

# [COMMITTEE PRINT]

## TREASURY DEPARTMENT RECOMMENDATIONS

NOTE: This committee print contains the text of H.R. 16241 as it would appear if the Treasury recommendations presented to the Committee on Finance of the United States Senate on June 25, were substituted for the text of the House bill. It also contains a technical explanation of the Treasury recommendations. The Committee print has not been reviewed by the Committee. It is published only for the information of the public and does not reflect the approval or disapproval of the committee or any member thereof.

90TH CONGRESS  
2D SESSION

# H. R. 16241

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## IN THE SENATE OF THE UNITED STATES

APRIL 10, 1968

Read twice and referred to the Committee on Finance

JUNE 25, 1968

[Insert the part printed in *italic*]

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## AN ACT

To extend the tax on the transportation of persons by air and to reduce the personal exemption from duty in the case of returning residents.

J. 96-042—1

51533

1       *Be it enacted by the Senate and House of Representa-*  
 2       *tives of the United States of America in Congress assembled,*

3       **TITLE I—TAX AMENDMENTS**

4       **SEC. 101. TAX ON TRANSPORTATION OF PERSONS.**

5       *(a) TAX ON TRANSPORTATION OF PERSONS.—Sub-*  
 6       *chapter C of chapter 33 (relating to tax on transportation of*  
 7       *persons by air) is amended to read as follows:*

8               **“Subchapter C—Transportation of Persons**

*“Sec. 4261. Imposition of tax on transportation of persons*  
   *by air.*

*“Sec. 4262. Imposition of tax on transportation of persons*  
   *by water outside the United States.*

*“Sec. 4263. Exemption.*

*“Sec. 4264. Special rules.*

9       **“SEC. 4261. IMPOSITION OF TAX ON TRANSPORTATION**  
 10                               **OF PERSONS BY AIR.**

11               **“(a) AMOUNTS PAID WITHIN THE UNITED STATES.—**

12       *There is hereby imposed upon the amount paid within the*  
 13       *United States for transportation of any person by air, within*  
 14       *or without the United States, a tax equal to 5 percent of the*  
 15       *amount so paid.*

16               **“(b) AMOUNTS PAID WITHOUT THE UNITED**

17       **STATES.—***There is hereby imposed upon the amount paid*  
 18       *without the United States for transportation of any person*  
 19       *by air, but only if such transportation—*

20                *“(1) begins and ends in the United States;*

21                *“(2) is provided pursuant to a ticket or order under*

1       *which the first transportation by air begins in the United*  
2       *States; or*

3               *“(3) in the case of amounts paid within Canada,*  
4       *Mexico, or the Caribbean island area (as defined in 19*  
5       *U.S.C. 1202) for transportation of a resident of the*  
6       *United States, is provided pursuant to a ticket or order*  
7       *under which the first transportation by air begins in*  
8       *Canada, Mexico, or the Caribbean island area within*  
9       *forty-eight hours after such individual departed from the*  
10       *United States;<sup>1</sup>*

11       *a tax equal to 5 per centum of the amount so paid. In the*  
12       *case of any transportation by air which is interrupted by*  
13       *a scheduled stopover in the United States of 6 hours or more,*  
14       *paragraph (1) shall be applied separately to the portion of*  
15       *such transportation before the interruption and to the portion*  
16       *of such transportation after the interruption.*

17       *“(c) SEATS, BERTHS, ETC.—There is hereby imposed*  
18       *upon the amount paid for seating or sleeping accommodations*  
19       *in connection with transportation with respect to which a*  
20       *tax is imposed by subsection (a) or (b), a tax equivalent*  
21       *to 5 percent of the amount so paid.*

22       *“(d) BY WHOM PAID.—Except as provided in section*

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<sup>1</sup> This provision is designed to extend the tax to individuals who cross into Canada or Mexico or travel to a Caribbean island to embark on a foreign flight. It has been added as a result of the concern over the possible diversion of U.S. passengers to Canada.

1 4264, the taxes imposed by this section shall be paid by the  
2 person making the payment subject to the tax.

3 “(e) UNITED STATES DEFINED.—For purposes of this  
4 subchapter, the term ‘United States’ means the States, the  
5 District of Columbia, the Commonwealth of Puerto Rico, and  
6 the possession of the United States.

7 “(f) SPECIAL RULE FOR AIR TRANSPORTATION  
8 WITHIN A POSSESSION.—The tax imposed by this section  
9 shall not apply to amounts paid within the Commonwealth  
10 of Puerto Rico or a possession of the United States for  
11 transportation which begins and ends within the Common-  
12 wealth of Puerto Rico or which begins and ends within such  
13 possession (in either case, determined with the application  
14 of the second sentence of subsection (b)).

15 **“SEC. 4262. IMPOSITION OF TAX ON TRANSPORTATION**  
16 **OF PERSONS BY WATER OUTSIDE THE**  
17 **UNITED STATES.**

18 “(a) AMOUNTS PAID WITHIN UNITED STATES.—  
19 There is hereby imposed upon the amount paid within the  
20 United States for taxable transportation of any person by  
21 water a tax equal to 5 percent of the amount so paid for  
22 transportation which begins before October 16, 1969.

23 “(b) AMOUNTS PAID OUTSIDE UNITED STATES.—  
24 There is hereby imposed upon the amount paid without the  
25 United States for taxable transportation of any person by

1 water, but only if such transportation is provided pursuant  
2 to a ticket or order under which the first transportation by  
3 water begins at a port in the United States, a tax equal to  
4 5 percent of the amount so paid for transportation which  
5 begins before October 16, 1969.

6 “(c) SEATS, BERTHS, REQUIRED CHARGES, ETC.—

7 There is hereby imposed upon amounts paid for—

8 “(1) seating or sleeping accommodations in connec-  
9 tion with transportation with respect to which a tax is  
10 imposed by subsection (a) or (b), or

11 “(2) food, services, or facilities on the vessel the  
12 charge for which must be accepted as a condition to  
13 taking transportation with respect to which a tax is im-  
14 posed by subsection (a) or (b),

15 a tax equal to 5 percent of the amount so paid.

16 “(d) BY WHOM PAID.—Except as provided in section  
17 4264, the taxes imposed by this section shall be paid by the  
18 person making the payment subject to the tax.

19 “(e) TAXABLE TRANSPORTATION.—For purposes of  
20 this section—

21 “(1) GENERAL RULE.—The term ‘taxable trans-  
22 portation’ means any transportation where the vessel  
23 makes one or more stops at a port within the nontaxable  
24 area (as defined in section 4944(b)) and one or more

1 ... stops at a port within the taxable area (as defined in  
2 ... section 4944(c)).

3 ... **“(2) EFFECT OF 12-HOUR STOPOVER.**—In the case  
4 ... of any transportation by water which is interrupted by  
5 ... a scheduled stopover of twelve hours or more, paragraph  
6 ... (1) shall be applied separately to the portion of such  
7 ... transportation before the interruption and to the portion  
8 ... of such transportation after the interruption.

9 **“SEC. 4263. EXEMPTION.**

10 “The tax imposed by section 4261 or 4262 shall not  
11 apply to the payment for transportation or facilities fur-  
12 nished to an international organization, or any corporation  
13 created by Act of Congress to act in matters of relief under  
14 the Treaty of Geneva of August 22, 1864.

15 **“SEC. 4264. SPECIAL RULES.**

16 **“(a) PAYMENTS MADE OUTSIDE THE UNITED STATES**  
17 **FOR PREPAID ORDERS.**—If the payment upon which tax  
18 is imposed by section 4261 or 4262 is made outside the United  
19 States for a prepaid order, exchange order, or similar order,  
20 the person furnishing the initial transportation pursuant to  
21 such order shall collect the amount of the tax.

