continue placing advertisements at the same net cost (thus absorbing the burden of the tax increase).

History of relationship of bill C-58 with foreign convention issue

From 1976 through early 1979, the Canadian government expressed its concern over the foreign convention provisions of our tax law while steadfastly refusing even to negotiate with respect to Bill C-58. As a result, both the Senate and the Ways and Means Committee of the House during the past two years recognized the relationship of these two matters and responded by making it clear that relief for Canada under our tax law should not be unilaterally granted but should be linked with a reversal of the Canadian government's "non-negotiable" position with respect to Bill C-58.

In April, 1977, the Senate defeated, 48-45, an amendment to H.R. 3477, the Tax Reduction and Simplification Act (P.L. 95-30), that would have provided a North American exemption from the section 274(h) limitations.[1]

The defeat of this proposal was in part attributable to concern over Bill C-58. As Senator Kennedy stated[2] with respect to the Bill C-58 problem and the proposed amendment, "We should not give up this bargaining chip unilaterally."

Senate Resolution 152 introduced by Senator Moynihan and 13 other U.S. Senators[3] originally linked Bill C-58 and the foreign convention tax provision, in calling upon the President to raise with the Canadian government the question of Bill C-58. The resolution as passed, however, solely requested the President to raise with the Canadians the problems created by Bill C-58.

The Ways and Means Committee in October, 1978, reported out H.R. 9281 which would have provided a North American exemption to the foreign convention restrictions. In doing so, however, the Committee added an amendment which would have

[1] S. 6564-6569, Cong. Rec., April 27, 1977.
[2] Idem at S. 6566.
[3] See, Cong. Rec. S. 6762 (daily ed. April 29, 1977).

denied the North American exemption to a foreign country whose income tax law contains provisions analogous to those of Bill C-58 upon certification by the President that the foreign government was unwilling to negotiate for adjustment of this tax provision.[4] The Committee Report stated that "* * * it would be inappropriate to afford special treatment for conventions held outside the United States if the tax laws of the country in question discriminate against U.S. residents."[5]

Canada's concern over the impact in Canada of the foreign convention provisions of our tax law was expressed in a note sent by the Secretary of State for External Affairs to the State Department on January 14, 1977. The Canadian concern over the foreign convention rules was again expressed at a meeting between Secretary of Commerce Kreps and Jean Chretien, Canada's Minister of Industry, Trade and Commerce[6] on March 28, 1977.

While seeking relief from the foreign convention rules, Canada refused to negotiate Bill C-58. On October 6, 1976, the Canadian government informed the State Department that Bill C-58 was a matter of internal Canadian tax policy and was "nonnegotiable," notwithstanding the fact that a diplomatic note had been sent to Ottawa on the subject of U.S. interest in this measure. In August, 1978, the Canadian government officially responded to a U.S. State Department note of May 23, 1978, protesting Bill C-58, again stating that Bill C-58 is "nonnegotiable."

Negotiation of the bill C-58 issue

Mr. Chairman, we have had a recent breakthrough and are hopeful that this sterile stream of negative responses on C-58 has ended. As you may remember, in August, 1978, fifteen border stations, including KVOS-TV and WIVB-TV, filed a complaint under section 301 of the Trade Act of 1974, 19 U.S.C. § 2411, with the section 301 Committee of the Special Representative for Trade Negotiations, alleging that Bill C-58 constitutes an unreasonable form of tax discrimination. Section 301 permits the President to take retaliatory action against discriminatory and unreasonable foreign restraints on U.S. commerce. Hearings were held in November, 1978, at which certain Canadian witnesses questioned whether section 301 covered broadcasting services. Both this Committee[7] and the Subcommittee on Trade of the House Ways and Means Committee[8] recommended that section 301 be amended so as to make it crystal clear that the Act does now and was always intended to include broadcasting services.

The Trade Agreements Act of 1979 specifically clarifies once and for all that section 301 protects U.S. broadcasting services. It states in section 901 of that Act that section 301's definition of commerce "includes, but is not limited to, services associated with international trade, whether or not such services are related to specific products."

The section 301 Committee is now considering the broadcasters' case on the merits. We were delighted to hear last week that the government of Canada has sent a note to the State Department, with a copy to the Office of the Special Representative for Trade Negotiations, agreeing to consultations on Bill C-58 in August in Ottawa.

We sincerely hope that these consultations are productive and that a positive solution will be worked out for the U.S. border broadcasters and Canada that serves the interests of each country.

However, until we know the outcome of these consultations, the border broadcasting stations intend to pursue the merits of their section 301 complaint. At the same time our clients intend to pursue any other feasible routes to achieve a negotiated resolution to Bill C-58, within the context of the ongoing U.S.-Canadian Tax Treaty negotiations or otherwise. In the meantime, it would not seem wise to us for the United States to make a unilateral concession to Canada which the enactment of any of the three bills before this Committee would be taken to be. We urge this Committee, as has the Congress on past occasions, to recognize the link between Bill C-58 and foreign convention relief and either to take no action on these bills or to make appropriate provision, as did the House Ways and Means Committee in its report on H.R. 9281 last year, to exclude Canada from the benefit of any relief until the problems created by Bill C-58 are eliminated.

Mr. Chairman, in closing let me say that I sincerely hope this is the last time I have to appear before the Congress on this issue. Working in cooperation with the

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[4] H.R. Rept. No. 95-1684, 95th Cong., 2d Sess. 2 (1978)

[5] Id. at 5.

[6] See the exchange of letters between Secretary Kreps and Senator Magnuson reprinted at p. S. 6765, Cong. Rec., April 29, 1977.

[7] Senate Finance Committee Press Release No. 108, March 15, 1978.

[8] Subcommittee on Trade, House Ways and Means Committee Press Release No. 17, April 6, 1979.

Clark government in Canada, I am hopeful that we can resolve this problem within the near future.

That concludes my statement. I would be glad to answer any questions you might have.

STATEMENT OF WILLIAM DURON ON BEHALF OF TOURISM INDUSTRY ASSOCIATION OF CANADA

The Tourism Industry Association of Canada is pleased to join with other interested parties in respectfully urging a North American exemption in the current United States tax law (Section 602) relating to foreign conventions.

Canada and the United States have experienced the greatest interchange of people, goods, services—and ideas—ever known by any two countries throughout history.

Annual trade between the two countries approximates $60 billion per year. Thus, Thomas Enders, United States Ambassador to Canada, has stated that we are "the two most economically interdependent countries in the world".

The considerable United States investment in Canada, and the not inconsiderable Canadian investment in the United States, are will established facts within the bilateral relationship, as are the links in such spheres as defense, culture, ecology and many other areas.

