INTRODUCTION

An important characteristic of R&D investment distinguishing it from other types of investment is that its output has the properties of public goods; it can be considered at least partially nonexcludable and nonrivalrous.\(^1\) Indeed, the empirical literature provides extensive evidence that not only is the rate of return of privately funded R&D investment very high compared to that of investment in physical capital, but more importantly, its social rate of return is several times higher than its private rate of return.\(^2\) This suggests that there are substantial externalities or spillover effects associated with R&D investment. Therefore, privately financed R&D is suboptimal, and the direct or indirect support of government is justified.

Theoretically, there are many different ways to deal with market failure associated with externalities. For instance, externality-generating activities can be encouraged by providing subsidies, by granting producers property rights and charging differential prices for their use by others, by allowing firms to internalize the externality, and finally, by having the government engage directly in externality-generating activity. Indeed, in the postwar period, the U.S. government has pursued a combination of these policies—strengthening innovators’ property rights through the patent system; encouraging firms to form joint R&D ventures; directly investing in R&D through companies, universities, and other nonprofit in-

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\(^1\)See Arrow (1962), Spence (1984), and Romer (1990).

TABLE 3.1 Industry Classification

<table>
<thead>
<tr>
<th>Code</th>
<th>SIC Codes</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>20</td>
<td>Food and kindred products</td>
</tr>
<tr>
<td>26</td>
<td>26</td>
<td>Paper and allied products</td>
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<td>Chemicals and allied products</td>
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<td>Petroleum refining and related industries</td>
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<td>Stone, clay, and glass products</td>
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<td>38</td>
<td>Scientific instruments</td>
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<tr>
<td>40</td>
<td>22, 23</td>
<td>Textiles and apparel</td>
</tr>
<tr>
<td>41</td>
<td>24, 25</td>
<td>Lumber, wood products, and furniture</td>
</tr>
<tr>
<td>42</td>
<td>21, 27, 31, 39</td>
<td>Other manufacturing industries</td>
</tr>
</tbody>
</table>

**EFFECTS OF R&D TAX POLICY ON COST STRUCTURE**

Historically, the federal government, recognizing the importance of R&D investment for economic growth and international competitiveness, has treated R&D investment more favorably than other kinds of investments. The federal government basically uses two types of tax policy instruments to stimulate R&D expenditures. One, in place since 1954, is the immediate deductibility provision of company-financed R&D expenditures. The second is the direct R&E tax credit introduced by the Economic Recovery Tax Act of 1981.

The 1981 Tax Act, in addition to introducing the Accelerated Cost Recovery System for investment in plant and equipment, introduced an incremental R&E tax credit for qualified research expenditures. Firms were eligible to claim either 25 percent credit if their R&D expenditures exceeded the average of R&D spending of the three previous years or half of the credit if they were above twice the base. This credit was initially intended to expire at the end of 1985 but was renewed at a rate of 20 percent for two additional years in the Tax Reform Act (TRA) of 1986.

To estimate the effects of these two R&D tax incentives on the price of R&D, assume that a firm incurs $1 of R&D expenditures in excess of its R&D expenditures in the past three years. With an incremental tax credit of 25 percent, this means that the cost to the firm will be reduced by $1 \times 0.25 = $0.25. However, the $1 increase in R&D expenditures decreases the incremental R&E tax credit for the next three years by $0.33 \times 0.25 = $0.083 for each year. Thus, with a

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3For specification and estimation of the model, see Mammoneas and Nadiri (1996).
4Two publicly financed R&D capital stocks also enter the cost function as shift variables and thereby affect demand for labor, capital and private R&D. One type of publicly financed R&D is performed inside a given industry, the second type is all other publicly financed R&D performed outside the particular industry. The latter captures potential spillover benefits from government-financed R&D activities. These publicly financed R&D stocks and the disembodied technical change have nonneutral effects on the structure of the industry cost and demand for inputs. (See Mammoneas and Nadiri, 1996)
5A description of the data is available upon request.
6The credit has from then renewed at a rate of 20 percent. See Hall (1992) for a brief history of the credit rate, qualified expenditure rules and base levels during 1981-1991.
discount rate of 10 percent the net tax reduction of a $1 increase in R&D expenditures is $0.25 - \left[ \sum_{3} n_{3}0.083/(1 + 0.1)^{j} \right] = $0.045, and the actual posttax cost of the expenditures is $1 - $0.045 = $0.955.

Consider now the effect of the immediate deductibility provision of R&D expenditures. Suppose that the corporate income tax rate is 46 percent; then the tax reduction is $0.46, and the after-tax cost of R&D expenditures $1 - $0.46 = $0.54. By combining these two incentives, the after-tax cost of $1 of R&D expenditures is $1 - $0.46 - $0.045 = $0.495 (i.e., about one-half its pretax cost).

For firms to benefit from tax incentives, they must have sufficient taxable income. In addition, in the case of incremental R&E tax credit, Eisner et al. (1984) have estimated that in 1981 and 1982, about 25 and 35 percent, respectively, of manufacturing firms did not claim the credit either because they did not increase their R&D expenditures over the base or because they did not have sufficient federal income tax liabilities. In some instances the incremental character of the credit might even make the effective rate negative (Eisner et al., 1984; Hall, 1992).

In the absence of information, we assume that the firms in our sample of industries have enough tax liabilities and that the increase in their R&D expenditures was greater than the base but less than twice the base.

