

EXTENSIONS OF REMARKS

FSC REPEAL AND EXTRA-TERRITORIAL INCOME EXCLUSION ACT OF 2000

SPEECH OF

HON. FORTNEY PETE STARK

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, September 12, 2000

Mr. STARK. Mr. Speaker, please submit the following report from the August 14, 2000 edition of Tax Notes into the RECORD.

TAX ANALYSTS SPECIAL REPORT: FOREIGN SALES CORPORATION BENEFICIARIES: A PROFILE

(By Jose Oyola)

A World Trade Organization (WTO) panel concluded in 1999 that the tax benefits of foreign sales corporations (FSC) constitute a prohibited export subsidy. According to the WTO panel, the United States cannot establish a regime of direct taxation and claim that it is entitled to provide an export subsidy because it is necessary to eliminate a disadvantage to exporters created by the U.S. tax system itself. In negotiations during the course of this year, U.S. Treasury representatives presented an alternative tax scheme to the European Union (EU), but it was promptly rejected by EU officials. Negotiations are continuing, and must result in legislative changes by the beginning of FY 2001 to avoid costly sanctions.

In searching for export incentives that meet WTO standards, policymakers already have a wide range of government incentives that enhance the international competitiveness of U.S.-based companies. Some benefits are directly related to exports, like the Export-Import (Ex-Im) Bank loans and guarantees. Other incentives, like the research and experimentation tax credit, strengthen the overall competitiveness of U.S.-based corporations.

This article provides a profile of 250 companies that reported \$1.2 billion in FSC tax benefits in their 1998 filings with the Securities and Exchange Commission (SEC). The article shows, for the first time, how FSC beneficiaries combine several tax benefits and government programs that do not run afoul of WTO standards. The article also presents the contribution to corporate profits from several tax incentives, and the 1991-1998 accumulated FSC tax benefits for 18 large FSC beneficiaries.

PROFILE SUMMARY

The profile of the 250 companies that reported \$1.2 billion FSC tax benefits in 1998 is as follows:

The top 20 percent of the U.S. companies in the sample claimed 87 percent of the FSC tax benefits.

Almost 30 percent of the FSC recipients reported other tax benefits, such as Research & Experimentation (R&E) tax benefits.

The cumulative 1991-1998 FSC benefits of the top 18 FSC beneficiaries were almost \$3.7 billion. FSC benefits represented about 3.4 percent of the net income for this group. One of the top beneficiaries received FSC benefits equal to 10 percent of its net income.

The U.S. government operated other export-promotion programs, mainly through the Department of Agriculture and the Ex-Im Bank. The aircraft industry had almost 45 percent of the Ex-Im Bank loan guarantees outstanding at the end of FY 1999.

DISTRIBUTION OF THE FSC TAX BENEFITS

The distribution of FSC benefits is shown in table 1. The top 20 percent of FSC bene-

ficiaries (ranked by size of reported FSC benefit in 1998) obtained 87 percent of the FSC benefits. The high concentration of FSC benefits in the top 50 companies in the sample is partly caused by the dominant role of large corporations in U.S. exports.

COMBINING FSC BENEFITS WITH OTHER TAX BENEFITS

Seventy-one companies (28 percent of the sample) reported \$1.7 billion in tax benefits from the following sources: \$1.2 billion FSC benefits, \$353 million Research & Experimentation tax benefits, \$123 million in benefits related to exempt investment income, and \$32 million in tax benefits of Puerto Rican operations, as shown in table 2.

Table 3 shows 10 of the top FSC beneficiaries that received multiple tax benefits. The largest company in this group was Boeing Company, which received \$130 million in FSC tax benefits and almost the same amount (\$127 million) in Research & Experimentation tax benefits.

FSC CUMULATIVE BENEFITS IN 1991-1998

Table 4 provides the cumulative 1991-1998 FSC benefits of 18 top FSC beneficiaries. The two largest FSC beneficiaries, General Electric Company and Boeing Company, received almost \$750 million and \$686 million FSC benefits in eight years, respectively. The FSC benefits obtained by Boeing Company were almost 10 percent of its 1991-1998 cumulative net income.