In the mutual interest, the foregoing considerations should provide ample reason to accord nationals of both countries the maximum amount of freedom to travel on both sides of the border in other than the most unusual or dire circumstances. This principle is established in the Helsinki Agreement of which both Canada and the United States are signatories.

This Agreement states countries should "increase tourism" and "facilitate convening of meetings as well as travel by delegations, groups and individuals."

Unfortunately, the provisions of Section 602 have had the effect of discouraging American attendance at conventions scheduled in Canada, which has damaged the Canadian economy by up to $100 million through the cancellation of conventions sponsored by United States organizations. Others which were considering meeting in Canada have postponed their plans until such time as there might be a favourable amendment to Section 602. Some of these organizations have up to 20 percent Canadian membership.

These losses in tourist revenues from the U.S. have contributed to the imbalance of Canada's travel account with the United States of $900 million in 1978. Section 602 has also contributed to a loss of jobs in Canada's tourism industry. In just one Canadian hotel approximately 250 employees have lost their jobs since the adoption of Section 602.

Canadians spend $2.3 billion per year in the U.S. making them the largest foreign tourist customer of the United States, although Canada has only one-tenth the population of the United States. Florida is the most popular vacation destination for Canadians outsite of Canada itself—indeed, Florida annually receives more Canadian visitors than do eight of Canada's ten provinces. Outside of mainland United States, Canada is Hawaii's largest foreign tourist customer.

This tourism deficit, which is caused in part by Section 602, is so serious it has prompted some Canadian tax counsellors to predict the possibility of legislative travel controls on Canadians. The official policy of the previous government of Canada was that no such controls will be imposed, and the Tourism Industry Association of Canada would energetically oppose such measures. However, these predictions by some Canadian businessmen provide evidence of the alarm created by the staggering travel deficit.

It is well known that, in other countries, similar conditions moved governments to take action that restricts a person's right to travel and spend what he can afford.

Because Canada, too, has legislation designed to curb abuse of tax deduction privileges, it has often (and erroneously) been labelled "somewhat similar" to that of the United States. The similarity is the intent, the difference has been the effect.

That difference could be summed up as follows: Canadians may attend up to two fully tax deductible conventions per year anywhere in the world. Over 500,000 Canadians attend conventions in the United States every year. Before Section 602, approximately the same number of Americans, with ten times Canada's population, attended conventions in Canada.

Americans may attend two foreign conventions, meetings or seminars per year and receive only partial tax deductible privileges: Because of this and other onerous requirements, many American meeting planners have cancelled their conventions in Canadian cities and fewer conventions sponsored by U.S. associations and corporations are scheduled for future years.

We have appreciated the past efforts of United States legislators who have attempted to secure a North American exemption to Section 602. We are, however, discouraged that these attempts have been thwarted by the influence of a few United States broadcasting companies who have apparently convinced some senators and congressmen they should use Section 602 as a lever to receive relief from Canada's Bill C-58. This Bill denies tax deductions to Canadian companies that advertise on U.S. television stations. According to their own statistics, this has represented losses of approximately $19 million per year.

It is not our intent or even within our authority to debate the right or wrong of Canada's broadcast legislation. However, we have been surprised and disappointed the United States has chosen to bargain this way. We do not feel it is fair for Canadian hotel and restaurant employees and others to have to suffer because of other legislation which has absolutely nothing to do with them.

It should be noted the border broadcast interests have chosen, in addition, another and probably more correct forum to oppose Canada's television law—by filing a formal complaint with the United States special representative for trade negotiations. We understand this is the appropriate method of settling this matter, not the aforementioned tactic.

With the utmost of respect, we do not feel it is in the best interest of both our countries to bargain in this manner, particularly when Canada is so disadvantaged in its travel account with the United States. The regulations and effect of Section 602 are directly related to tourism, not broadcast advertising.

Finally, we believe a North American exemption in Section 602 would serve the interests of many United States organizations. Most of Canada's convention-oriented hotels are United States owned or operated, some 80% of organized hotel and restaurant personnel in Canada belong to the U.S. headquartered Hotel and Restaurant Employees and Bartenders International Union and, of the 25 airlines providing U.S./Canada service, more than one-half are U.S. owned. Other industry elements such as U.S. car rental and sightseeing companies would also feel the positive effect of this exemption.

We thank you for the opportunity to submit this statement, and we hope in the final analysis the long-term interests of our countries will be served by accommodating the free-flow of people and mutual understanding between us.

Senator MATSUNAGA. The subcommittee stands in recess, subject to the call of the Chair.

[Thereupon, at 2:45 p.m. the subcommittee recessed, to reconvene at the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

COMMENTS OF AERONAUTICAL RADIO INC. (ARINC)

INTRODUCTION

Aeronautical Radio, Inc. (ARINC) is an industry-owned company which exists to provide various communications services to the air transport industry. Its owners are primarily the major U.S. airlines, but also include various commercial air transport operators, and a number of foreign airlines.

ARINC is primarily engaged in providing air/ground, point-to-point, and electronic switching services to the air transport community. As an outgrowth of these services, ARINC also functions as the secretariat for various industry committees. These committees provide a meeting house for airline representatives, suppliers of electronic equipment and other interested persons in developing performance characteristics and maintenance procedures for airborne electronic and other equipment used by the industry, and for other industry concerns.

In the conduct of this secretariat function, ARINC sponsors a variety of regular meetings, both large and small, which bring together industry representatives. Most of these meetings are held in the U.S., rotating among various regions of the country. However, some of the meetings are held in foreign locations, primarily in Europe, where significant numbers of participating air carriers and other interested persons are located.

SUMMARY

ARINC strongly urges the repeal of Section 274(h) of the Internal Revenue Code, which now places special limits on the deductibility of foreign convention expenses. ARINC believes that these expenses should be judged under the broad "ordinary

and necessary" business expense standard of Section 162(a), together with the limitations on foreign travel contained in Section 274(c).

However, if the Committee considers it necessary to continue some special limitation on foreign convention expenses, ARINC believes that the Treasury's recent "reasonable location" test, as previously approved by the House Committee on Ways and Means in the last Congress (H.R. 9281), would be a major improvement on present law.

DISCUSSION

1. Special limits on foreign conventions cannot be justified in principle.—ARINC strongly believes that no valid distinction can be made between foreign conventions and domestic conventions. For most groups, most of the time, conventions are held in reasonable locations, considering the nature of the group. Organizations which have a widespread membership typically rotate their meetings to various parts of the country. Foreign conventions are generally held only by groups which include foreign members, or groups whose members do business abroad.

