TESTIMONY OF SENATOR GEORGE ALLEN
Extraterritorial Income Exclusion / Foreign Sales Corporation & Repatriation of Foreign Earnings
Senate Finance Committee
Tuesday, July 15, 2003

Thank you Mr. Chairman. I appreciate the opportunity to come before the Committee today and comment on the ongoing debate over how to effectively repeal the Extraterritorial Income Exclusion Act of 2000 without adversely impacting U.S. jobs and business.

ETI and its predecessors, the Foreign Sales Corporation, and Domestic International Sales Corporation acts, were originally enacted to ensure U.S. exporters were competing on a level playing field internationally. At the time, high U.S. income taxes were forcing U.S. firms to make difficult choices on how and where to establish manufacturing and production facilities. Congress crafted the program to encourage production in the U.S.

Today, the threat of American companies and jobs going overseas remains. While ETI provides tax benefits of over $4 billion a year on exported goods for eligible companies, ETI also helps support over 3.5 million jobs, directly and indirectly, in the U.S. If ETI is simply repealed without enactment of sound legislation in its place, these benefits will be lost to U.S. companies and to U.S. workers when they are most needed. Indeed, last month alone, the U.S. lost more than 56,000 manufacturing jobs, following a steady decline over several years. Over 2.6 million manufacturing jobs have been lost over the past two years. More jobs have been lost in the manufacturing sector than in all sectors of the U.S. economy combined. Mr. Chairman, repealing ETI without an alternative will encourage U.S.-based exporters with significant sales abroad to move their operations and jobs out of the U.S.

Legislation repealing ETI must include provisions that provide some alternative relief to U.S. exporters with primarily domestic production. Virginia ranks sixteenth in exports among all States, so Virginians are especially concerned about the impact of ETI repeal. With a simple repeal of ETI, Virginia stands to lose up to 82,600 export-related jobs. This will harm good hardworking people in Virginia's manufacturing sector, and deliver a serious blow to related industries. And, changes in the manufacturing sector echo throughout the economy.

ETI's repeal, without anything to take its place, will amount to a tax increase of over $50 billion over the next ten years on the U.S. manufacturing jobs base which is now covered by ETI. Tax reform should promote creation and retention of jobs for Americans and the competitiveness of U.S.-based companies, not penalize them.

International tax reforms to maintain our international competitiveness would be a positive change, but such reforms should not be paid for by increasing taxes on the domestic manufacturing and production base, which would increase the cost of doing business in this country, but more importantly would severely jeopardize the livelihood of millions of Americans.

If I may, I would also like to briefly comment on the other topic of discussion for this hearing, the Homeland Investment Act. This legislation would be an effective compliment to the recent tax relief package the Congress recently passed.

By temporarily reducing the tax burden associated with repatriating the accumulated foreign earnings of U.S. companies, we can provide an incentive for businesses to bring approximately $140 billion back to the U.S.

The net result of this temporary change in tax policy would be greater investment in new capital and personnel, but most importantly, new U.S. jobs.

The Senate has already overwhelmingly supported this initiative once, I respectfully urge the Finance Committee to bring it before the full Senate once again for consideration.

Thank Mr. Chairman for the opportunity to testify before you today. I look forward to working with you and the Committee these important tax issues in the coming months.