OTHER GOVERNMENT EXPORT INCENTIVES

The U.S. government has 10 agencies that spent almost \$2.0 billion in appropriations for export promotion activities in 1999. Two agencies that provide direct financial support to U.S. exporters, the Ex-Im Bank and the Department of Agriculture, received \$1.5 billion or almost 80 percent of the total federal budget resources spent on export promotion. The Ex-Im Bank, in particular, provides direct loans and loan guarantees against political and commercial risk.

Ex-Im Bank's largest commitments at the end of fiscal year 1999 were in the air transportation industry, with \$15.1 billion or 45 percent of its total outstanding guarantees. Table 5 shows the 1996-1999 annual Ex-Im Bank guarantees linked to aircraft exports of one of the largest FSC beneficiaries, Boeing Company. Government guarantees linked to Boeing exports increased from \$1.1 billion in 1996 to \$5.7 billion in 1999. The guarantees given to Boeing Company increased from 22 percent in 1996 to 78 percent of the annual Ex-Im Bank guarantees in 1999.

CONCLUSION

Many U.S.-based companies already receive a combination of direct tax incentives and export-related benefits, in addition to the FSC tax benefits. Most of the benefits are received by a small number of large corporations that account for most U.S. exports. Policymakers have available a number of tax and other government incentives that meet WTO standards, and that could be expanded to replace the prohibited direct tax subsidy provided by the FSC tax regime.

TABLE 1.—CORPORATIONS RANKED BY SIZE OF FSC BENEFIT

	[Dollars in millions]			
	FSC benefit	Percent	Average benefit	Standard deviation
Top 50 companies	\$1,057.5	86.8	\$21.1	\$30.6
51-100	101.2	8.3	2.0	0.7
101-150	39.2	3.2	0.8	0.2

TABLE 1.—CORPORATIONS RANKED BY SIZE OF FSC BENEFIT—Continued

	[Dollars in millions]			
	FSC benefit	Percent	Average benefit	Standard deviation
151-200	16.0	1.3	0.3	0.1
201-250	5.0	0.4	0.1	0.1
Total 250 corps	1,218.8	100	4.9	\$16.0

Source: Author's calculations based on corporations' financial statements.

TABLE 2.—TAX SAVINGS BY RECIPIENTS OF MULTIPLE TAX BENEFITS

	[Millions]		
Top benefits of firms that reported two or more tax benefits	13 firms out of the top 50 FSC beneficiaries	58 firms out of next 200 FSC beneficiaries	
FSC Benefits	\$1,058	\$161	
R&E Tax Credit	275	78	
Exempt Investment Income	91	32	
Possessions Tax Credit	19	13	
Total	1,442	284	

Source: Author's calculations based on corporations' financial statements.

TABLE 3.—FSC BENEFICIARIES REPORTING SEVERAL TAX BENEFITS

	[Dollars in millions]				
FSC Beneficiaries	FSC exemption benefit	R&E credit benefit	Exempt investment income	Possessions tax credit benefit	Total
Boeing Company	\$130.0	\$127.0	0	0	257.0
Cisco Systems, Inc.	55.3	32.2	36.8	0	124.3
Allied-Signal, Inc.	50.5	0	11.7	0	62.2
PACCAR, Inc.	20.9	0	28.1	0	49.0
Monsanto Company	29.0	3.0	0	16.0	48.0
Guidant Corp.	8.9	6.3	0	2.2	17.4
Cabletron Systems, Inc.	4.7	1.9	3.6	0	10.2
Owens-Illinois, Inc.	3.0	3.1	0	3.0	9.1
Stryker Corp.	3.1	0	0	4.1	7.2
St. Jude Medical, Inc.	5.7	0	0	0.1	5.8
Subtotal	311.1	173.5	80.2	25.4	590.2
240 Other corporations	907.7	179.5	42.5	6.8	1,136.5
Total, 250 corporations ..	1,218.8	353.0	122.7	32.2	1,726.7

Source: Author's calculations based on corporations' financial statements. Note: Owens-Illinois reported a combined \$6 million in FSC and possessions tax benefits.