On the other hand, it is undeniable that there have been occasional instances of abuse, where conventions were held in locations having no connection with the location of the organization's members or their business activities. However, these abuses apply equally to foreign and domestic conventions, and ARINC believes that they can be dealt with at the audit level under the long-established "ordinary and necessary" test for business expenses generally, under Code Section 162(a).

Thus, if a group composed entirely of members in Maine, whose businesses are local or regional, decides to hold its convention in Hawaii, the IRS would have ample grounds for challenging the deduction of such expenses on the grounds that although the meeting may be "necessary," the cost of travel to Hawaii is not "ordinary," and therefore should be disallowed, just as it should be if the convention were held in Australia or in Timbuktu.

In contrast, it could well be reasonable for a group consisting entitely of members located in New York or the District of Columbia to hold a convention in Bermuda, even though this is a foreign location; and it would certainly be reasonable for groups based in Maine, New York or Minnesota to meet in nearby parts of Canada, or for a Texas group to meet in Mexico. There should be no discrimination against pleasant lcoations, since they foster attendance at meetings, but there is no justification for going half way around the world for this purpose alone.

The only defensible distinction which can be based on foreign versus domestic meetings (apart from distance) would be based on balance of payments considerations; but it is equally obvious that such considerations are offset by the potential loss of convention business from retaliating foreign organizations who would no longer meet in the U.S. For these reasons, we are not aware that there is any serious case for foreign convention limitations based on balance of payments considerations.

On the other side are the countervailing needs of U.S. exporters, U.S. commercial aircraft, engines and avionic equipment are major foreign currency earners for this country. ARINC meetings bring together manufacturer representatives with airline representatives, both domestic and foreign. Particularly at foreign meetings, large numbers of foreign carrier and supplier representatives attend. The exchange of design, maintenance and other technical information with manufacturers at these meetings, while not designed as a part of a trade show, serves a most important role in establishing a favorable climate for the continued purchase of U.S. products. The discouragement of foreign meetings through restrictive tax legislation inevitably weakens the long-run competitive position of U.S. exports.

2. No practical definition of convention is possible.—Existing law does not attempt any real definition of "convention," for the simple reason that it is impossible to draw a meaningful and fair line distinguishing a "convention", on the one hand, from a "business meeting," on the other. Section 274(b)(6)(A) merely refers to "any convention, seminar or similar meeting."

Yet no one has suggested that when General Motors' president attends a management meeting of GM-Europe in Luton, England, he is attending a foreign "convention." Between the familiar professional society convention, and the in-house business meeting, there is a continuum of meetings of many kinds, and any distinction between them is likely to be arbitrary and unprincipled.

Thus, some meetings are business meetings of professional or industry groups. Some are simply exhibitions, put on by non-membership groups such as the Paris Air Show or the Canton Trade Fair. Others are meetings designed primarily as an award or incentive for those who attend, such as intra-company sales trips to Las Vegas, Hawaii, or Jamaica; yet individuals may pay part of their own expenses.

Another complication is that many larger meetings act as a magnet for meetings of related but often unaffiliated groups of interest to some of those in attendance.

Their meetings may be concurrent or during off-hours. Are they to be considered part of the "scheduled" activities of the larger group? Who is to certify attendance? Suppose they have no separate registration. Should a delegate be able to count attendance at such meetings towards his required minimum participation?

Moreover, at any given meeting, people attend both for scheduled and non-scheduled business contacts. In addition to formal meetings, there may be great business advantages in the chance for one-to-one or small group contacts with customers, not scheduled by the meeting sponsors, but just as valuable to those who participate. Is a deduction to be barred because a businessman spent a day or half-day making customer contacts instead of attending scheduled meetings that do not happen to relate closely to his company's interests?

Finally, at any large meeting, people attend in varying roles. Is an outside speaker to be disallowed a deduction because he did not stay for the meeting? What about an inside speaker? And then there are the members of the meeting sponsor's staff. They attend meetings for logistic reasons. Must they sit through all the business? Suppose they need to go from meeting to meeting? Or to spend time with the hotel's staff discussing arrangements? And there are the exhibitors. Should they be subject to the limits imposed on delegates? What about supplies representatives, such as manufacturer representatives at a meeting of airlines who use their equipment—must they stay while matters unrelated to their equipment are discussed?

ARINC submits that the range and complexity of reasons for attendance at foreign meetings, like domestic ones, and the variety of meeting types and activities, make it a practical impossibility to draw any fair and rational line between "convention" and "non-convention" activities even if there were any rational basis for placing special limitations on foreign convention expenses, which ARINC also denies.

And while an arbitrary line can of course be attempted, the lack of any rational basis for it, and the great variety of business meetings and roles, assure that any attempted line will perpetuate wide areas of uncertainty among taxpayers, while bringing the tax laws into further disrepute for their complexity and unfairness.

3. The present limits are unfair and burdensome.—Beyond the lack of any rational basis for the present foreign convention limitations, their elaborate record keeping requirements represent both an unjustified discouragement for foreign meetings and an unreasonable burden on sponsors of those foreign meetings which are held. Thus, for the many organizations in this country which participate in international groups, as well as for U.S.-based organizations which have substantial numbers of foreign members (particularly in Canada), it is quite reasonably perceived as pure chauvinism for the United States to discourage foreign conventions. This lessens the attractiveness to foreign firms of membership in U.S.-based organizations. The resulting loss of contact with foreign members is a significant disadvantage for participating U.S. companies, who deal with foreign companies in the same industry.

Beyond the unfairness of discouraging foreign meetings, the record-keeping requirements placed on sponsors of those foreign meetings which are held are simply unworkable, under present law. It is just not practicable for a meeting sponsor to take attendance throughout the day at a major meeting, when there may be several hundred persons in a meeting hall and continuous traffic in and out of the room.

Moreover, it is not meaningful to have to certify to the number of scheduled hours. Some conventions consist of many meetings, often running simultaneously for various specialized segments of an industry. Thus, there may easily be more than 24 hours of scheduled meetings in a day, yet a delegate or member can hardly be expected to attend two-thirds of all the meetings. Nor can the convention sponsor be expected to make a certification as to which meetings are of interest to each delegate, and certify only those meetings as "scheduled" for that delegate.

Apart from the burden and unworkability of these requirements, they are perceived by delegates as arbitrary and petty. In this era, although school children are still sometimes required to obtain a pass to leave a classroom, it is not surprising that adults do not take kindly to cooperation with attendance-recording requirements.

For these reasons, ARINC believes that the present foreign convention deduction limitations are without any logical justification as a matter of tax policy, and are burdensome and arbitrary in their operation. They should be repealed.