22 **“(b) TAX DEDUCTED UPON REFUNDS.**—Every per-  
23 son who refunds any amount with respect to a ticket or order  
24 which was purchased without payment of tax imposed by sec-

1 *tion 4261 or 4262 shall deduct from the amount refundable,*  
2 *to the extent available, any tax due under such section and*  
3 *shall report to the Secretary or his delegate the amount of*  
4 *any such tax remaining uncollected.*

5 *“(c) PAYMENT OF TAX.—Where any tax imposed by*  
6 *section 4261 or 4262 is not paid at the time payment for*  
7 *transportation is made, then, under regulations prescribed by*  
8 *the Secretary or his delegate, to the extent that such tax is*  
9 *not collected under any other provision of this subchapter—*

10 *“(1) such tax shall be paid by the person paying*  
11 *for the transportation or by the person using the trans-*  
12 *portation;*

13 *“(2) such tax shall be paid within such time as the*  
14 *Secretary or his delegate shall prescribe by regulations*  
15 *after whichever of the following first occurs:*

16 *“(A) the right to the transportation expires; or*

17 *“(B) the time when the transportation becomes*  
18 *subject to tax; and*

19 *“(3) payment of such tax shall be made to the*  
20 *Secretary or his delegate, to the person to whom the pay-*  
21 *ment for transportation was made, or to any person fur-*  
22 *nishing any portion of such transportation.*

23 *“(d) APPLICATION OF TAX.—The tax imposed by sec-*

1 tion 4261 or 4262 shall apply to any amount paid within the  
 2 United States for transportation of any person by air or  
 3 water unless the taxpayer establishes, pursuant to regulations  
 4 prescribed by the Secretary or his delegate, at the time of  
 5 payment for the transportation, that the transportation is  
 6 not transportation in respect of which tax is imposed by such  
 7 section."

8 (b) **TERMINATION OF EXEMPTIONS.**—Sections 4292  
 9 (relating to State and local governmental exemptions) and  
 10 4294 (relating to exemption for nonprofit educational orga-  
 11 nizations) are each amended by striking out "or 4261".  
 12 Section 4293 (relating to exemptions for the United States  
 13 and possessions) is amended by striking out "subchapters  
 14 B and C" and inserting in lieu thereof "subchapter B".

15 (c) **CONFORMING AMENDMENTS.**—Section 6415 is  
 16 amended by striking out "4251 or 4261" each place it appears  
 17 and inserting in lieu thereof "4251, 4261, or 4262".

18 (d) **EFFECTIVE DATE.**—The amendments made by this  
 19 section shall apply with respect to amounts paid on or after  
 20 the 10th day after the date of the enactment of this Act for  
 21 transportation beginning on or after such 10th day.

22 **SEC. 102. EXCISE TAX ON FOREIGN TRAVEL.**

23 (a) **IMPOSITION OF TAX.**—Subtitle D (relating to mis-  
 24 cellaneous excise tax) is amended by adding at the end thereof  
 25 the following new chapter:



1                   **“Chapter 42.—FOREIGN TRAVEL**

*“Sec. 4941. Tax on foreign travel.*

*“Sec. 4942. Taxable trip.*

*“Sec. 4943. Taxable amount.*

*“Sec. 4944. Other definitions.*

2   **“SEC. 4941. TAX ON FOREIGN TRAVEL.**

3           **“(a) IMPOSITION OF TAX.**—There is hereby imposed  
4 on the taxable amount (as defined in section 4943) with  
5 respect to any taxable trip (as defined in section 4942) of  
6 any individual who is a United States person (as defined  
7 in section 4944(d)(1)) a tax equal to 30 percent of such  
8 taxable amount.

9           **“(b) PER DIEM EXCLUSION.**—In the case of any indi-  
10 vidual, there shall not be taken into account under subsec-  
11 tion (a) an amount equal to \$15 multiplied by the number  
12 of days during any part of which such individual was on a  
13 taxable trip.

14           **“(c) 5-PERCENT RATE IN CASE OF CERTAIN TRANS-**  
15 **PORTATION EXPENSES.**—

16           **“(1) ELECTION.**—In the case of any amount paid  
17 which, if it had been paid within the United States dur-  
18 ing the taxable trip, would have been subject to tax under  
19 subchapter C of chapter 33 (relating to tax on transpor-  
20 tation of persons), or the value of any air transportation  
21 furnished which otherwise constitutes a taxable amount,  
22 the taxpayer may elect—

1           “(A) that such amount shall not be subject to  
2           the exclusion under subsection (b), and

3           “(B) to have the rate applied to such amount  
4           under subsection (a) be 5 percent in lieu of 30  
5           percent.

6           “(2) FORM OF ELECTION, ETC.—Any election  
7           under paragraph (1) shall be made at such time and in  
8           such manner as the Secretary or his delegate may by  
9           regulations prescribe.

10          “(d) PERSON LIABLE FOR TAX.—The tax imposed by  
11          this section shall be paid by the individual who makes the tax-  
12          able trips: Provided, however, That an employer who fur-  
13          nishes facilities and services to an employee the value of  
14          which constitutes a taxable amount under section 4943 may  
15          elect (in the manner provided in regulations prescribed by  
16          the Secretary or his delegate) to assume the liability (in lieu  
17          of such employee) for the tax imposed on such amount (com-  
18          puted without regard to subsection (b)).<sup>2</sup>

19          “SEC. 4942. TAXABLE TRIP.

20          “(a) GENERAL RULE.—For purposes of this chapter,  
21          the term ‘taxable trip’ means that portion of any foreign trip  
22          (as defined in section 4944(a)) which is not excluded under  
23          subsection (b).

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<sup>2</sup> This election will obviate the need for employers having to break down their expenditures for employee foreign travel among individual employees and, thus, will eliminate the allocation problems raised by members of the committee.

1       “(b) *EXCLUSIONS.*—For purposes of this chapter—

2               “(1) *BONA FIDE RESIDENCE ABROAD.*—An indi-  
3       vidual shall not be considered on a taxable trip for the  
4       entire trip if such individual, after his departure, estab-  
5       lishes his residence outside the United States.

6               “(2) *TRADE OR BUSINESS.*—An individual shall  
7       not be considered on a taxable trip for the portion of the  
8       trip during which such individual is engaged in a trade  
9       or business in the taxable area on a full-time basis (A)  
10      for a period of at least 120 consecutive days, or (B) as  
11      an employee of an international organization.

12              “(3) *MILITARY SERVICE.*—An individual who is  
13      a member of the Armed Forces of the United States shall  
14      not be considered on a taxable trip for any portion of  
15      the trip during which he is serving on active duty and is  
16      assigned to duty in the taxable area.

17              “(4) *STUDENTS AND TEACHERS.*—An individual  
18      shall not be considered on a taxable trip while he is en-  
19      rolled at and attending as a student, or while he is em-  
20      ployed as a member of the faculty at, a foreign school or  
21      university for a normal unit of regular instruction ap-  
22      proximating at least one-quarter of a school year, but in  
23      the case of a student only if such individual is studying  
24      for a degree at such foreign school or university or re-  
25      ceives academic credit for such schooling at a school or

1        *university in the United States at which he is enrolled*  
2        *either before or after the trip.*

3        “(5) *CREW MEMBERS.*—*An individual shall not be*  
4        *considered on a taxable trip for the entire trip if such*  
5        *individual makes a trip as a bona fide member of a crew*  
6        *of a transportation facility, but not including any period*  
7        *of layover longer than normally provided in similar*  
8        *situations.*

9        “(6) *SPECIAL RULE.*—*If a portion of an individ-*  
10        *ual's trip is not considered to be a taxable trip by reason*  
11        *of paragraph (2) or (4), then, if the portion of his trip*  
12        *which would otherwise be considered a taxable trip does*  
13        *not exceed 14 days (plus a reasonable period for travel-*  
14        *ing to and from the taxable area), no part of his trip*  
15        *shall be considered a taxable trip.*

16        “(c) *SPECIAL RULES FOR APPLICATION OF SUBSEC-*  
17        *TION (b).*—

18        “(1) *SPOUSE AND DEPENDENTS.*—*If, in the case*  
19        *of any individual, any portion of a trip is considered*  
20        *not to be a taxable trip by reason of paragraph (2),*  
21        *(3), or (4) of subsection (b) (with the application of*  
22        *paragraph (6)), a comparable portion of the trip of*  
23        *his spouse and dependents (within the meaning of section*  
24        *152(a)) while accompanying him (or joining him)*  
25        *on such portion shall not be considered a taxable trip.*

1           “(2) *UNFORESEEN CIRCUMSTANCES.*—The 120-  
2           day requirement of subsection (b)(2) and the one-  
3           quarter requirement of subsection (b)(4) shall not apply  
4           in the case of an individual who fails to meet such  
5           requirements because of circumstances which could not  
6           have been reasonably foreseen at the time he began the  
7           trip.