TABLE 4.—1991-1998 FSC BENEFITS FOR 18 OF THE TOP 50 BENEFICIARIES

	[Dollars in millions]			Ratio of FSC benefit to net income (percent)
	Total FSC tax benefit	Total net income		
General Electric Company	\$746.0	\$47,754.0		1.6
Boeing Company	685.5	6,943.0		9.9
Motorola, Inc.	378.0	6,642.0		5.7
Caterpillar Inc.	312.0	4,443.0		7.0
Allied-Signal Inc.	221.2	4,933.0		4.5
Cisco Systems, Inc.	203.4	4,391.1		4.6
Monsanto Company	172.7	2,668.0		6.5
Archer Daniels Midland Company ..	165.3	4,094.1		4.0
Oracle Systems Corp.	129.8	4,413.2		2.9
Raytheon Company	118.1	5,460.7		2.2
RJR Nabisco, Inc.	95.0	1,664.0		5.7
International Paper Co.	87.0	2,457.0		3.5
Applied Materials, Inc.	86.1	2,169.1		4.0
ConAgra, Inc.	85.8	3,282.5		2.6
Dover Corporation	72.3	2,071.4		3.5
Parker Hannifin Corp.	44.2	1,485.9		3.0
Compumare Corp.	31.1	824.6		3.8
St. Jude Medical, Inc.	20.9	741.7		2.8
Total, 18 FSC beneficiaries ...	3,655.0	106,438.0		3.4

Source: Author's calculations based on corporation's financial statements.

• This "bullet" symbol identifies statements or insertions which are not spoken by a Member of the Senate on the floor.

Matter set in this typeface indicates words inserted or appended, rather than spoken, by a Member of the House on the floor.

TABLE 5.—EX-IM BANK GUARANTEES FOR BOEING COMPANY
(Dollars in millions)

Year	Guarantees for Boeing aircraft & parts	Percent of annual Ex-Im Bank guarantees
1996	\$1,154	22
1997	1,779	26
1998	2,541	50
1999	5,651	78

Source: Export-Import Bank of the United States annual reports.

BAGHDAD RESTRAINT

HON. DOUG BEREUTER

OF NEBRASKA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, September 20, 2000

Mr. BEREUTER. Mr. Speaker, this Member highly commends the September 18, 2000, editorial from the Omaha World-Herald about second-guessing President George Bush's decision not to invade Iraq during the Gulf War. The editorial thoughtfully discusses the possible options facing President Bush and the reasons why his final decision was clearly the best option available in a world where perfect solutions do not exist.

[From the Omaha World-Herald, Sept. 18, 2000]

BAGHDAD RESTRAINT REVISITED

The complaint is being voiced in the current campaign that the Bush administration erred during the Gulf War by failing to send a U.S. invasion force into the heart of Iraq to topple Saddam Hussein's regime.

Carrying out an "on to Baghdad" policy in 1991, it's claimed, would have spared the United States the headaches of dealing with Saddam's recalcitrant government over the past nine years. Public Pulse letters recently discussed this topic.

It's wishful thinking, however, to imagine that a U.S. takeover of Iraq would have neatly resolved the situation in the Persian Gulf. Far from bringing calm to the region, a U.S. or United Nations occupation of Iraq would have created new and difficult problems for this country.

A northward drive into Baghdad would have shattered the international coalition that President Bush had delicately assembled to support U.S. military action. The basis for the coalition, and for the United Nations resolutions which gave it legal legitimacy, was a concrete and limited goal; the expulsion of Iraqi forces from a sovereign country, Kuwait. A full-blown invasion of Iraq, perhaps complete with block-by-block fighting in the capital city, would have far exceeded that fundamental war goal.

Public support for Desert Storm was mild at best in many of the Arab and European countries whose governments stood by Bush. Had Bush adopted a topple-Saddam strategy, CNN videotape of American tanks patrolling the streets of Baghdad—a proud Arab city once the site of an Islamic empire—could well have triggered protest throughout the Arab world. It's a good bet, that U.S. occupation would have spurred tender-hearted Europeans to take to the streets to wail anew about the horrors of U.S. "imperialism." The eruption of hostility could have set back U.S. relations overseas for years.

Neither is it pleasant to contemplate what U.S. soldiers would have faced on the ground

in occupying Iraq. Just as British soldiers came under withering assault in Palestine in the 1940s and French occupiers reaped the whirlwind in Algeria in the 1950s, so the U.S. occupation of a volatile Arab country like Iraq could have brought great peril to the men and women of the U.S. military.