4. Contingent support for Treasury proposal.—Nevetheless, ARINC recognizes that the Treasury appears to believe strongly that some special limitations must be retained. While ARINC would prefer to see Section 274(h) repealed entirely, ARINC also believes that the Treasury's current substitute proposal is preferable to present law. Thus, it is understood from the statement of Assistant Secretary Daniel L. Halperin on July 20 before this Committee that the Treasury now concedes the

unworkability of the present limitations, and endorses the approach taken in H.R. 9281, reported last year by the House Committee on Ways and Means.

Under this approach, and subject to the existing limitations of Section 274(c) on foreign travel expenses generally, the expenses of attending a foreign convention would be deductible in full if it is "more reasonable" to hold the convention outside the U.S. than within. Secretary Halperin's statement spells out that, as the Treasury would apply this criterion, it "could" be considered more reasonable for an organization to meet outside the U.S. "if a significant portion of an organization's members" reside in the foreign location, or if the members of an organization "regularly conducted a portion of their business" in the foreign location.

Therefore, if the Committee concludes that the present limitations should be repealed, but some limitations should be retained, then ARINC would support the substitution of the Treasury's present approach, as explained by Secretary Halperin.

5. Need for clarification of Treasury proposal.—However, we would point out that the actual wording of the Treasury's proposal is ambiguous, and requires clarification. Thus, while the Treasury today may interpret it as "more reasonable" to hold a meeting abroad when a significant portion of an organization's members resides there, it would seem equally possible for the IRS in applying such a provision in the future to take the position that it is always "more reasonable" to hold a convention in the U.S, if a majority of an organization's members resides in the U.S.

Moreover, it seems clear that any limits should apply only to convention delegates, and not to speakers, exhibitors, convention staff and others who would not be expected to attend a full schedule of meetings, and who would have to attend regardless of the location of the meeting.

Since the intention of this proposal, as explained by Secretary Halperin, is clearly to uphold the reasonableness of a plan of rotating meetings among various locations where an organization has significant numbers of members, or where U.S. members do a significant part of their business, and to place limits only on persons who attend as delegates, we would propose alternate wording along the following lines: "No deduction shall be allowed for the attendance of an individual as a delegate at any foreign convention held at a location which is not reasonable, taking into account the location of a significant portion of the convention participants in the region is which the convention is held, the extent of business done by U.S. participants in such region, the distance of the convention location from the nearest area where significant portions of such participants reside or regularly do business, and the pattern of locations of past conventions and planned future conventions of the organization."

Comments of the American Association of Nurserymen

INTRODUCTION

The American Association of Nurserymen (AAN) is the established trade association of the nursery industry. It represents more than 2,900 firms engaged in the growing, wholesaling and retailing of landscape materials and related products, and the provision of landscape services.

The AAN has its primary membership in the United States, but also includes a substantial number of firms in Canada, who participate as active members of the Association.

The AAN holds an annual convention, which is rotated among major cities in various regions of the country. Periodically, the convention is held in Canada.

Various segments of the industry, such as retail garden centers, also participate in international organizations of similar businesses. For example, there is an International Garden Centers Congress, held in various countries of the world where retail garden center businesses are concentrated.

SUMMARY

AAN strongly urges the repeal of Section 274(h) of the Internal Revenue Code, which now places special limits on the deductibility of foreign convention expenses. AAN believes that these expenses should be judged under the broad "ordinary and necessary" business expense standard of Section 162(a), together with the limitations on foreign travel contained in Section 274(c).

However, if the Committee considers it necessary to continue some special limitation on foreign convention expenses, AAN believes that the Treasury's recent "reasonable location" test, as previously approved by the House Committee on Ways and Means in the last Congress (H.R. 9281), would be a major improvement on present law.

DISCUSSION

1. Special limits on foreign conventions cannot be justified in principle.—AAN strongly believes that no valid distinction can be made between foreign conventions and domestic conventions. For most groups, most of the time, conventions are held in reasonable locations, considering the nature of the group. Organizations which have a widespread membership typically rotate their meetings to various parts of the country. Foreign conventions are generally held only by groups which include foreign members, or groups whose members do business abroad.

On the other hand it is undeniable that there have been occasional instances of abuse, where conventions are held in locations having no connection with the location of the organization's members or their business activities. However, these abuses apply equally to foreign and domestic conventions, and AAN believes that they can be dealt with at the audit level under the long-established "ordinary and necessary" test for business expenses generally, under Code Section 162(a).

Thus, if a group composed entirely of members in Maine, whose businesses are local or regional, decides to hold its convention in Hawaii, the IRS would have ample grounds for challenging the deduction of such expenses on the grounds that although the meeting may be "necessary," the cost of travel to Hawaii is not "ordinary," and therefore should be disallowed, just as it should be if the convention were held in Australia or in Timbuktu.

In contrast, it could well be reasonable for a group consisting entirely of members located in New York or the District of Columbia to hold a convention in Bermuda, even though this is a foreign location; and it would certainly be reasonable for groups based in Maine, New York or Minnesota to meet in nearby parts of Canada, or for a Texas group to meet in Mexico. There should be no discrimination against pleasant locations, since they foster attendance at meetings, but there is no justification for going half way around the world for this purpose alone.

The only defensible distinction which can be based on foreign versus domestic meetings (apart from distance) would be based on balance of payments considerations; but it is equally obvious that such considerations are offset by the potential loss of convention business from retaliating foreign organizations who would no longer meet in the U.S. For these reasons, we are not aware that there is any serious case for foreign convention limitations based on balance of payments considerations.

2. No practical definition of convention is possible.—Existing law does not attempt any real definition of "convention," for the simple reason that it is impossible to draw a meaningful and fair line distinguishing a "convention", on the one hand, from a "business meeting," on the other. Section 274(b)(6)(A) merely refers to "any convention, seminar or similar meeting."

Yet no one has suggested that when General Motors' president attends a management meeting of GM-Europe in Luton, England, he is attending a foreign "convention." Between the familiar professional society convention, and the in-house business meeting, there is a continuum of meetings of many kinds, and any distinction between them is likely to be arbitrary and unprincipled.

Thus, some meetings are business meetings of professional or industry groups. Some are simply exhibitions, put on by non-membership groups such as the Paris Air Show or the Canton Trade Fair. Others are meetings designed primarily as an award or incentive for those who attend, such as intra-company sales trips to Las Vegas, Hawaii, or Jamaica; yet individuals may pay part of their own expenses.

Another complication is that many larger meetings act as a magnet for meetings or related but often unaffiliated groups of interest to some of those in attendance. Their meetings may be concurrent or during off-hours. Are they to be considered part of the "scheduled" activities of the larger group? Who is to certify attendance? Suppose they have no separate registration. Should a delegate be able to count attendance at such meetings towards his required minimum participation?