8           “SEC. 4943. *TAXABLE AMOUNT.*

9           “(a) *GENERAL RULE.*—For purposes of this chapter,  
10          except as provided by subsection (b), the term ‘taxable  
11          amount’ means, with respect to any taxable trip of any  
12          individual—

13               “(1) *The value of the facilities and services received*  
14               *during such trip by such individual in connection with*  
15               *such trip, other than the value of facilities and services*  
16               *which are furnished to such individual without cost to*  
17               *him or to another United States person.*

18               “(2) *The value of tangible personal property pur-*  
19               *chased—*

20                       “(A) *for delivery to the individual on a taxable*  
21                       *trip, or*

22                       “(B) *by such individual in the taxable area*  
23                       *while on a taxable trip.*

24           *This paragraph shall not apply to (i) an automobile, boat,*  
25           *or other vehicle, (ii) property purchased for use or sale in*

1 carrying on a trade or business, or (iii) property purchased  
2 for use or sale by an organization which is exempt from  
3 income tax.

4 “(3) The value (not otherwise included under para-  
5 graph (1)) of the use in the taxable area of any auto-  
6 mobile, boat, or other vehicle, or any housing accommo-  
7 dations, owned by such individual or by another United  
8 States person.

9 “(b) EXCLUSIONS.—For purposes of subsection (a),  
10 there shall not be taken into account—

11 “(1) TAXABLE TRANSPORTATION.—Any amount  
12 paid for transportation which is subject to tax under  
13 section 4261 or 4262 (or would be subject to such tax  
14 but for section 4263).

15 “(2) BUSINESS EXPENSES.—Except as provided  
16 by subsection (c)(2), any amount which—

17 “(A) is deductible as an expense in carrying on  
18 a trade or business, or

19 “(B) in the case of an organization which is  
20 exempt from income tax, is an expense in carrying  
21 out the purpose or function constituting the basis of  
22 its exemption.

23 “(c) SPECIAL RULES.—

24 “(1) FACILITIES OR SERVICES RECEIVED BY TAX-  
25 PAYER.—For purposes of subsection (a), facilities or

1        *services purchased by an individual (on his own behalf*  
 2        *or on behalf of another person) in the taxable area and*  
 3        *furnished to another person in the taxable area shall be*  
 4        *considered as received by such individual.*

5            *“(2) LIMITATION ON BUSINESS EXPENSE EXCLU-*  
 6        *SION.—Subsection (b)(2) shall not apply with respect*  
 7        *to (i) transportation of any individual and his personal*  
 8        *effects, or (ii) meals, lodging, gifts, or entertainment of*  
 9        *a United States person while on a taxable trip.<sup>3</sup>*

10    **“SEC. 4944. OTHER DEFINITIONS.**

11            *“(a) FOREIGN TRIP.—For purposes of this chapter,*  
 12        *the term ‘foreign trip’, means that portion of the travel of an*  
 13        *individual who travels outside the nontaxable area which—*

14            *“(1) begins with the later of (A) his departure from*  
 15        *the last port or station within the United States, or (B)*  
 16        *his departure from the last port or station within the non-*  
 17        *taxable area outside the United States at which his trans-*  
 18        *portation is interrupted by a scheduled interval of more*  
 19        *than 12 hours, and*

20            *“(2) ends when he returns to the first port or station*  
 21        *in the United States or (if earlier) when he arrives at*  
 22        *the first port or station within the nontaxable area at*

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<sup>3</sup> Under this provision, which has been added as a result of questions raised by members of the committee, no tax would apply to the business expenses of entertaining foreigners. Thus, these expenses would have the same tax exempt status as other business expenses which are not primarily associated with travel.

1       *which his transportation is interrupted by a scheduled*  
2       *interval of more than 12 hours.*

3       “(b) *NONTAXABLE AREA.*—For purposes of this chap-  
4       *ter, the term ‘nontaxable area’ means (1) the area lying west*  
5       *of the 30th meridian west of Greenwich, and east of the*  
6       *130th meridian west of Greenwich, and (2) Canada, Alaska,*  
7       *Hawaii, the possessions of the United States, and the Trust*  
8       *Territory of the Pacific.*

9       “(c) *TAXABLE AREA.*—For purposes of this chapter,  
10       *the term ‘taxable area’ means any area which is not a non-*  
11       *tazable area.*

12       “(d) *UNITED STATES PERSON.*—For purposes of this  
13       *chapter, the term ‘United States person’ means—*

14               “(1) *An individual who is a resident of the United*  
15       *States except an individual admitted into the United States*  
16       *pursuant to section 101(a)(15) (A) or (G) of the*  
17       *Immigration and Nationality Act of June, 27, 1952*  
18       *(8 U.S.C. 1101(a)(15) (A) or (G)), or a spouse*  
19       *or dependent as defined in section 152(a)(9)) of such*  
20       *individual.*

21               “(2) *A corporation or partnership engaged in trade*  
22       *or business in the United States.*

23               “(3) *The United States, a State, a political sub-*  
24       *division, or any agency or instrumentality thereof.*



1           “(4) *An estate or trust which is a United States*  
 2           *person within the meaning of subparagraph (F) of sec-*  
 3           *tion 4920(a)(4).*

4           “(5) *A corporation not engaged in trade or business*  
 5           *in the United States of which a person described in para-*  
 6           *graph (1), (2), (3), (4) owns more than 50 percent*  
 7           *of the voting stock.*

8           “(6) *An organization which is exempt from income*  
 9           *tax.*

10          “(e) *UNITED STATES; STATE.—For purposes of this*  
 11          *chapter, the term ‘United States’ when used in the geographi-*  
 12          *cal sense includes the States, the District of Columbia, the*  
 13          *Commonwealth of Puerto Rico, and the possessions of the*  
 14          *United States; and the term ‘State’ includes the District of*  
 15          *Columbia, the Commonwealth of Puerto Rico, and the pos-*  
 16          *sessions of the United States.”*

17          “(b) *CLERICAL AMENDMENT.—The table of chapters for*  
 18          *subtitle D is amended by adding at the end thereof the fol-*  
 19          *lowing:*

*“CHAPTER 42—FOREIGN TRAVEL”*

20          “(c) *EFFECTIVE DATE.—*

21                 “(1) *GENERAL RULE.—The amendments made by*  
 22                 *this section and sections 103 and 104 shall apply with*

1       *respect to foreign trips beginning on or after the 20th*  
2       *day after the date of the enactment of this Act and before*  
3       *October 16, 1969.*

4           (2) *SPECIAL RULE.—For purposes of the pro-*  
5       *visions of the Internal Revenue Code of 1954, added*  
6       *by the amendments made by this section and sections 103*  
7       *and 104, any taxable trip which has not been terminated*  
8       *as of October 15, 1969, by the taxpayer's return to the*  
9       *nontaxable area, shall be considered terminated at the*  
10       *close of such date.*

11. *SEC. 103. RETURNS.*

12       (a) *MAKING OF RETURNS.—Section 6011 (relating to*  
13       *general requirement of return, statement, or list) is amended*  
14       *by redesignating subsection (e) as subsection (f), and by*  
15       *inserting after subsection (d) the following new subsection:*

16           “(e) *FOREIGN TRAVEL TAX RETURN.—*

17           “(1) *REQUIREMENT.—Except as provided by para-*  
18       *graph (2), every individual who is a United States*  
19       *person (as defined in section 4944(d)(1)) who makes a*  
20       *foreign trip (as defined in section 4944(a)), or makes*  
21       *an election under section 4941(d), shall make a return*  
22       *with respect to the tax imposed by section 4941.*

23           “(2) *EXCEPTIONS.—Paragraph (1) shall not*  
24       *apply if no portion of the foreign trip is a taxable trip*  
25       *by reason of—*

1           “(A) section 4942(b)(1) (relating to estab-  
2           lishing residence outside the United States),

3           “(B) section 4942(b)(3) (relating to military  
4           service), or

5           “(C) section 4942(b)(5) (relating to members  
6           of crew).

7           “(3) *JOINT RETURNS OF FAMILIES.*—A husband  
8           and wife, and any of their dependents (as defined in  
9           section 152(a)), who were together on a foreign trip  
10           may make a single return jointly with respect to the tax  
11           imposed by section 4941. If a joint return is made and  
12           there is liability for tax, the liability with respect to such  
13           tax shall be joint and several.”

14           (b) *TIME FOR FILING RETURNS.*—Part V of subchap-  
15           ter A of chapter 61 (relating to time for filing returns and  
16           other documents) is amended by adding at the end thereof the  
17           following new section:

18           “**SEC. 6077. TIME FOR FILING FOREIGN TRAVEL TAX**  
19                               **RETURNS.**

20           “Returns required to be made by section 6011(e) shall  
21           be filed at the time (not earlier than 60 days after the end  
22           of the foreign trip) provided by regulations prescribed by  
23           the Secretary or his delegate.”

