GENERAL AGREEMENT ON
TARIFFS AND TRADE

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JOB DEVELOPMENT TAX CREDIT

Record of Exchange of Views in the Working Party on the United States Temporary Import Surcharge

1. In accordance with its terms of reference (L/3569) the Working Party held an exchange of views on "other measures in the United States programme of a non-monetary nature which have a direct impact on international trade". The views expressed on the Job Development Tax Credit are summarized below.

2. The representative of the United States made the following statement:

"Taxpayers who place certain depreciable property in service during a year will be allowed a credit against their income tax for that year.

"The credit will be 10 per cent from 15 August 1971 and 5 per cent from 15 August 1972.

"No credit will be allowed for used equipment or for that with a life of four years or less. The credit will be for one third the amount otherwise allowable for four to six year life; two thirds for six to eight year life.

"Credit is limited to taxpayers' tax liability up to $25,000 plus 50 per cent of tax liability in excess of $25,000.

"No credit would be allowed in the case of foreign-produced property ordered by the taxpayer while the import surcharge is in effect. When the surcharge is removed, however, the full credit would be allowed for foreign-produced property purchased after the date of removal of the surcharge.

"For these purposes "foreign-produced property" would mean any property manufactured outside the United States and any property manufactured in the United States if less than 50 per cent of its value is attributable to articles imported into the United States. Thus the full credit will apply, notwithstanding the surcharge, on United States manufactured goods with up to 49 per cent foreign components.

"Only one half of the cost of public utility property would qualify for the credit resulting in an effective rate of 5 per cent or 2.5 per cent depending upon the period during which the property is acquired or constructed.

"The Job Development Credit is part of an overall programme to stimulate non-inflationary growth in the United States economy. The import surcharge is designed to improve the balance of payments during an emergency period. During the initial balance-of-payments adjustment period, it is intended that the effect of the import surcharge not be dissipated by allowing capital goods imports to be stimulated not only by the desire to invest in capital goods to produce replacements for goods subject to surcharge but also by the tax credit. Therefore, the tax credit is to be applicable only to domestically produced capital goods during the period that the surcharge is in effect. As soon as possible the import surcharge will be removed. At that time, tax credit will be applicable on imported capital goods as well as domestically manufactured capital goods.

"During the 1960-70 period, capital goods imports grew at a compound annual rate of over 20 per cent a year, while total imports were growing at about 10 per cent a year, and the gross national product at roughly 6.8 per cent a year. Thus, to include foreign capital goods in the full tax credit while the surcharge is in effect would be to add further stimulus to a sector of our imports which is already growing at an alarming rate, and which has increased from less than 4 per cent of total United States merchandise imports in 1960 to more than 9 per cent in 1970. Capital goods imports accounted for over 17 per cent of total dutiable imports in 1970.

"It should be noted that the exemption of imported goods from the tax credit while the surcharge is in effect will, to some extent, be offset by the presently contemplated structure of the credit. Thus, any capital goods which are composed of less than 50 per cent foreign manufacture will receive full tax credit. Therefore, those imports of capital goods and other intermediary goods which become components in the production of final capital goods in the United States containing less than 50 per cent foreign components will receive the total benefit of the tax credit. To this extent, United States imports of capital equipment will be stimulated by the presently proposed tax credit, somewhat offsetting the positive effect of the surcharge in achieving an improvement in the United States balance of payments during the adjustment period. While the proportion of imports used in the manufacture of such United States capital goods is not known with any degree of accuracy, it is believed to be substantial.

"A further feature of the tax credit is that it will apply initially at only half the basic rate for capital equipment purchased by utilities. Large United States utilities make substantial purchases of foreign electrical machinery and components. Thus, the incentive to the purchase of United States source capital goods as compared with foreign goods by utilities during the initial adjustment period is greatly reduced."

3. The representative of Switzerland drew attention to the protective effect of the proposed measure. He noted that if one added (a) the effects of revaluation, (b) the import surcharge, and (c) the protective incidence in the planned Job

Development Tax Credit to (d) the existing import duties, the cumulative protection afforded for the products affected might easily reach levels substantially above 35 per cent ad valorem. This would amount to an increase by four or five fold in the protection hitherto afforded to United States machinery products.

