



AMERICANS FOR TAX REFORM

MEMORANDUM

To: Members of the House and Senate
From: Grover G. Norquist
Date: 09/27/04
Re: FSC ETI

Last week both the House and Senate continued its passage of tax cuts for American taxpayers. In the past four years Congress has passed four tax cuts and Americans for Tax Reform (ATR) salutes you for this avid dedication to American taxpayers.

But more needs to be done. With time running down on the clock before the elections and the end of the legislative session, it is imperative that the House and Senate move forward to ensure passage of FSC ETI before year's end.

As the conference committee gets set to begin, a number of differences between the House and Senate versions of the legislation exist. Some hard decisions will need to be made, but it is important not to lose sight of the larger picture here. FSC needs to be repealed to remove the discriminatory tariffs being placed on American companies.

The importance of this legislation to the US economy and American workers cannot be underestimated. Each month, the European Union (EU) is granted the right to increase tariffs by 1 percent on American goods until a tax benefit for US business doing business worldwide is repealed. Currently the tariffs are at 14 percent, will expand to 15 percent on Friday, and will be 17 percent by the end of the year if Congress does not act.

The WTO has consistently ruled against America's income tax exclusion for companies doing business in global markets called the Foreign Sales Corporations and the extraterritorial income exclusion (FSC-ETI). Despite repeated warnings from the EU to impose tariffs on American goods, Congress failed to act on repealing the provision before the March 1, 2004 deadline. The EU quickly followed by imposing tariffs starting at 8 percent and has increased the tariffs by 1 percent per month.

With the tariffs beginning to rise, both the House and Senate moved forward and passed legislation designed to bring the US tax code in compliance. However, without final resolution of the conference committee and subsequently passage of Congress, American companies and exports will be left a significant competitive disadvantage with foreign competitors, which ultimately hurt American workers. With companies paying more in tariffs and fewer American products being sold, less cash has been available to hire more workers and raise the wages of workers.

The EU has been quite clever with their tariff impositions. Rather than inflicting broad based tariffs on America's largest companies (which would have created an urgent need for action), the sanctions have been imposed on smaller companies that previously held competitive advantage over dying European

industries. Therefore, the EU is benefiting from this inaction by imposing tariffs on US companies to protect their dying industries.

This is why it is so important that this legislation be passed before year's end. The heavy lifting required to pass FSC has been going on since 2002. While some of that time there were no tariffs, for the past seven months, the decision not to act has imposed real consequences on American families and businesses.

At the same time, passage of the legislation provides an additional economic benefit. Repeal of the FSC program will restore American companies' ability to compete with foreign competition, with an extra boost from a provision commonly referred to as the Invest in USA Act.

I have outlined in a number of memos the economic benefit from Invest in USA, but below is a state by state breakdown of the economic benefits.

FSC ETI is a truly historic opportunity to grow the American economy, I urge you not to let it fall by the wayside by the end of the year.

2005 Economic Impact/Invest in USA Act

State	Jobs	GDP*	Investment*
Alabama	9,645	822.3	1,466.6
Alaska	1,512	3.6	309.7
Arizona	11,578	562.2	1,987.3
Arkansas	5,867	481.5	831.5
California	74,002	9134.2	15,827.3
Colorado	11,163	1068.8	2,085.2
Connecticut	8,526	937.9	1,897.5
DC	2,111	414.9	444.3
Delaware	3,390	18.5	677.2
Florida	36,830	1532.1	5,617.2
Georgia	19,963	1924.9	3,496.5
Hawaii	2,840	7.4	485.9
Idaho	2,899	297.9	474.7
Illinois	30,132	3817.1	5,541.0
Indiana	14,779	2108.0	2,251.4
Iowa	7,397	946.5	1,100.5
Kansas	6,838	861.9	1,026.3
Kentucky	9,130	1769.7	1,394.9
Louisiana	9,712	414.8	1,585.8
Maine	3,098	99.7	425.0
Maryland	12,640	719.7	2,237.9
Massachusetts	16,608	2283.4	3,292.7
Michigan	22,881	11720.5	3,773.0
Minnesota	13,547	1996.1	2,220.5
Mississippi	5,761	427.4	794.9
Missouri	13,709	1902.2	2,141.9
Montana	2,022	70.8	262.5

Nebraska	4,632	399.1	672.4
Nevada	5,365	96.1	916.4
New Hampshire	3,161	378.5	567.9
New Jersey	20,416	1341.5	4,119.5
New Mexico	3,916	127.9	693.6
New York	43,144	3020.2	9,389.5
North Carolina	19,643	2069.7	3,187.3
North Dakota	1,685	154.9	225.5
Ohio	27,838	4847.9	4,397.0
Oklahoma	7,572	905.4	1,091.8
Oregon	8,037	987.1	1,586.1
Pennsylvania	28,891	2482.6	4,707.7
Rhode Island	2,448	164.2	422.9
South Carolina	9,245	844.4	1,381.1
South Dakota	1,931	251.2	291.3
Tennessee	13,629	1915.1	2,176.7
Texas	48,189	3765.2	8,877.5
Utah	5,483	361.2	851.4
Vermont	1,533	99.2	235.7
Virginia	17,866	1072.9	3,035.2
Washington	13,581	1736.6	2,599.1
West Virginia	3,746	82.7	483.6
Wisconsin	14,204	2134.0	2,111.7
Wyoming	1,265	18.3	230.0
U.S. TOTAL	666,000	75599.9	117,900.1

*GDP and Investment measured in billion of 1996 Dollars

Source: PricewaterhouseCoopers, LLC

For more information:

<http://www.americanshareholders.com/news/asainvestinusa03-04-04.pdf>