24           (c) *PUBLICITY OF RETURNS.*—Section 6103(a)(2)  
25           (relating to public records and inspection) is amended by

1 *striking the phrase "and chapter 41" and inserting in lieu*  
 2 *thereof "chapter 41, and chapter 42".*

3 (d) *CLERICAL AMENDMENT.—The table of sections for*  
 4 *part V of subchapter A of chapter 61 is amended by adding*  
 5 *at the end thereof the following:*

*"Sec. 6077. Time for filing foreign travel tax returns."*

6 (e) *EFFECTIVE DATE.—For effective date of the amend-*  
 7 *ments made by this section, see section 102(c).*

8 **SEC. 104. DECLARATION AND PAYMENT OF ESTIMATED**  
 9 **FOREIGN TRAVEL TAX.**

10 (a) *DECLARATION OF ESTIMATED FOREIGN TRAVEL*  
 11 *TAX.—Subpart D of part II of subchapter A of chapter 61*  
 12 *is amended by adding at the end thereof the following new*  
 13 *section:*

14 **"SEC. 6022. DECLARATIONS OF ESTIMATED FOREIGN**  
 15 **TRAVEL TAX**

16 *"(a) DEFINITION.—For purposes of this title, the term*  
 17 *'estimated foreign travel tax' means, in the case of any indi-*  
 18 *vidual, the amount he estimates as the amount of his liability*  
 19 *for tax imposed by section 4941 with respect to any foreign*  
 20 *trip.*

21 *"(b) FILING OF DECLARATIONS AND STATEMENTS.—*  
 22 *Every individual (other than in individual referred to in*  
 23 *paragraph (3) or (5) of section 4942(b), relating to mili-*

1 *tary service and crew members) who makes a foreign trip*  
2 *(as defined in section 1944(a)) shall—*

3       *“(1) before beginning such trip, make a declaration*  
4 *of estimated foreign travel tax, and*

5       *“(2) at the time of making the declaration under*  
6 *paragraph (1) and when entering the United States at*  
7 *the end of such trip (or when first entering after the end*  
8 *of such trip), file statements as to the amount of cash or*  
9 *its equivalent the individual has with him.*

10       *“(c) JOINT FAMILY DECLARATION AND STATE-*  
11 *MENT.—In the case of a husband and wife, and any of their*  
12 *dependents (as defined in section 152(a)) who depart on a*  
13 *foreign trip together, declarations and statements under this*  
14 *section may be made by them jointly. If a joint return is made*  
15 *with respect to the declaration of estimated travel tax the lia-*  
16 *bility with respect to the estimated travel tax shall be joint*  
17 *and several. If a joint declaration of estimated travel tax is*  
18 *made for a trip but a joint return is not made for that trip,*  
19 *the estimated foreign travel tax for such trip may be treated as*  
20 *the estimated foreign travel tax of any individual who joined*  
21 *in such declaration or may be divided between them.*

22       *“(d) TIME FOR FILING, ETC.—Any declaration or*  
23 *statement required by this section shall be filed at such time*

1 and at such place as the Secretary or his delegate may by  
2 regulations prescribe. Such regulations may require a dec-  
3 laration and statement to be filed when an individual departs  
4 from the United States if he reasonably expects at such time  
5 to make a foreign trip before he returns to the United States.

6       “(e) **CONTENTS OF DECLARATIONS AND STATE-**  
7 **MENTS.**—The declarations and statements required by this  
8 section shall contain such pertinent information as the Sec-  
9 retary or his delegate may by forms or regulations prescribe,  
10 including information with respect to the amount of cash or  
11 its equivalent the individual has with him upon leaving or  
12 returning from a foreign trip.

13       “(f) **EXECUTION OF RETURN BY SECRETARY.**—The  
14 authority of the Secretary or his delegate to make a return  
15 under section 6020 shall not apply with respect to declara-  
16 tions required to be filed under this section.

17       “(g) **PUBLICITY OF DECLARATIONS.**—For purposes of  
18 section 6103, the declarations required to be filed under this  
19 section shall be held and considered a return under this  
20 chapter.

21       “(h) **ADDITION TO TAX FOR FAILURE TO FILE**  
22 **STATEMENT.**—

23               “(1) **AMOUNT ADDED.**—In the case of failure to  
24 file a statement under this section, unless it is shown  
25 that such failure is due to reasonable cause and not will-

1     *ful neglect, \$200 shall be added to the tax under section*  
 2     *4941 for each such failure. Section 6651 (relating to*  
 3     *failure to file tax return) shall not apply to any failure to*  
 4     *file a declaration under this section.*

5             “(2) *APPLICABLE RULES.—For purposes of para-*  
 6     *graph (1) and section 6157(b)—*

7                 “(A) *any amount added to the tax under para-*  
 8     *graph (1) or section 6157(b) shall be paid upon*  
 9     *notice and demand, and shall be assessed, collected,*  
 10    *and paid in the same manner as taxes, and*

11                “(B) *any reference in this title to ‘tax’ im-*  
 12    *posed by this title shall be deemed also to refer to the*  
 13    *additions to tax provided by paragraph (1) and*  
 14    *section 6157(b).”*

15            **(b) PAYMENT OF ESTIMATED FOREIGN TRAVEL**  
 16    **TAX.—***Subchapter A of chapter 62 (relating to place and due*  
 17    *date for payment of tax) is amended by renumbering section*  
 18    *6157 as section 6158, and by inserting after section 6156 the*  
 19    *following new section:*

20    **“SEC. 6157. PAYMENT OF ESTIMATED FOREIGN TRAVEL**  
 21        **TAX.**

22                “(a) *TIME FOR PAYMENT.—The amount of estimated*  
 23    *foreign travel tax shown on the declaration required under*  
 24    *section 6022 shall be paid to the Secretary or his delegate at*  
 25    *the time such declaration is filed.*

1       “(b) *ADDITION TO TAX FOR UNDERPAYMENT OF*  
2 *ESTIMATED FOREIGN TRAVEL TAX.—*

3               “(1) *In the case of an underpayment of estimated*  
4 *foreign travel tax, there shall be added to the tax under*  
5 *section 4941 an amount equal to 10 percent of the*  
6 *amount of the underpayment. For purposes of this para-*  
7 *graph, the amount of the underpayment is the excess of*  
8 *the amount imposed by section 4941 over the payments*  
9 *of estimated foreign travel tax made at the time of filing*  
10 *the declaration of estimated foreign travel tax.*

11               “(2) *CROSS REFERENCE.—*

*“For applicable rules, see section 6022(h)(2).*

12               “(c) *ADMINISTRATIVE PROVISIONS.—*

13               “(1) *ASSESSMENTS.—No unpaid amount of esti-*  
14 *mated foreign travel tax under this section shall be*  
15 *assessed.*

16               “(2) *PAYMENTS OF TAX.—Payments of the esti-*  
17 *mated foreign travel tax shall be considered payment*  
18 *on account of the taxes imposed by section 4941.*

19               “(3) *PREPAID TRAVEL TAX.—Any amount paid*  
20 *as estimated travel tax for any foreign trip shall be*  
21 *deemed to have been paid on the last day prescribed*  
22 *for filing the return under section 6011(e) for such*  
23 *taxable trip for purposes of determining the period of*



1     *limitation on credit or refund and the date of over-*  
 2     *payment.*

3             “(4) *ERRONEOUS TRAVEL TAX PREPAYMENT*  
 4     *CREDIT.—If on any return or claim for refund of taxes*  
 5     *imposed by section 4941 there is an overstatement of*  
 6     *the amount paid as estimated travel tax, the amount so*  
 7     *overstated which is allowed against the tax shown on*  
 8     *the return or which is allowed as a refund may be*  
 9     *assessed by the Secretary or his delegate in the same*  
 10    *manner as in the case of a mathematical error appearing*  
 11    *upon the return.”*

12    (c) *CLERICAL AMENDMENTS.—*

13             (1) *The table of sections for subpart D of part II*  
 14    *of subchapter A of chapter 61 is amended by adding at*  
 15    *the end thereof the following:*

              “*Sec. 6022. Declarations of estimated foreign travel tax.*”

16             (2) *The table of sections for subchapter A of chap-*  
 17    *ter 62 is amended by striking out the last item and insert-*  
 18    *ing in lieu thereof the following:*

              “*Sec. 6157. Payment of estimated foreign travel tax.*

              “*Sec. 6158. Payment of taxes under provisions of the Tariff*  
               *Act.*”