Because Iraq lacks strong national cohesion, a U.S. invasion could well have triggered a break-up of the country into three new entities: a Kurdish north, a Sunni center and a Shia south. That radical change in the Middle East equation would have meant a host of new challenges for the United States, ranging from Turkey's anxieties over the new Kurdish state to the likelihood of Iranian manipulations of the newly independent Shias along the Persian Gulf.

The larger point here is that foreign policy issues rarely can be resolved neatly. No matter what action is taken, new problems arise. Consider the 1989 invasion that U.S. forces mounted to topple Panamanian dictator Manuel Noriega. Although the operation succeeded in ousting Noriega, Panama has continued to present the United States with new headaches. The U.S. operation restored civilian rule to the country, but that didn't stop Panama's leaders from pointedly rejecting a U.S. request last year to maintain an Air Force base at the Panama Canal. And Panama's stability is now threatened by guerrilla incursions from neighboring Colombia.

There is no reason to believe that a U.S. occupation of Iraq would have produced long-term results that were any better than those discouraging results in Panama.

George Bush had sound strategic reasons for rejecting a U.S. seizure of Baghdad. He settled on an imperfect solution, but in the real world, imperfect solutions are often the best that can be achieved.

A TRIBUTE TO NATIONAL "TAKING CHARGE OF YOUR TV" WEEK

HON. E. CLAY SHAW, JR.

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, September 20, 2000

Mr. SHAW. Mr. Speaker, I rise today to bring attention to a worthy and important program, which is the National Taking Charge of Your TV Week. This program runs from September 24th through the 29th.

The National PTA, the National Cable Television Association, and Cable in the Classroom have collaborated to develop a program in which parents and teachers mentor their children on how to use the media effectively and watch television responsibly. By providing questionnaires and guidelines, this program helps parents and teachers evaluate and curtail the impact of television violence and commercialism on their children.

The program also provides information on TV ratings, how to monitor your children's television, and general research on the effects of television on children. However, the most important thing this program does is to have the TV temporarily turned off and families brought together.

Thanks to Vice President GORE, this topic has received much attention recently. But, his emphasis on the government as a solution to this problem is misguided. It is going to be through teacher and parental involvement that children learn responsible television watching.

And, it is programs like National Taking Charge of Your TV Week that will make our country stronger and our children safer.

FSC REPEAL AND EXTRA-TERRITORIAL INCOME EXCLUSION ACT OF 2000

SPEECH OF

HON. BILL ARCHER

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Tuesday, September 12, 2000

Mr. ARCHER. Mr. Speaker, my colleague, Mr. RANGEL, and I are offering these additional remarks on H.R. 4986 to correct a statement included in the Report of the Committee on Ways and Means on H.R. 4986. The explanation of the provision in the Committee Report includes a statement of the Committee's intention regarding the qualification of certain aircraft engines as qualifying foreign trade property under H.R. 4986.

In describing the Committee's intention as to the qualification of an aircraft engine as qualifying foreign trade property, the explanation in the Committee Report describes an engine that is "specifically designed to be separated from the airframe to which it is incorporated without significant damage to either the engine or the airframe." The use of the word "incorporated" in this context is not necessarily correct and was not intended by the Committee; rather, the Committee intended to use the word "attached." As the Committee Report indicates, the Committee specifically intends not to create any inference regarding the treatment of aircraft engines for any purpose other than the specific application of H.R. 4986.

INTRODUCTION OF THE ESSENTIAL RURAL HOSPITAL PRESERVATION ACT

HON. RON PAUL

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Wednesday, September 20, 2000

Mr. PAUL. Mr. Speaker, I rise to introduce the Essential Rural Hospital Preservation Act. This legislation provides a cost-effective means of providing assistance to those small rural hospitals who are struggling with the unintended consequences of the Balanced Budget Act of 1997. As those of us who represent rural areas can attest to, rural hospitals are desperately in need of such assistance. According to a survey conducted by Texas CPAs in April of 2000, the operating margin for hospitals outside a Standard Metropolitan Area with under 50 licensed beds pre-BBA was \$26,000,000 while the operating margin post-BBA was negative \$7,900,000. Reimbursement has been reduced by over \$34 million since the BBA, while at the time the average rural hospital has incurred uncompensated and charity charges of \$1.1 million since the changes contained in the Balanced Budget