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EXEMPTION FROM DUTY FOR RETURNING RESIDENTS

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Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 6791]

The Committee on Finance, to whom was referred the bill (H.R. 6791) to continue for 2 years the existing reduction of the exemption from duty enjoyed by returning residents, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

PURPOSE OF THE BILL

The principal purposes of H.R. 6791, as amended, is to continue for 2 additional years the temporary reduction from $500 to $100, in the amount of purchases abroad that a returning resident of the United States may bring back into this country free of duty.

THE AMENDMENT

The House-passed bill would have increased the amount that could be brought into the United States from our insular possessions (American Samoa, Wake Island, Midway Islands, Kingman Reef, Johnston Island, and Guam) to $200. The Virgin Islands had this exemption under the earlier extension. The Finance Committee amended the bill to strike the extra amounts which may be brought from all insular possessions (including the Virgin Islands) and instituted a straight $100 allowance that may be brought in free of duty from any source.

GENERAL STATEMENT

Under the existing provisions of paragraph 1798(c)(2) of the Tariff Act of 1930, as amended, a U.S. resident who returns to this country before July 1, 1963, is allowed the following personal exemptions from duty on articles he has purchased abroad:

(1) If the returning resident remains outside the territorial limits of the United States for at least 48 hours, he may claim an exemption from duty for $100 worth of articles acquired abroad. (If he returns through a port of entry on the Mexican border, he need not have been absent from the United States for any specific length of time before claiming the exemption.)

(2) In the case of persons arriving directly or indirectly from the Virgin Islands of the United States, a duty exemption of $200 is allowed, not more than $100 of which shall apply to articles acquired elsewhere than in the Virgin Islands. No absence from the United States for any specific time is required before the duty exemption may be claimed with respect to articles acquired in the Virgin Islands. With respect to articles acquired elsewhere than in the Virgin Islands by such persons, an absence from the United States of 48 hours is required before an exemption may be claimed.

These exemptions from duty may be claimed once every 30 days.

PROVISIONS OF AND REASONS FOR THE BILL

The present law is temporary in nature and expires on June 30, 1963. It was approved August 10, 1961, and became effective with respect to persons arriving in the United States on and after September 9, 1961. Prior thereto, returning residents could generally bring back from abroad $500 worth of purchases duty free. Unless the temporary reductions are extended, residents returning to the United States after June 30, 1963, will again be able to claim up to $500 in personal duty exemptions.

Under the permanent provisions of section 1798, if the returning resident remains outside the territorial limits of the United States for at least 48 hours, he could claim an exemption from duty for $200 worth of articles acquired abroad. If, however, he returned through a port of entry on the Mexican border, he need only have been absent from the United States for such time (not to exceed 24 hours) as the Secretary of the Treasury had by regulation provided with respect to such port. The exemption from duty described in this paragraph could be claimed once every 30 days.

If the returning resident remains outside the territorial limits of the United States for 12 or more days, he could formerly claim an additional exemption from duty for $300 worth of articles acquired abroad. This exemption, which could be claimed together with the basic exemption described above, could be utilized only once in every 6-month period.

The existing temporary legislation was enacted on the recommendation of the President who had originally requested a statute of 4 years' duration, to expire in 1965. In his letter dated February 24, 1961, to the Speaker of the House of Representatives, the President pointed out that the then existing personal exemptions had been increased after World War II from their previous $100 level as a measure to aid foreign countries faced with a dollar shortage. He stated:

> * * * in the light of the existing balance-of-payments problem, this more liberal customs exemption, designed to encourage American expenditures abroad, is not presently warranted.

Congress enacted the bill, but in doing so reduced the terminal date to June 30, 1963, rather than in 1965 as had been asked for by the President. It was felt that an earlier review may be warranted if the balance-of-payments situation should improve.

The Secretary of the Treasury has now recommended continuation of the reduced exemption for another 2 years. In so recommending, he has indicated that the effect of reducing the exemption was to reduce U.S. expenditures abroad by $123 million during 1962. The Bureau of Customs estimates that during 1962, foreign purchases by returning U.S. residents amounted to $297 million as compared to $420 million during the year 1960, the last full year before the reduction of the exemption.

The Secretary of the Treasury also stated that American travelers did not, as some had feared, balance off their reduced purchases by increased expenditures on night clubs, restaurants, tours, or other forms of spending. Department of Commerce statistics indicate that average expenditures abroad per tourist, which previously had been steadily increasing, rising from $531 in 1957 to $612 in 1960, dropped to $604 in 1961 and to $585 in 1962. The Secretary of the Treasury is of the view that but for the reduction in the duty exemption the steady rise in per capita tourist expenditures abroad would have continued and such expenditures would have risen much above the $612 figure of 1960. He pointed out also that the savings calculated by Customs are not fully reflected in the Department of Commerce figures, inasmuch as those figures do not include expenditures in Canada and Mexico.