19             (d) *EFFECTIVE DATE.—For effective date of the*  
 20    *amendments made by this section, see section 102(c).*

1                   **TITLE II—AMENDMENT OF**  
2                   **TARIFF SCHEDULES**

3   **SEC. 201. REDUCTION OF PERSONAL EXEMPTION OF CER-**  
4                   **TAIN RETURNING RESIDENTS.**

5           (a) *REDUCTION.*—*The article description for item*  
6   *813.31 of the Tariff Schedules of the United States (19*  
7   *U.S.C. 1202) is amended—*

8           (1) *by striking out “Articles not over \$100 (or*  
9           *\$200 in the case of persons arriving directly or indirectly*  
10          *from American Samoa, Guam, or the Virgin Islands*  
11          *of the United States, not more than \$100 or which shall*  
12          *have been acquired elsewhere than in such insular pos-*  
13          *sessions)” , and*

14          (2) *by inserting in lieu thereof “Articles not over*  
15          *\$10 (or \$100 in the case of persons arriving directly*  
16          *from a contiguous country or the Caribbean Island area,*  
17          *or \$200 in the case of persons arriving directly or indi-*  
18          *rectly from American Samoa, Guam, or the Virgin*  
19          *Islands of the United States, except that not more than*  
20          *\$10 of such \$100 or \$200 shall have been acquired else-*  
21          *where than in a contiguous country or the Caribbean*  
22          *Island area or in such insular possessions and not more*  
23          *than \$100 of such \$200 shall have been acquired in a*  
24          *contiguous country or the Caribbean Island area)” .*

1       **(b) PERSONAL EXEMPTION AFTER OCTOBER 15,**  
 2 *1969.—Effective with respect to persons arriving in the*  
 3 *United States after October 15, 1969, the article description*  
 4 *for such item 813.31, as amended by subsection (a), is*  
 5 *amended by striking “\$10” wherever it appears and inserting*  
 6 *“\$50” in lieu thereof.*

7       **(c) The subpart A headnote for part 2 of schedule 8**  
 8 *of the Tariff Schedules of the United States (19 U.S.C.*  
 9 *1202) is amended by adding after headnote 3 the following*  
 10 *new headnote:*

11       *“4. For purposes of item 813.31 the term ‘Caribbean*  
 12 *Island area’ shall mean:*

13               *“(a) the Bahama Islands; the Turks and Caicos*  
 14 *Islands and the Bermuda Islands; and*

15               *“(b) all of the islands in the Caribbean Sea except—*

16                       *“(i) those belonging to Central American and*  
 17 *South American countries;*

18                       *“(ii) Cuba and its offshore islands; and*

19                       *“(iii) Puerto Rico, the Virgin Islands of the*  
 20 *United States and all other islands of United States*  
 21 *sovereignty.”*

22 **SEC. 202. ARTICLES IMPORTED FOR NONCOMMERCIAL**  
 23 **USE.**

24       **(a) RATE OF DUTY.—Part 6 of schedule 8 of the Tariff**

- 1 *Schedules of the United States (19 U.S.C. 1202) is amended*  
 2 *by inserting before item 870.10 the following:*

	<p><i>Subpart A.—Noncommercial Importations</i>  <i>Subpart A headnote:</i>                  1. <i>For the purposes of this subpart—</i>                  (a) <i>The rates of duty for articles provided for in this subpart shall be assessed in lieu of any other rates of duty except free rates of duty on such articles.</i>                  (b) <i>Any article dutiable under item 869.05 shall be exempt from the payment of any internal-revenue tax imposed upon or by reason of importation.</i></p>		
	<p><i>Articles not intended for sale or other commercial use:</i></p>		
869.00	<p><i>If accompanying a person arriving in the United States and valued in the aggregate (exclusive of duty-free articles) not over \$100 fair retail value.....</i></p>	<p><i>10% of fair retail value.</i></p>	<p><i>10% of fair retail value.</i></p>
869.05	<p><i>If imported in the mails in any package containing articles valued in the aggregate (exclusive of duty-free articles) not over \$10 fair retail value..</i></p>	<p><i>\$1.50 per package</i></p>	<p><i>\$1.50 per package</i></p>
869.10	<p><i>Other articles in any shipment (whether imported in the mails or otherwise but not accompanying a person arriving in the United States) containing one or more articles valued in the aggregate (exclusive of duty-free articles) not over \$50 fair retail value..</i></p>	<p><i>15% of fair retail value</i></p>	<p><i>15% of fair retail value</i></p>
	<p><i>Subpart B.—Other Provisions</i></p>		

- 3 (b) *CONFORMING AMENDMENT.—The headnote for*  
 4 *schedule 8 of the Tariff Schedules of the United States is*  
 5 *amended by inserting “(other than of subpart A of part 6)”*  
 6 *after “schedule” the first place it appears therein.*

1 **SEC. 203. EFFECTIVE DATES FOR SECTIONS 201 (a), (c),**  
2 **and 202.**

3 *The amendments made by sections 201 (a) and (c)*  
4 *and 202 shall apply with respect to persons and articles*  
5 *arriving in the United States on or after the 10th day*  
6 *after the date of the enactment of this Act.*

Passed the House of Representatives April 4, 1968.

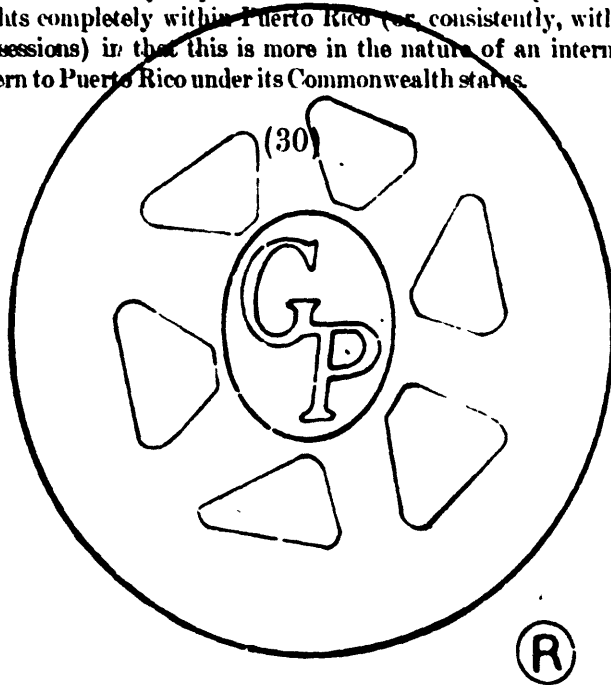
Attest: **W. PAT JENNINGS,**  
*Clerk.*

### Explanation—Proposed Changes in the 5-Percent Ticket Tax

The Treasury Department suggests two changes in the ticket tax provisions of H.R. 16241:

(1) The House bill, while eliminating most exemptions, retains the present exemption for domestic flights by small aircraft on nonestablished lines (sec. 4263(d)). The retention of this exemption is inconsistent with the user charge nature of the domestic ticket tax and it is recommended that it be deleted.

(2) The Treasury Department recommends excluding from the ticket tax flights completely within Puerto Rico (or, consistently, within one of the possessions) in that this is more in the nature of an internal matter of concern to Puerto Rico under its Commonwealth status.



## Technical Explanation—Tax on Foreign Expenditures

The following is a technical explanation of the Treasury Department's proposed foreign travel (expenditure) tax.

*In General.*—Under this proposal, a temporary tax would be imposed on certain expenditures in connection with a trip outside the nontaxable area (generally the Western Hemisphere and possessions of the United States) by a United States person. The tax base would include both expenditures made by him and those made by another United States person on his behalf. The tax schedule would be as follows: The first \$15 of daily expenditures (computed on the basis of an average over the whole trip) would be exempt from tax. All expenditures over this level would be taxed at a 30 percent rate.

The cost of sea or air transportation to and from the traveler's foreign destination would be taxed at a 5 percent rate—either as part of the expanded air transportation tax proposed by H.R. 16241, or as part of the expenditure tax. In addition, all air transportation while abroad would be taxed at a 5 percent rate, either under H.R. 16241, or, if that is not applicable, as a part of the expenditure tax but at a 5 percent rate. The use of the lower ticket tax rate removes the possibility of hardship in the case of persons whose purposes of travel can only be accomplished with numerous flights and frequent stopovers, as, for example, symphony orchestras on tour. The use of this rate also eliminates the possibility of discrimination between intra-European trips (where the flights tend to be short and therefore relatively inexpensive) and trips in other parts of the world where flights tend to be longer and therefore more expensive.