Moreover, at any given meeting, people attend both for scheduled and non-scheduled business contacts. In addition to formal meetings, there may be great business advantages in the chance for one-to-one or small group contacts with customers, not scheduled by the meeting sponsors, but just as valuable to those who participate. Is a deduction to be barred because a businessman spent a day or half-day making customer contacts instead of attending scheduled meetings that do not happen to relate closely to his company's interests?

Finally, at any large meeting, people attend in varying roles. Is an outside speaker to be disallowed a deduction because he did not stay for the meeting? What about an inside speaker? And then there are the members of the meeting sponsor's staff. They attend meetings for logistic reasons. Must they sit through all the business? Suppose they need to go from meeting to meeting? Or to spend time with the hotel's staff discussing arrangements? And there are the exhibitors. Should they

be subject to the limits imposed on delegates? What about supplier representatives, such as manufacturer representatives at a meeting of airlines who use their equipment—must they stay while matters unrelated to their equipment are discussed?

AAN submits that the range and complexity of reasons for attendance at foreign meetings, like domestic ones, and the variety of meeting types and activities, make it a practical impossibility to draw any fair and rational line between "convention" and "non-conventional" activities even if there were any rational basis for placing special limitations on foreign convention expenses, which AAN also denies.

And while an arbitrary line can of course be attempted, the lack of any rational basis for it, and the great variety of business meetings and rolls, assure than any attempted line will perpetuate wide areas of uncertainty among taxpayers, while bringing the tax laws into further disrepute for their complexity and unfairness.

3. The present limits are unfair and burdensome.—Beyond the lack of any rational basis for the present foreign convention limitations, their elaborate record keeping requirements represent both an unjustified discouragement for foreign meetings, and an unreasonable burden on sponsors of those foreign meetings which are held. Thus, for the many organizations in this country which participate in international groups, as well as for U.S.-based organizations which have substantial numbers of foreign members (particularly in Canada), it is quite reasonably perceived as pure chauvinism for the United States to discourage foreign firms of membership in U.S.-based organizations. The resulting loss of contact with foreign members is a significant disadvantage for participating U.S. companies, who deal with foreign companies in the same industry.

Beyond the unfairness of discouraging foreign meetins, the record-keeping requirements placed on sponsors of those foreign meetings which are held are simply unworkable, under present law. It is just not practicable for a meeting sponsor to take attendance throughout the day at a major meeting, when there may be several hundred persons in a meeting hall, and continuous traffic in and out of the room.

Moreover, it is not meaningful to have to certify to the number of scheduled hours. Some conventions consist of many meetings, often running simultaneously for various specialized segments of an industry. Thus, there may easily be more than 24 hours of scheduled meetings in a day, yet a delegate or member can hardly be expected to attend two-thirds of all the meetings. Nor can the convention sponsor be expected to make a certification as to which meetings are of interest to each delegate, and certify only those meetings as "scheduled" for that delegate.

Apart from the burden and unworkability of these requirements, they are perceived by delegates as arbitrary and petty. In this era, although school children are still sometimes required to obtain a pass to leave a classroom, it is not surprising that adults do not take kindly to cooperation with attendance-recording requirements.

For these reasons, AAN believes that the present foreign convention deduction limitations are without any logical justification as a matter of tax policy, and are burdensome and arbitrary in their operation. They should be repealed.

4. Contingent support for Treasury proposal.—Nevertheless, AAN recognizes that the Treasury appears to believe strongly that some special limitations must be retained. While AAN would prefer to see Section 274(h) repealed entirely, AAN also believes that the Treasury's current substitute proposal is preferable to present law. Thus, it is understood from the statement of Assistant Secretary Daniel L. Halperin on July 20 before this Committee that the Treasury now concedes the unworkability of the present limitations, and endorses the approach taken in H.R. 9281, reported last year by the House Committee on Ways and Means.

Under this approach, and subject to the existing limitations of Section 274(c) on foreign travel expenses generally, the expenses of attending a foreign convention would be deductible in full if it is "more reasonable" to hold the convention outside the U.S. than within. Secretary Halperin's statement spells out that, as the Treasury would apply this criterion, it "could" be considered more reasonable for an organization to meet outside the U.S. "if a significant portion of an organization's members" reside in the foreign location, or if the members of an organization "regularly conducted a portion of their business" in the foreign location.

Therefore, if the Committee concludes that the present limitations should be repealed, but some limitations should be retained, then AAN would support the substitution of the Treasury's present approach, as explained by Secretary Halperin.

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future to take the position that it is always "more reasonable" to hold a convention in the U.S., if a majority of an organization's members resides in the U.S.

Moreover, it seems clear that any limits should apply only to convention delegates, and not to speakers, exhibitors, convention staff and others who would not be expected to attend a full schedule of meetings, and who would have to attend regardless of the location of the meeting.

Since the intention of this proposal, as explained by Secretary Halperin, is clearly to uphold the reasonableness of a plan of rotating meetings among various locations where an organization has significant numbers of members, or where U.S. members do a significant part of their business, and to place limits only on persons who attend as delegates, we would propose alternate wording along the following lines: "No deduction shall be allowed for the attendance of an individual as a delegate at any foreign convention held at a location which is not reasonable, taking into account the location of a significant portion of the convention participants in the region in which the convention is held, the extent of business done by U.S. participants in such region, the distance of the convention location from the nearest area where significant portions of such participants reside or regularly do business, and the pattern of locations of past conventions and planned future conventions of the organization."

AMERICAN CHAMBER OF COMMERCE OF MEXICO,
Mexico, June 5, 1979.

Mr. MICHAEL STERN,
Staff Director, Senate Committee on Finance,
Dirksen Senate Office Building, Washington, D.C.

DEAR MR. STERN: I am enclosing an informal submission to Senator Matsunaga's upcoming June 15, 1979 hearings which will discuss the economic effect of the 1976 act on tourism and conventions.

Hoping the enclosed will be useful, I remain.

Sincerely,

JOHN M. BRUTON,
Executive Vice President,
Am Cham Mexico.

Enclosure.

For informal submission to Senator Matsunaga's upcoming June 15, 1979 hearings, which will discuss the economic effect of the 1976 act on tourism and conventions.

In the name of its 2,300 U.S. member companies in Mexico, the American Chamber of Commerce of Mexico supports the following bills:

(1) S. 589—Introduced by Senator Lloyd Bentsen, which would restore the pre-1976 act rules for conventions in Mexico and Canada.

(2) S. 749—Introduced by Senator Barry Goldwater, which would repeal the provisions added by the 1976 Act.

The American Chamber of Commerce of Mexico particularly supports the provisions of S. 589 because of the unique relations that the U.S. has with Mexico.