The temporary duty exemption reduction has proved to be a useful tool in the program of actions taken to reduce the balance-of-payments deficit and its continuation for another 2 years as a component part of that program is warranted. Our balance-of-payments position is a matter of continuing concern inasmuch as the committee was advised that our overall international payments deficit rose to $3.5 billion in 1958, followed by deficits of $3.7 billion in 1959, and $3.9 billion in 1960. These payments deficits were accompanied by substantial drains on our gold stock, amounting to $4.7 billion for the 3-year period 1958–60.

The deficit was reduced to $2.4 billion in 1961 and in 1962 amounted to $2.2 billion. Gold losses were $857 million in 1961 and $890 million in 1962. We are informed that while there are signs that our balance-of-payments position can be expected to improve over the long run, it appears that 1963 will be another year of deficit with further gold losses.

The reduced amount of tourist exemption, which is now granted and which this bill continues for 2 additional years, leaves the United States in the position of extending to its returning tourists more favorable duty-free treatment of items purchased abroad than do most other countries of the world.

REASONS FOR THE AMENDMENT

The Finance Committee struck from the bill the provision that would give special treatment to our insular possessions. Whereas the bill, as it passed the House would have permitted returning tourists to bring back free of duty $200 worth of goods from these areas, as against the $100 allowed from all other countries, the committee amendment provided for a limit of $100 from all areas.

The committee calls attention to the fact that returning residents who have visited foreign countries or our insular possessions may bring back into the United States any amount of goods they may desire. The amendment of the committee does not, therefore, preclude returning tourists from purchasing or bringing into the United States any amount of goods they may wish. On all amounts above $100 they must pay the regular duties, whatever those duties may be on the kind of goods purchased. It is also pointed out that many types of commodities may be brought into the United States free of duty, for the tariff law assesses no duties on many articles.

The taxes collected by our possessions remain in those areas. They receive other benefits from the United States. Other areas adjacent to those possessions which may be under the jurisdiction of other countries would be placed at a disadvantage if special treatment were accorded to only those belonging to the United States. The committee amendment would therefore tend to make more friendly our relations with other of our neighboring countries.

The following statement is taken from the report of the Tariff Commission:

> It is believed that the majority of U.S. travelers do not purchase and import foreign articles in excess of the $100 allowance. There have been relatively few complaints arising from the initial reductions in the duty exemptions.

This would indicate that relatively few citizens returning from trips to our insular possessions would be affected by the committee amendment. The Tariff Commission also points out that it is the practice of the Bureau of Customs to deduct a 40-percent allowance from the retail purchase price of articles when determining the value (foreign wholesale value) of such articles for purposes of extending the $100 exemption.

The committee urges the adoption of the amendment.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

PARAGRAPH 1798(c)(2) OF THE TARIFF ACT OF 1930

(19 U.S.C., sec. 1201, par. 1798(c)(2))

TITLE II—FREE LIST

SEC. 201. That on and after the day following the passage of this Act, except as otherwise specially provided for in this Act, the articles mentioned in the following paragraphs, when imported into the United States or into any of its possessions (except the Virgin Islands, American Samoa, Wake Island, Midway Islands, Kingman Reef, Johnston Island, and the island of Guam), shall be exempt from duty:

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Par. 1798. (a) * * *

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(c) In the case of any person arriving in the United States who is a returning resident thereof—

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(2) articles (including not more than one wine gallon of alcoholic beverages and not more than one hundred cigars) acquired abroad as an incident of the journey from which he is returning, for his personal or household use, but not imported for the account of any other person nor intended for sale, if declared in accordance with regulations of the Secretary of the Treasury, up to but not exceeding in aggregate value—

(A) $100 [(or $200 in the case of persons arriving directly or indirectly from the Virgin Islands of the United States, not more than $100 of which shall have been acquired elsewhere than in the Virgin Islands of the United States)] if such a person arrives before July 1, [1963] *1965* (or $200 if such person arrives on or after July 1, [1963] *1965*), and he either arrives from a contiguous country which maintains a free zone or free port (see subparagraph (d) of this paragraph), or arrives from any other country after having remained beyond the territorial limits of the United States for a period of not less than forty-eight hours, and in either case has not claimed an exemption under this subdivision (A) within the thirty days immediately preceding his arrival; and

(B) $300 in addition, if such person arrives on or after July 1, [1963] *1965*, and he has remained beyond the territorial limits of the United States for a period of not less than twelve days and has not claimed an exemption under this subdivision (B) within the six months immediately preceding his arrival.

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