The application of the rate schedule in the case of families traveling together is discussed in a subsequent part of this memorandum.

*United States Person.*—The tax applies to expenditures made in connection with a taxable trip of a United States person. Except as noted below, the traveler would be liable for the tax on all expenditures in connection with his trip, which he himself makes or which are made on his behalf by another U.S. person. Amounts paid directly by an employer for meals and lodging of an employee while on a taxable trip would be taxable foreign travel expenditures of the employee as would the expenditures made directly by the employee (whether or not reimbursed). If a student travels abroad during the summer on funds given to him by his parents, he is taxable on the expenditures of his trip, whether he pays them or whether his father pays them directly. It is consistent with the nature of the tax—which is to tax the value of facilities and services received on a foreign trip—to tax the traveler on the entire value of his trip.

Where a United States person on a taxable trip makes expenditures for another person in the taxable area such as entertainment of a friend (whether or not a U.S. person) or payment of the family expenses of those accompanying him, the expenditures would be taxed to the person making them.

A United States person means:

(a) Any individual who is a resident in the United States, other than certain employees of international organizations or foreign governments and their staffs and families.

(b) A corporation or a partnership engaged in trade or business in the United States,

(c) An estate or trust which is considered a United States person within the meaning of section 4920(a) (4) (relating to the Interest Equalization Tax),

(d) The United States or any agency or instrumentality thereof,

(e) A State, including the District of Columbia, Puerto Rico and the possessions, or a political subdivision or any agency or instrumentality thereof, and

(f) A foreign corporation not engaged in trade or business in the United States 50 percent or more of the voting stock of which is owned by a United States person.

*United States.*—For this purpose, the United States includes the States, the District of Columbia, the Commonwealth of Puerto Rico and all possessions. Thus, residents of Puerto Rico, the Virgin Islands, Guam, and American Samoa, will be subject to the expenditure tax on their travel outside the nontaxable area. A tax on expenditures by such residents while traveling abroad is consistent with the fact that the foreign expenditures of these areas are considered in United States balance of payments. On the other hand, there would be no tax imposed upon expenditures made while traveling in any of these areas. Thus, these areas would be treated in the same manner as the continental United States. Any revenue collected under the expenditure tax from residents of Puerto Rico, the Virgin Islands, or Guam will be covered into the treasuries of those areas.

*Taxable Trip.*—Only those expenditures in connection with a "taxable trip" would be subject to the expenditure tax.

*Commencement and Conclusion of a Taxable Trip.*—A taxable trip of an individual shall in general commence with the individual's departure from a port or station in the United States, including the possessions and Puerto Rico. However, since trips within the specified nontaxable area, primarily the Western Hemisphere, are not subject to the expenditure tax, if the individual after leaving the United States stops at a port or station in the nontaxable area for a scheduled interval of more than twelve hours, the taxable trip shall not begin until his departure from the last such port or station in the nontaxable area. The taxable trip shall end when the individual returns to a port or station in the United States; or, if he makes a prior stop at a port within the nontaxable area at that time, provided the stop is for a scheduled interval of more than twelve hours.

The tax will only be applicable to taxable trips beginning more than 20 days after the date of enactment of the legislation. The tax will terminate on October 15, 1969, which marks the end of the European travel season for 1969. If a person is on a trip on the termination date, he would pay tax only on the part of his trip falling within the term of the tax.

*Nontaxable area.*—The nontaxable area means the area lying west of the 30th meridian west of Greenwich, and east of the 130th meridian west of Greenwich, and all of Canada, the United States, its possessions and the Trust Territory of the Pacific Islands.

#### CERTAIN TRIPS EXCEPTED

*Individuals establishing foreign residence.*—An individual who, after his departure from the United States, establishes his residence in a foreign country would be considered on a nontaxable trip.

*Students and Teachers.*—An individual (and his dependents) would be considered on a nontaxable trip if he is enrolled at and attending, or employed as a member of the faculty at, a foreign school or university for a normal school term of at least one quarter. In the case of the student, he would have to be studying for a degree at the foreign school or would have to receive credit for such schooling towards a degree at a domestic school in order to qualify.

*Trade or Business.*—An individual (and his dependents) shall be considered on a nontaxable trip if he is outside the nontaxable area for at least 120 consecutive days while engaged on a full-time basis in a trade or business or profession. This category of exceptions will cover, for example, an employee transferred abroad by his employer for more than 120 days, or a professor on sabbatical leave abroad doing research on a full-time basis in connection with his trade or business. In addition, a resident (and his dependents) of the United States who is an employee of an international organization traveling on business would be considered on a nontaxable trip, regardless of the length of stay. Moreover, such an employee (and his dependents) present in the United States



on nonresident immigrant status would not be subject to the tax whether his trip was business or pleasure.

*Partial Vacation Trips and Early Return to the U.S.*—If the student, teacher, employee, or businessman meets the time qualifications for exemption described above and does not spend a total of more than 14 days outside the nontaxable area before and after the period he is carrying on exempt activities, his entire trip would be exempt. If he stays longer than 14 days, thus converting his trip to a partial vacation trip, he (and his dependents) would be considered on a taxable trip, but would be permitted to exclude all expenses incurred during the period he is engaged in the exempt activities.

If the student, teacher, employee, or businessman does not stay abroad for the prerequisite time period, his trip would be taxable unless he could not have reasonably foreseen the circumstances which caused him to cut his trip short.

*Military.*—A member of the armed services (and his dependents) who is serving on active duty and is assigned to duty in the taxable area would be considered on a nontaxable trip during his tour of duty at that duty station. Any trips he makes back and forth to the nontaxable area during that tour would also be exempt.

*Crew Members of Ships or Airlines.*—An individual would not be considered on a taxable trip while he is serving as a member of a crew of a facility providing transportation to or from a port or ports outside the nontaxable area provided that the portion of the trip outside the nontaxable area does not include any period of layover longer than normally provided in similar situations.

*Taxable Foreign Travel Expenditures.*—In general, unless specifically excluded, the tax applies to all expenditures in connection with the taxable trip of a United States person made by him or another United States person. They include not only the traveler's own living expenses, but also the cost of any entertaining he may do and the cost of most tangible personal property he may purchase while abroad. Expenditures for the use or maintenance of property while on a taxable trip, such as rent for an apartment or automobile, are taxable foreign travel expenditures. In the case of an automobile, boat, other vehicle, or housing accommodation purchased or owned by the traveler, or furnished free of charge by another United States person, a special rule would tax the value of the use of that item during the taxable trip. Consistent with this rule, the purchase price of such property would not be subject to tax. The value of the use of the article while traveling appears to be a more appropriate tax base than the full purchase price, since this treatment will put the person who purchases or borrows a vehicle or housing accommodation in the same position as one who rents one.

Only expenditures made for facilities or services to be provided on the taxable trip would be considered made in connection with the trip. Thus, any expenditures for pre-trip facilities or services, such as taxi fares to the airport in the United States; costs incurred during the trip for facilities and services not provided on the trip, such as in connection with the traveler's house in the United States while he is gone; or the cost of work done after the traveler's return, such as to repair damages occurring on the trip, would not be taxable foreign travel expenditures.

Expenditures of a taxable trip are taxable whether paid before, during or after the trip. For example, hotel bills are taxable foreign travel expenditures whether prepaid to a travel agent, paid in cash or by check while on the trip, or charged and paid for after return.

Consistent with the rules on deductibility for income tax purposes of ordinary and necessary business expenses, the expenditure tax imposed on amounts deductible as business expenses would itself be deductible.

*Purchase of Property.*—In general, amounts spent while on a taxable trip for the purchase of tangible personal property (other than property held for investment or purchased for use or sale in carrying on a trade or business, or by an organization exempt from income tax) would be taxable. Moreover,

the cost of property purchased for delivery to an individual on a taxable trip would be taxable. Thus, for example, if a person purchases a European suit of clothes (whether before leaving or while on a taxable trip) and takes physical delivery while on a taxable trip, the purchase price would be a taxable foreign travel expenditure. Or conversely, if a person purchases the suit while in the taxable area for delivery after his return to the United States, the purchase price would be subject to this tax. As mentioned above, in the case of the purchase of automobiles, boats, or other vehicles, there would be imposed, in lieu of a tax on the purchase price, a tax on the value of the use of the article during the taxable trip. The tax in all these cases would be in addition to any applicable customs duty.