The main reasons for supporting a change in the Tax Reform Act of 1976 are because the 1976 Act has caused the following:

(1) Damage to U.S. companies doing business in Mexico.

(2) Damage to the Mexico economy which only adds to the pressures of illegal immigration.

(3) Damage to U.S.-Mexico relations.

To explain in greater detail how this law has affected U.S. companies in Mexico, and Mexico as a whole, please note:

When the law was passed in 1976, 40 conventions in Mexico were cancelled immediately. In 1977, 182 conventions were scheduled, only 80 conventions were held; in 1978, 92 conventions were held. If you compare 1978 statistics with those of 1975, the drop in business is equal to 60 percent (231 conventions were held in 1975).

The above numbers only refer to Mexico City, which can be calculated to represent one-third of all the conventions scheduled and/or held in the entire country.

Many U.S. companies in Mexico are being hurt by the drop in business. These include: airlines, such as American, Eastern, Western, Braniff, etc.; hotels, such as Sheraton, Holiday Inn, Hyatt, and Western International; car rental companies, such as Hertz, Avis, etc.; and other tourist related companies.

A total of 84 percent of Mexican tourism comes from the United States. It takes only $4,000 of investment to create one job in the tourism industry, as against

$40,000, in a typical heavy industry. Consequently tourism is the most efficient way to create jobs in Mexico and to relieve the pressure of illegal immigration.

The Director of Conventions for the Mexican National Tourist Council states that 50 percent of the associations in the United States do not even consider holding a convention outside the United States.

A brief survey of selected tourist industry leaders indicates that Mexico has lost at least half of its convention business, and that this amounts to an estimated annual loss of up to 80 million dollars a year.

Tourism is the foundation of friendship and cooperation between neighbors. A healthy state of tourism in Mexico will help produce a more cordial atmosphere for trade and investment between the two countries. U.S.-Mexico relations need reinforcement to back up the rhetoric.

S. 589 would be a positive opportunity to improve U.S. business in Mexico, the Mexican economy as a whole, and U.S.-Mexico relations in particular.

NATIONAL FOREIGN TRADE COUNCIL, INC.,
New York, N.Y., July 20, 1979.

Mr. MICHAEL STERN,
Staff Director, Senate Committee on Finance,
Dirksen Senate Office Building, Washington, D.C.

DEAR MR. STERN. The National Foreign Trade Council, a non-profit organization whose membership comprises a broad cross-section of over 600 U.S. companies with highly diversified interests engaged in all aspects of international trade and investment, is pleased to submit comments on the proposals to amend Section 274(h) of the Internal Revenue Code of 1954, and requests that this communication be incorporated in and made part of the record of the hearings.

Section 274(h) of the Internal Revenue Code was enacted by Section 602 of the Tax Reform Act of 1976 (Public Law 94-455) as amended by the Revenue Act of 1978. In substance, the provision limits the deductions allowable under either Code Section 162 or Code Section 212 for expenses of individuals attending foreign conventions held after December 31, 1976. Generally, no deduction is allowed for expenses paid or incurred by an individual in attending more than two foreign conventions in any taxable year. The principal difficulty is presented by Section 274(h)(6)(A). It provides that "the term 'foreign convention' means any convention, seminar, or similar meeting held outside the United States, its possessions, and the Trust Territory of the Pacific." The meaning of "convention, seminar, or similar meeting" is not defined in the statute, and although Section 274(h) has been in effect since December 31, 1976, no regulations have been published to interpret the provisions. For example, it is not clear whether a business conference in Brussels, attended by officers of a U.S. parent company and its Belgian and Dutch affiliates, is a "convention, seminar, or similar meeting." It is also not clear whether foreign meetings of independent sales representatives, and foreign meetings of employees of different companies conducted to discuss common business problems fall within Section 274(h).

Meetings abroad between employees of U.S. companies and their foreign subsidiaries, affiliates and other entities with whom they have a commercial relationship, including customers, are essential for the conduct of foreign operations. By limiting the deductibility of "foreign convention" expenses to two meetings per year, without adequately defining "convention," Section 274(h) has cast doubt on the deductibility of a significant category of business expenses which have been considered ordinary and necessary since the earliest Federal income tax laws. The effect of Section 274(h) is to inhibit U.S. companies from sending their employees to foreign business meetings, or with respect to U.S. companies which elect to send particular employees to more than two meetings abroad, to increase the cost of the trip to such companies by the amount which is disallowed as a deduction. In either event, Section 274(h) constitutes an undesirable deterrent to the conduct of business abroad. The health of the U.S. economy depends to a significant extent on exports, and on U.S. private direct investment abroad, which strengthens our own economy by helping expand exports and export-related employment and by providing large inflows to the U.S. current account balance. Meetings by employees of U.S. companies abroad in furtherance of these objectives support the nation's effort to increase exports and to reduce the balance of payments deficit. We are not aware of any major trading nation which has adopted a tax policy comparable to that of Section 274(h) to discourage attendance by their nationals at foreign business meetings.

Section 274(h) also imposes burdensome and unnecessary restrictions on foreign travel both for business meetings and conventions. It limits the transporation deduction to the lowest coach or economy rate at the time of travel charged by a

commercial airline, and limits the deduction for subsistence expenses to the per diem rate allowed for civil servants at the site of the business meeting or convention. Furthermore, Section 274(h)(7) requires that the individual attending the business meeting or convention file a written statement which includes information with respect to the total days of the trip, the number of hours of each day of the trip which such individual devoted to scheduled business activities, a program of the scheduled business activities of the meeting or convention; a written statement signed by an officer of the organization or group sponsoring the meeting or convention which includes a schedule of the business activities of each day of the convention; the number of hours which the individual attending the convention attended the scheduled business activities; and such other information as may be required in regulations prescribed by the Secretary.

These requirements impose a time consuming burden on foreign commerce without providing significant tax revenues. They are also likely to lead to lengthy audits, again without increasing tax revenues.

The Treasury could substantially reduce the problems described above by issuing regulations defining "convention, seminar, or similar meeting" in such a manner that would exclude foreign business meetings from Section 274(h) inasmuch as those meetings are necessary for maintaining the U.S. position in world commerce. However, in view of the difficulty of defining in regulations the myriad types of meetings conducted for foreign business, the Council supports S. 749, which would repeal the amendments made by Section 602 of the Tax Reform Act of 1976.

Respectfully submitted,

CARTER L. GORE,
Director, Tax/Legal Division.

STUDEBAKER/WORTHINGTON, INC.,
New York, N.Y., July 17, 1979.

