



# REPUBLICANS ABROAD TAIWAN

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### SECTION 911 UPDATE

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*An update on the possible repeal of the Foreign Earned Income Exclusion.*



- Last year the Senate failed in its attempt to repeal Section 911 of the Internal Revenue Code, the Foreign Earned Income Exclusion. Subsequent reports indicated that some Senators would attempt to repeal the Exclusion as part of the offsets to the tax relief included in a bill to replace the Foreign Sales Corporation/Extra-territorial Income programs, which benefits U.S. exporters. In August 2002, the World Trade Organization issued a final ruling that the FSC/ETI program was an illegal tax subsidy, and in May 2003 the WTO authorized the European Union to impose customs penalties on U.S. products up to US\$4 billion. Congress had hoped to replace FSC/ETI last year, but progress stalled as the bill became a vehicle to address numerous tax issues. The EU recently began phasing in sanctions after having given the United States a long grace period, prompting the Senate to finally pass legislation.
- On May 11, by a 92 - 5 vote the Senate approved S.1637, the Jumpstart Our Business Strength (JOBS) Act. S.1637 repeals the FSC/ETI programs with tax relief for factories, small businesses, farmers, and others who make products in the United States. The bill offsets the revenue losses with curbs on individual and corporate tax shelters, provisions to discourage individual and corporate tax expatriation, and prohibitions on deduction of fines and penalties paid to the government in cases of wrongdoing.
- Sen. Mary Landrieu (D-LA) introduced an amendment that was added to S.1637 which provides a 50% tax credit to employers that continue to pay activated National Guard and military Reserve employees, with a cap of \$30,000 (\$15,000 credit) per employee, and offers a \$6,000 credit for small business and \$10,000 credit for small manufacturers that hire temporary workers to replace activated employees.
- The Landrieu amendment includes as an offset a formula to reduce the amount of employer provided housing that may be deducted under Section 911.
- House Ways & Means Committee Republicans are expected to resume discussions this week on H.R. 2896, the House version of the bill. The House version does not currently contain any language with regard to Section 911. It is unclear when H.R.2896 will come to the House floor, and the House and Senate will need to conference to reconcile differences in their bill before it is sent to the President.
- According to Congressional aides, last year the letters sent by overseas Americans played an important role in preserving the Foreign Earned Income Exclusion. Please help remind Congress how important the Exclusion is to America's leadership in the global trading system by taking time to contact Members of Congress. The key House member to contact is House Ways & Means Committee Chairman Bill Thomas (R-CA).

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