*Business Expenses.*—In the case of an individual traveling on a taxable business trip or on a taxable trip on behalf of an organization exempt from income tax, his business expenses, or expenses incurred in carrying out the purpose of the exempt organization, *other than* for transportation, meals, lodging, gifts and entertainment, would be excluded from the tax base.

#### RATE OF TAX

The taxable foreign travel expenditures made in connection with a taxable trip of a United States person shall be subject to tax at the following rates:

*Air Transportation in Connection with Foreign Travel.*—The expenditure tax will not apply to the cost of any air transportation paid for in the United States. That transportation will be subject to the expanded ticket tax under H.R. 16241 at a 5 percent rate. If the air ticket is not subject to the ticket tax in H.R. 16241, because it is purchased outside the United States or before the effective date of the expanded air transportation tax, the expenditure tax will apply but only at a 5 percent rate. The cost of transportation exempt from the ticket tax under a specific exemption (*e.g.*, transportation furnished to international organizations) would not be subject to the expenditure tax.

*Sea Transportation in Connection With Foreign Travel.*—The expenditure tax will apply to the cost of all sea transportation in connection with foreign travel in the taxable area. In the case of sea transportation to the first and from the last scheduled stop in the taxable area of more than 12 hours, the rate of tax will be 5 percent. The cost of other sea transportation in the taxable area will be subject to the regular expenditure tax schedule, in the same manner as the cost of land transportation.

Amounts paid for food and services (where no separate charge is made), and seating or sleeping accommodations, during the period transportation is subject to the 5 percent tax rate shall also be taxed at the lower 5 percent rate. Thus, if a United States person takes a 30-day cruise leaving from the U.S. which makes no stops within the non-taxable area and which makes its first stop in the taxable area of more than 12 hours on the 5th day and makes the last such stop on the 25th day, one-third of the cruise fare plus any separate charge for sleeping accommodations will be subject to tax at a 5 percent rate under the expenditure tax. The remaining two-thirds of the cruise fare and separate sleeping accommodations charge and any additional expenditures (such as for sightseeing or food) not covered by the basic fare will be subject to the expenditure tax at the regular rate.

*All Other Taxable Expenditures.*—All other taxable expenditures will be taxed on the following basis:

(a) *Exclusion from tax.*—Each traveler is entitled to a \$15 daily exclusion from the expenditure tax base. The amount excludable under this provision for a taxable trip shall be computed by multiplying the number of days during any part of which the individual was on such taxable trip by \$15 to arrive at the total exemption.

(b) *30 Percent Rate.*—The remaining expenditures shall be subject to tax at the rate of 30 percent.

For example, if a corporate employee goes to London on business for 10 days and spends \$200 for taxable expenditures (whether or not he is reimbursed by his employer) he would pay a tax of \$15 computed as follows:

		Tax rate (percent)	Tax
Exclusion, \$15 × 10 days .....	\$150	0	0
Remainder, 30 percent rate .....	50	30	\$15
<b>Total</b> .....	<b>200</b>		<b>15</b>

If in addition to his plane fare to London, the employer directly paid for the employee's hotel bill of \$200, the employee would also include this amount in his tax computation. Under the above example, his tax would be increased by \$60 (to a total of \$75).

#### COMPUTATION OF THE TAX

In order to preclude the necessity of travelers having to keep detailed records of their expenses, taxable foreign travel expenditures would be computed, to the greatest extent possible, by a travel net worth method. For many people this would involve merely subtracting the money and traveler's checks with which they returned from the money and traveler's checks with which they left and adding this to the amounts paid before the trip began.

More specifically, the first step in the computation for all travelers would be to determine the cash expenses of the trip. To do this, the amount of money (including traveler's checks) with which a person returns from a taxable trip would be subtracted from the sum of the amount of money (including traveler's checks) with which he departed plus all amounts received while on the taxable trip. Amounts received while on the trip must be included regardless of their origin. Thus, withdrawals from domestic or foreign banks, money sent from home, compensation for services received while abroad or money received from the sale of property would be included.

The second step in the computation would be to add to the cash expenditure figure, the amounts of expenditures in connection with the taxable trip paid before the taxable trip began, the amounts charged while on the taxable trip, and the amount of checks written while on the taxable trip. These are all amounts of which the traveler will have a record, e.g., credit card statements, personal check stubs. The resultant figure would represent the tax base for most travelers, and would be taxed according to the per day exemption and 30 percent rate, or in the case of certain transportation, the 5 percent rate of tax. For others, a further reduction would be made for expenses specifically excludible from taxable foreign travel expenditures (such as the cost of business inventory). The figure resulting from these reductions would represent their taxable foreign travel expenditures.

#### ESTIMATED TAX

Every individual, at his point of departure from the United States for a period during which he reasonably expects to be on a taxable trip, and whether or not he plans to make a stopover in the nontaxable areas, would be required to make a declaration of his estimated tax with respect to that taxable trip and pay the amount of the estimate to the Internal Revenue Service. He would include in his declaration a statement of the amount of cash (and traveler's checks) he is taking on the taxable trip. This figure is necessary in order to utilize the

travel net worth method for computing cash expenditures. Appropriate procedures will be developed for filing the declaration so that compliance with the requirement may be verified before the traveler's departure. The accuracy of the cash statement would be subject to verification at the point of departure by customs officials or other Treasury officials.

If a United States person departs on a taxable trip from a port in the non-taxable area outside the United States, and he did not make the required declaration and statement upon leaving the United States, he will be subject to penalty unless he can show such departure was not expected. In any event, the declaration or statement, if not previously filed, would be filed at this time.

Any individual returning from a taxable trip would be required to make a statement of his incoming cash (and traveler's checks) at the time he is processed through United States Customs. This statement would provide the incoming cash balance from which the travel net worth would be computed, and the accuracy would be subject to verification by a customs official.

#### RETURNS AND PAYMENT OF TAX

A tax return for a taxable trip, together with payment of any balance due, would be required to be filed with the Internal Revenue Service by the traveler within 60 days after his return. This will allow the taxpayer adequate time to receive all necessary credit card and banking records for preparation of the return. Of course, the return may be filed immediately upon arrival. A husband, wife, and any of their dependent children who travel together on a taxable trip may make a single taxable trip return jointly with respect to such trip. Such a return may be filed even though one or more of such individuals has no taxable foreign travel expenditures. A joint return would allow a family to utilize the full per diem exemption available to each traveling member without requiring that each have separate expenditures to absorb them.

#### ADMINISTRATION AND PROCEDURE

Generally the administrative and procedural requirements applicable to other excise taxes would be applicable to this expenditure tax. Thus, for example, the general provision for penalties for failure to file returns, requirements for claims for refund, assessment and collection procedures, and statutes of limitations would apply to the administration and procedure of this tax.

Two new provisions would be added to insure compliance with the requirements for declaration and payment of estimated tax.

A flat penalty of \$200 would be imposed for failure to make a declaration of estimated tax and statement as to cash on hand, as required at the time of departure from the United States unless it were shown that such failure was due to reasonable causes. Thus, if an individual flew from New York to Europe without making a declaration and statement, a \$200 penalty would be imposed for failure to make the declaration in New York. A significant penalty is necessary because of the importance of having an individual establish his outgoing cash figure for purposes of computing the tax base. An underestimation penalty would be imposed of 10 percent of the underpayment of estimated tax. The amount of the underpayment would be the difference between the estimated tax payment and the amount of tax shown on the taxable trip return.

## Technical Explanation—Proposed Changes in Customs Rules Relating to Tourist Exemptions and Processing of Certain Noncommercial Importations

The proposal is intended to reduce noncommercial expenditures of dollars abroad where such expenditures adversely affect our balance of payments. It would do this by lowering the duty-free exemptions allowed returning U.S. residents. In order to ease the administrative burden of processing millions of dutiable noncommercial foreign acquisitions brought back to this country by returning U.S. residents and millions of dutiable noncommercial mail shipments, it would provide for a flat rate of duty on such articles within certain monetary limits.

At the same time, since the proposal deals only with noncommercial imports, it would not interfere with the favorable balance of payments aspects of our trade account or the legitimate business interests of American businessmen in the import trade.

The proposal would not assess any duty or charge on articles which are themselves free of duty under existing provisions of the Tariff Act. Most of such articles would be works of art, books, American goods returned, United States origin personal effects of residents abroad and similar items.