4. The representative of the Community said that the EEC was very concerned over the discriminatory aspects of the tax credit provided for the purchase of equipment goods. The provision under which only goods of United States origin were eligible for this exemption from a direct tax was inconsistent with the provisions of Article III of the General Agreement.

5. The cumulative effect of this measure, the surcharge, and the revaluation of certain currencies would in practice inhibit certain trade flows, because the aggregate incidence of these effects taken together might reach 30 per cent or more. The mere fact that the United States authorities had proposed this system to Congress was already having certain restrictive effects on exports of third countries because industrialists were hesitant about ordering from abroad.

6. The Community viewed this as a further reflection of the disquieting protectionist trend that was emerging in the United States in the form of increasingly numerous provisions in favour of domestic products. The discriminatory provision was moreover in contradiction with the desire to improve the competitivity of United States industries.

7. The EEC representative stated that unless the discriminatory modalities of the tax exemption envisaged were removed, its implementation would very rapidly create a reaction by other countries for the adoption of measures likely to safeguard their legitimate interests.

8. The representative of Sweden associated himself with many of the views expressed by the representative of the EEC. The generally accepted aim of the proposed scheme, to raise productivity and to increase employment, could, in his view be offset by the discriminatory way in which the scheme was expected to operate. The discrimination against foreign goods was doubtful, both from an economic point of view and as a matter of trade policy. Since the application of the system was linked with the temporary surcharge it was questionable whether it could have any effect on the United States balance of payments.

9. The representative of Japan expressed serious concern over the proposed measure. The combined effects of the various factors, including the cumulative effects of possible over-depreciation of the machinery and equipment to be allowed for their total cost, even if not supplemented by the effect of currency devaluation, would have created a prohibitive disadvantage for foreign exporters of machinery and equipment to the United States. Such measures, in his view, were not in conformity with Article III of GATT and there could be no justification for the inclusion of the national differential element in the scheme.

10. In the view of the representative from the United Kingdom, one of the significant and concrete contributions made by GATT had been the impetus it gave to the growth in the international trade in machines and other capital goods. This development was now being endangered for the sake of an illusory short-term benefit. The measure might well cause some United States producers whose plants already contained foreign equipment, to delay investments until they could get foreign machines on more attractive terms, thus offsetting the general aim of the new United States policy. The United Kingdom Government had faced similar problems; yet it had never considered it necessary or appropriate to discriminate against imported machinery in the implementation of its investment grant schemes or tax relief schemes. He recalled that the national treatment provisions of Article III had never before been called seriously into question and he urged that the United States authorities carefully to weigh the danger of further undermining the whole structure of the GATT by an attack on this key provision.

11. The representative of Austria endorsed the views expressed by the previous speakers. In his view, if the proposed measure were put into effect the United States would be acting in contravention of the provisions of Article III of the General Agreement. He hoped that the United States Congress would be informed of the various views expressed in this Working Party.

12. The representative of Australia stated that as a preliminary reaction the proposed measure seemed inconsistent with a specific provision of the General Agreement. It also appeared of doubtful value as a measure designed to improve the competitive position of United States producers. It could, in fact, have inflationary effects which would further undermine the competitive strength of the United States in world markets.

13. The Canadian representative noted the relative improvement in the United States administration proposal limiting the discriminatory aspect of the tax credit to the duration of the surcharge, but shared the concern of others over the cumulative effect should it be enacted before the surcharge is removed. He indicated the tax credit would affect Canadian exports of capital goods of roughly $250 million. He questioned whether the tax credit would promote fundamental United States objectives domestically or internationally. For these reasons he hoped the United States would reconsider the proposal.

14. The representative of the United States assured the Working Party that his delegation had taken due note of the views expressed. He did not discuss the comments made because it was his delegation's view that the administration representative should not be taking any position on this draft legislation outside the United States at this time. This implied neither agreement nor disagreement with any of the opinions expressed. However, one point raised by the representative of Japan, and which had no direct connexion with the draft legislation, required comment. The Japanese delegate had claimed that revaluation of an exporting country's currency was to be considered as an additional barrier to the exporter. In the United States Government's view, the move of monetary readjustment was quite a different matter; in fact, exporters to the United States had an unfair advantage over domestic United States competitors due to the exchange rate system and the elimination of that unfair advantage could not be equalled with restrictive trade measures.