Senator SPARK M. MATSUNAGA,
Chairman, Senate Subcommittee on Tourism and Sugar,
Senate Office Building, Washington, D.C.

DEAR SENATOR MATSUNAGA: Pursuant to the recent press release issued by the Senate Subcommittee on Tourism and Sugar of which you are Chairman, we wish to submit this written statement as part of the record of the hearings the Subcommittee will conduct on July 20, 1979 relating to proposed changes in the tax rules affecting foreign conventions. Section 274(h) of the Internal Revenue Code of 1954, enacted as part of the Tax Reform Act of 1976, contains rules limiting the deductibility of expenses incurred in attending a foreign convention.

We recommend that the definition of a foreign convention in Section 274(h) should be clarified to indicate that meetings of a corporation's directors, officers, and employees outside the United States to review the corporation's buiness operations conducted outside the United States do not constitute a foreign convention for purposes of Section 274(h). Presently, Section 274(h)(6)(A) defines a foreign convention as "any convention, seminar or similar meeting held outside the United States, its possessions and the Trust Territory of the Pacific." The legislative reports prepared in 1976 by the House Ways and Means Committee, the Senate Finance Committee, and the Staff of the Joint Committee on Taxation do not clarify or illustrate this statutory definition. The Treasury Department has not to date published any proposed regulations under Section 274(h).

Many United States corporations conduct substantial business activities outside the United States and as such often are required to hold meetings among directors, officers, and employees of the corporation outside the United States. Based on the 1976 legislative reports prepared by Congress when Section 274(h) was enacted, we believe that Congress intended to limit the scope of foreign conventions subject to Section 274(h) to meetings outside the United States of trade organizations such as the American Bar Association and other similar organizations. However, we do not believe Congress intended to subject U.S. corporations to the rules in Section 274(h) to the extent such corporations hold business meetings outside the United States attended by the corporation's officers, directors, and employees in order to review the business operations conducted outside the United States by such corporations. Nonetheless, the broad statutory definition of a foreign convention in Section 274(h)(6) as enacted in 1976 might be interpreted to include such corporate meetings as foreign conventions subject to Section 274(h). To reflect what we believe was Congressional intent with Section 274(h) was enacted in 1976, we believe Section 274(h)(6) should be amended to exclude from the definition of foreign convention meetings of a corporation's directors, officers and employees conducted outside the

United States to review the corporation's business operations conducted outside the United States.

Very truly yours,

ROBERT C. MORGAN,
Director of Taxes.

SHIRK, REIST & BUCKWALTER,
Lancaster, Pa., June 20, 1979.

Hon. MICHAEL STERN,
Staff Director, Committee on Finance,
Dirksen Senate Office Building, Washington, D.C.

DEAR SIR: It is my understanding that hearings will be held by the subcommittee on tourism and sugar June 15 relating to Foreign Convention Rules.

May I respectfully submit the following:

1. The present rules discriminate against officers and other officials of internation organizations whose meetings are naturally held throughout the World and who must go outside of the United States to attend these meetings and conventions.

2. The present rules discriminate against those persons who actually spend substantial amounts of time on business activities relating to so-called foreign conventions. In other words, one could work 6 to 12 hours a day and still be limited in the amount one could deduct and the number of meetings like this one could attend.

3. It is not clear how the government would handle the attendance at a charitable convention when the attempt was being made to deduct the expenses as a charitable contribution because the person attending was actually engaged in the business of the charitable organization throughout the time of the convention and was doing it only for charitable purposes.

4. I quite well understand the desire of Congress to prevent the excesses which did occur in the past where many people went to foreign conventions merely as a method of foreign travel, did not attend any meetings and engaged solely in tourist activities at the expense of the United States Government.

5. There also should be some consideration given to "jet lag". Recent articles appearing in newspapers indicate that it is the recommendation of doctors that people go to be as soon as they arrive after having gone through jet lag and get their rest first before starting out with their activities (for their health as well as for their ability to properly function).

6. I would be inclined to continue the requirement (on a less bureaucratic basis) for some sort of written statement from the sponsor as to the activity of the person seeking a deduction. In addition, it would be worthwhile, it seems, to require an affidavit from the person who took the trip or a statement under penalty of perjury, explaining the activities of that person so that the information would be clear and concise.

7. It also would be helpful if Congress would outline how one may or may not handle side trips that are made after a convention (especially when one would not otherwise attend the convention but for the business, but nevertheless takes advantage of some side trip that is not business related or charity related or anything of that nature).

Respectfully submitted.

K. L. SHIRK, Jr.

THE BRITISH-AMERICAN CHAMBER OF COMMERCE,
New York, N.Y., August 14, 1979.

Hon. SPARK M. MATSUNAGA,
Chairman, Subcommittee on Tourism and Sugar,
U.S. Senate, Committee on Finance,

DEAR SENATOR MATSUNAGA: The British-American Chamber of Commerce was founded in New York City in 1920 and operates as a non-profit member-supported organization. It has over 600 members ranging in size from individual proprietorships to major multi-national corporations. Approximately 75 percent of its members are residents and taxpayers in the United States. The purpose of the Chamber is to provide an effective organization through which American and British businessmen can work together to foster two-way trade and travel between the United States and the United Kingdom.

The Chamber believes that Section 274(h) of the Internal Revenue Code impedes customary and necessary travel of Americans to foreign countries and recommends the repeal of that section through the adoption of bill S. 749.

It would be an understatement to say that the commercial ties between the United States and Britain are important to both countries. Last year the value of goods traded between the two exceeded $15 billion, or over $40 million a day. In both 1977 and 1978 Britain's imports from the United States exceeded its exports to the U.S. by substantial amounts; by over $1.1 billion in 1977, and by almost $1.5 billion in 1978.

As an indication of the economic interdependence of our two nations, the two-way flow of investments continued at a rapid pace in 1978. Last year, British interests acquired over 200 U.S. companies; conversely, Britain received 18 percent of the investments made by U.S. companies overseas.

Travel between the U.S. and U.K. is vitally important in itself, and to the trading of goods and the high rate of investment between our two nations. U.S. visitors to the U.K. numbered 1,814,000 in 1977 and 1,964,000 in 1978; their expenditures in those years were approximately $750 million and $812 million. U.K. visitors to the U.S. rose from 533,000 in 1977 to 766,000 in the first nine months of 1978, an increase of 43 percent. Their expenditures in the United States for the comparable periods rose from $205 million to $317 million, representing an increase of 55 percent.

Clearly, the free flow of goods, services, investments, ideas and people has benefitted both nations in both tangible and intangible ways. It seems equally clear that restrictions which artificially impede this two-way traffic are damaging to business interests in both countries.