### THE REDUCED TOURIST EXEMPTIONS

#### A. Present Practice

The present tourist exemptions granted to returning U.S. residents permit the duty-free importation of foreign acquisitions not exceeding a total retail value of \$100. This exemption is granted to American residents who have been abroad for not less than 48 hours and may be used only once each 31 days (in the case of persons arriving from Mexico the 48-hour time limit is waived). The resident is permitted to include within this exemption one quart of alcoholic beverages. This exemption is applicable to residents returning from any area or country. However a special exemption is granted to residents arriving from the Virgin Islands and certain other U.S. insular possessions. This special exemption permits the importation of acquisitions up to a value of \$200 retail, of which not more than \$100 may be acquired outside the Virgin Islands or other insular U.S. possessions, and may cover not more than one gallon of alcoholic beverages of which not more than one quart may be acquired outside the Virgin Islands or other insular possessions.

#### B. House Bill

The House bill contains the following exemption structure (computed on retail values as under existing law): (1) the exemption for U.S. residents returning to the United States from any place other than Canada, Mexico and certain United States insular possessions would be \$10 on a temporary basis and \$50 on a permanent basis after October 15, 1969; (2) the exemption for residents returning directly from Canada and Mexico would be \$100 permanently and (3) the exemption for residents returning directly or indirectly from the Virgin Islands and certain of our other insular possessions would be \$100 temporarily until October 15, 1969, when it would be restored to the present \$200 level.

As under existing law, exemptions in excess of the minimum exemption would be restricted so that goods acquired would be exempt only to the extent of the exemption applicable to the area of acquisition. For example, the exemption for a tourist returning from the Virgin Islands after October 15, 1969 (when the \$200 exemption would be in effect) would be limited to \$100

in Canada or Mexico no more than \$50 of which were acquired in Europe. Goods in excess of these amounts acquired in these areas would be dutiable, even though, in the aggregate, they did not exceed \$200.

Foreign acquisitions accompanying the returning U.S. resident valued in excess of the exemption would be dutiable at a flat 10 percent of the fair retail value. The 10 percent rate would be applied on such articles up to an aggregate value of \$500 wholesale. If dutiable acquisitions *above the exemption* level exceed \$500 in wholesale value, all dutiable articles would be assessed duty at regular Tariff Schedule rates. In addition to any customs duties, articles such as liquor and tobacco would, of course, be subject to any applicable Internal Revenue taxes.

### *C. Current Treasury Proposals*

For the reasons set forth in the Statement by the Secretary of the Treasury, the current Treasury proposals would modify the House bill by:

1. Extending the exemption level of \$100 for Canada and Mexico to the Caribbean Island Area.<sup>1</sup>
2. Retaining the present \$200 exemption for U.S. residents arriving directly or indirectly from the U.S. Virgin Islands and certain other insular possessions. The same limitations on the exemptions for goods acquired in other areas would be provided, but at the changed exemption levels that would be applicable to those areas of acquisition.
3. Reducing the \$500 wholesale ceiling on applicability of the flat rate to \$100 retail.
4. Including acquisitions exempt from duty solely by virtue of the tourist exemption within the \$100 ceiling for purposes of determining applicability of the flat rate.

## ARTICLES NOT ACCOMPANYING RETURNING TRAVELERS

### *A. Present Practice*

At present, low value items (under \$1) such as newspapers are "passed free." The same "passed free" status is given to mail parcels identified as gifts valued at up to \$10 retail and to gifts (whether imported by mail or otherwise) valued up to \$50 retail from servicemen in combat areas.

All other dutiable articles, whether imported by mail or otherwise, are subject to the Tariff Schedule rates.

### *B. House Bill*

The \$10 exemption for all mailed gift parcels, with the exception of those originating in noncombat areas, would be reduced to \$1 retail administratively by a change of regulation. The statutory exemption of \$50 for gifts from servicemen in combat areas would also be retained as would the \$10 exemption for servicemen in noncombat areas.

### *C. House Bill*

Dutiable mail shipments valued at over \$1 and not over \$10 retail would be assessed \$1 in lieu of any other duty or tax.

Dutiable mail shipments valued at over \$10, and dutiable shipments by other means, containing more than one article and valued at not over \$250 wholesale, would be assessed duty at a flat rate of 10 percent of the fair retail value.

Shipments containing one article or exceeding the \$250 ceiling would be assessed duty at regular Tariff Schedule rates.

<sup>1</sup>The Caribbean Island Area would be defined as the Bahama Islands, the Turks and Caicos Islands, the Bermuda Islands, and all the islands in the Caribbean Sea except those belonging to Central and South American countries, Cuba and its offshore islands and Puerto Rico, the Virgin Islands of the United States and all other islands of United States sovereignty.

#### *D. Current Treasury Proposals*

For the reasons set forth in the Secretary's Statement, the current Treasury proposals would modify the House bill by:

1. Increasing the flat charge for mail packages valued at over \$1 and not over \$10 retail, to \$1.50.
2. Reducing the \$250 wholesale ceiling on applicability of the flat rate to \$50 retail.
3. Increasing the flat rate from 10 to 15 percent.
4. Extending the flat rate to single article packages.

#### ESTIMATED FOREIGN EXPENDITURE REDUCTIONS

##### *A. Changes in Tourist Exemptions*

During 1967, the total value of foreign acquisitions made by returning U.S. residents arriving from all foreign countries was estimated to be in excess of \$362 million. Of this total, persons arriving from Canada, Mexico and the Caribbean countries (including Caribbean cruise passengers) accounted for slightly over \$162 million. Therefore, the value of articles acquired by returning U.S. residents arriving from other countries was approximately \$200 million. Approximately \$110 million was brought in by persons whose purchases totaled less than \$100 per person, while approximately \$90 million was brought in by persons whose foreign acquisitions exceeded the present duty-free exemption.

We estimate that the value of foreign acquisitions by persons now bringing in less than \$100 each will be reduced by \$45 million or approximately 40 percent of the total purchases made by this group.

The effect on foreign acquisitions made by the approximately 300,000 persons who now exceed our duty-free exemption and pay duty would be somewhat less. If we can assume that the foreign acquisitions by these persons will be reduced by an amount roughly equivalent to the additional duty which they would have to pay, the total reduction in foreign acquisitions by this group of returning U.S. residents would be about \$5 million.

Thus, the total reduction in foreign acquisitions to be achieved by reducing the tourist exemption to \$10 is estimated to be approximately \$50 million on an annual basis through October 15, 1969. After that date, when the increased exemption for most of the world applies, the total reduction will approximate \$30 million on an annual basis.

##### *B. Mail Shipments*

It is estimated that the total value of the 55 million mail parcels which arrived in the U.S. during 1967 was approximately \$500 million. Of this 55 million total, an estimated 11 million parcels were gifts or purported gifts said to be valued at less than \$10; 4 million were gifts valued \$50 or less from servicemen in combat areas; and 25 million were "flats", newspapers, periodicals, samples and shipments of insignificant value. Of the remaining 15 million parcels duty was assessed on 1,600,000 parcels. However, our studies indicate that approximately one-third of the 15 million parcel total would have been dutiable if adequate manpower was available to properly handle them.

Certain parcels now included in the present \$10 gift exemption are bona fide gifts mailed from nationals of foreign countries to persons in the United States. While elimination of this privilege with respect to such parcels will not affect expenditures of U.S. dollars abroad, it is nevertheless believed necessary to eliminate this free-gift privilege entirely because it is subject to widespread abuse and because, in practice, it would be exceedingly difficult to distinguish between gifts from foreign nationals and those from U.S. tourists.

Of the 11 million gift parcels under \$10 we estimate approximately 4 million from U.S. tourists would be discouraged if the existing gift exemption were

eliminated. The average value of these parcels is estimated to be \$7. Therefore, foreign expenditure curtailment of approximately \$28 million would be achieved. The application of a flat rate of duty to the remaining noncommercial shipments would simplify Customs' administrative task. Customs would be able to assess duty on an appreciable number of packages which now escape duty simply because Customs manpower cannot cope adequately with the number of packages involved. Closing this loophole will probably deter the sending of a number of these packages. It is a conservative estimate that approximately an additional \$12 million reduction in foreign acquisitions, for a total of about \$40 million, will result from the above-proposed changes in the Customs processing of foreign mail parcels.

#### ESTIMATED ADDITIONAL REVENUE COLLECTIONS

It is estimated that revenue collections will increase by about \$10 million by reason of changes in the tourist exemptions, and by an additional \$15 million on mail shipments, for a total additional revenue collection of \$25 million.