We are informed and believe that the restrictions imposed by Section 274(h) are unnecessary, discriminatory and unproductive; and we think this Section should be repealed.

The Section is unnecessary because other I.R.S. provisions and regulations on ordinary and necessary business expenses are adequate to deal with possible tax abuses. Furthermore the Section does not generate any significant revenue. The I.R.S. estimates that the Section produces less than $5 million in additional receipts.

The Section is discriminatory because it uses location as the criterion for the number of meetings that can be attended and the tax deductions that can be claimed therefor.

We find it difficult to reconcile the thrust of Section 274(h) with the stated policy of the United States to promote freedom of trade, freedom in the exchange of people and freedom in the exchange of information throughout the world.

The restrictions and rigid guidelines mandated by Section 274(h) are inconsistent with the U.S. effort to expand exports and to attract foreign investments. The participation by U.S. residents in overseas meetings advances that effort. Restrictions on travel will not.

It appears to us that the adoption of the bill, S. 589, limiting the deductions to conventions held within the North American area, would only make the law more discriminatory. We, therefore, oppose S. 589.

The relaxation of reporting requirements, as proposed under the bill, S. 940, while desirable, would not correct the major problems arising from Section 274(h). While we do not object to S. 940, we think it is not enough to cure the difficulties presented by Section 274(h).

We firmly believe that limiting the free choice of meeting places for those engaged in international trade is contrary to principles for which both the United States and the United Kingdom have traditionally stood—free trade, the free movement of people and the free interchange of ideas.

This Chamber, therefore, urges the Senate Finance Committee to recommend the adoption of bill S. 749.

Respectfully,

ARTHUR H. PHELAN, Jr., *Executive Director.*

STATEMENT OF AERLINTE EIREANN TEORANTA (AER LINGUS)

(By Jerry W. Ryan)

Aerlinte Eireann Teoranta (Aer Lingus) is the national airline of Ireland, and provides, inter alia, scheduled air service between the United States and Ireland.

Aer Lingus has reviewed the testimony presented to the Subcommittee on July 20, 1979 by John G. Bertram on behalf of the European Travel Commission and states its full concurrence with that testimony.

Section 274(h) of the Internal Revenue Code serves only to discourage United States citizens from attending conventions and meetings in foreign countries. As such it is a unilaterally imposed burden on the development of foreign commerce, and is, moreover, unparalleled in most foreign countries. Thus, there is no such

impediment on businessmen in Ireland who travel to the United States or elsewhere for conventions and meetings.

The matter is one of great importance to Aer Lingus, to those engaged in catering to visitors, and to the Irish Government as well. Indeed, tourism is the second largest revenue-producing industry in Ireland, and all factors of the tourist industry have worked hard to promote convention and business-related travel, especially from the United States.

Convention travel to a place such as Ireland presents no more danger to the tax collection procedures of the United States than similar travel to Las Vegas or Hawaii. Moreover, as noted in Mr. Bertram's testimony, such travel often generates substantial sales abroad of U.S. products.

For these reasons, Aer Lingus urges the repeal of Section 274(h) of the Internal Revenue Code and the adoption of S. 749 which would accomplish this.

IRELAND-U.S. COUNCIL FOR COMMERCE AND INDUSTRY, INC.,
New York, N.Y., August 15, 1979.

Hon. SPARK M. MATSUNAGA,
Chairman, Subcommittee on Tourism and Sugar,
U.S. Senate, Committee on Finance.

DEAR SENATOR MATSUNAGA: We are an organization of Americans whose primary purpose is to improve economic ties between the United States and Ireland through trade, travel and investment. The bills which you are considering (i.e., S. 589, S. 749 and S. 940), on the tax treatment of expenses for foreign meetings, are of concern to us because we meet in Ireland from time to time in furtherance of our business interests. Of the three bills under review, we support S. 749, we do not object to S. 940 and we oppose S. 589.

Under current law, our right to meet in Ireland is subject to special rules (Section 274(h) of the Internal Revenue Code) which limit the deduction of expenses incurred in attending conventions, seminars or similar meetings held outside the United States. The present law, in our view, is unfair insofar as it allows deductions for domestic meetings but disallows them for foreign meetings.

If enacted into law, S. 589 would permit deductions for meetings in Canada and Mexico as well as those in the United States, but would continue to forbid deductions for meetings in the rest of the world. This would retain and emphasize existing discrimination against travel to the less favored localities, such as those in Ireland. We, therefore, oppose bill S. 589.

S. 940 would relax some of the reporting requirements which the current rules impose upon taxpayers attending foreign meetings. While this would ease the burden for those taxpayers, the basic restrictions and discriminations would remain, e.g., an American businessman would be subject to the rules if he travels from New York to Dublin but would be exempt from the rules if he travels from New York to Los Angeles (or to Montreal or Mexico City if S. 589 becomes law). Accordingly, we do not object to S. 940 but we think the provisions of that bill are insufficient to alleviate existing hardships on Americans whose business interests require presence at meetings in foreign countries.

S. 749 would repeal the rules governing deductions for travel to foreign meetings. We endorse this bill because it would do away with the discriminatory treatment which is inherent in those rules. The enactment of bill S. 749 would restore taxpayers to the conditions which existed prior to the adoption of Section 274(h). We think that this would be in the best interest of the United States, which has little to gain from the denial of deductions for meetings held outside its own boundaries.

Most Americans travel to foreign countries on aircraft made in America or operated by domestic airlines, and while abroad, some of them stay at hotels owned by other Americans. In the case of travel to Ireland, nearly all Americans fly on either Aer Lingus, which uses aircraft made in America, or on Trans World Airlines, which is an American carrier. Additionally, many U.S. travellers to Ireland book accommodations at hotels owned by Americans and decorated with American furnishings. It would appear to us that Americans as well as the Irish stand to suffer material losses from reductions in travel between the United States and Ireland.

As an organization concerned with travel and commerce, we have learned that traditional exchanges between friendly nations depend on the removal of barriers which impede travel and commerce. We think that tax discrimination against Americans attending business meetings in Ireland raises obstacles to the normal travel and commerce between the United States and Ireland. This does not serve the interests of either country.

Tourism is the third largest industry in Ireland; and Ireland necessarily relies on that industry in the effort to balance its trade with the United States. Americans who visit Ireland help Ireland to buy airplanes, technology, tobacco and many other products from the United States. We should eliminate discriminatory tax measures (such as those contained in Section 274(h)) which produce negligible revenue and correct few abuses, but which constitute formidable barriers to customary travel and trade between the United States and its friendly trading partners, such as Ireland.

We urge you to recommend the enactment of bill S. 749.

Sincerely yours,

MICHAEL ALEXANDER, *Secretary.*

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