Under the above assumptions, let $\mu_C$ be the corporate income tax rate, $\zeta$ the incremental R&E tax credit rate, and $\lambda$ a parameter taking values of 1 if there is immediate expensing of R&D expenditures but values less than 1 otherwise.7 The after-tax cost of R&D expenditures is given by $qR(1 - \lambda \mu_C - \zeta)$, where $qR$ is the acquisition price, $\nu = [1 - \sum_{3} 0.33 / (1 + r)^j]$ and $r$ is the discount rate.8

Let the after-tax rental price of R&D capital services ($P_R$) be defined by the equality between the posttax cost of acquisition and the present value of future rentals (Hall and Jorgenson, 1967). Then the posttax rental price of company-financed R&D capital is given by

$$P_R = qR(1 - \lambda \mu_C - \zeta),$$

(1)

where $r$ is the discount rate and $\delta_R$ is the depreciation rate of company-financed R&D capital.9 For a given level of output, the effect of a change in R&D tax incentives ($\eta_T$) on the demand for R&D capital stock and on the other inputs in industry is given by

$$\eta_T^h = \partial \ln x_j^h / \partial \ln T = \epsilon_{jk} (\ln p_R / \partial \ln T), \quad T = \zeta, \lambda, \quad j = L, K, R, M, \quad (2)$$

where $\epsilon_{jk}$ is the price elasticity of input demands with respect to the rental price of R&D capital and $(\partial \ln p_R / \partial \ln T)$ is the elasticity of the rental price of R&D capital with respect to a change in tax incentives, which is equal to either

$$\partial \ln p_R / \partial \ln \zeta = -\nu \zeta (1 - \lambda \mu_C - \zeta)$$

(3)

for a change in incremental R&E credit or

$$\partial \ln p_R / \partial \ln \lambda = -\lambda \mu_C (1 - \lambda \mu_C - \zeta)$$

(4)

for a change in the extent of immediate expensing.

Among the empirical results from the model estimation are the following:

1. The pattern of the own-price elasticities of labor, physical capital, and intermediate inputs varies from one industry to another, whereas the own-price elasticity of company-financed R&D capital does not vary much from industry to industry. The own-price elasticity of private R&D capital ranges from -1 in textile and apparel (40), lumber, wood products and furniture (41), and other manufacturing (42) to -0.94 in scientific instruments (38). The company-financed R&D price elasticity estimated in this study is in the middle range of own-price elasticities of R&D reported in the literature. Hines (1993) has estimated a price elasticity of company-financed R&D of about -1.2; Hall (1992), about -1; whereas Nadiri and Prucha (1989) and Bernstein and Nadiri (1989) have reported a price elasticity of total R&D (company-plus publicly financed) of about -0.4 to -0.5.10

2. The cross-price elasticities suggest that price changes in other inputs such as labor, physical capital, and materials have significant effect on R&D investment. Company-financed R&D capital and physical capital are substitutes in most industries. It also seems that a change in the price of

7The parameter can be considered as the rate with which R&D expenditures are allowed to be deducted in the current period. To see the significance of immediate expensing of R&D expenditures, compare this with the case in which the government allows only the economic depreciation of R&D expenditures be deducted from current income. The present value of the depreciation deduction of $1 of R&D with a depreciation and discount rate of 10 percent is equal to 0.50 = 0.10(0.10 + 0.10), and the parameter $\lambda$ takes the value 0.50.

8The after-tax cost of $1 of R&D expenditures for the period 1981 to 1982 is about $0.55, where the contributions of immediate expensing and the incremental R&E tax credit are about 0.42 and 0.038, respectively. For 1981, $\nu = [1 - 0.5(1 + r) / \sum_{3} 0.33 / (1 + r)^j]$ since for 1982 the base was the average of R&D expenditures of 1980 and 1981 (see Eisner et al., 1984).

9Similar rental prices are constructed in the model for the physical capital by taking account of various taxes and subsidies that pertain to plant and equipment investment.

10Our estimates are closer to those of Hall and Hines. The difference between our estimates of own-price elasticity of company-financed R&D and the estimates of Bernstein and Nadiri (1989) and Nadiri and Prucha (1989) can be explained by the fact that the elasticities estimated by these authors pertain to total R&D performed in industry (i.e., company-financed as well as publicly financed) and thus respond less to price changes. However, it very important to note that considerable differences in price elasticity of R&D investment could still arise due to the differences in the model specification and estimation methods.
company-financed R&D affects physical capital relatively less than a change in the price of physical capital affects company-financed R&D capital. This has the very important implication for public policy that tax measures to promote investment in structures and equipment will have significant indirect effects on R&D investment.\(^{11}\)

3. Although company-financed R&D is a substitute for labor, it is a complement of intermediate inputs in low R&D-intensive industries but a weak substitute in high-technology industries such as chemicals (28), machinery (35), electrical equipment (36), transportation equipment (37), and scientific instruments (38).

In short, demand for R&D capital is affected not only by changes in its own rental prices but also by the price movements of other factors of production such as labor, physical capital, and materials. Considerable evidence from this and many other studies shows that factors of production, particularly investment in physical and R&D capital, respond to changes in after-tax prices. Our results suggest that increases in the prices of labor and physical capital lead to an increase in private R&D investment. This implies that any input price changes induced by government tax policies, whether payroll taxes, corporate taxes, or tax credits and incentives for investment in plant and equipment, will have a significant indirect effect on R&D investment. Considering R&D tax and subsidy policies in isolation from other taxes and incentives that a firm or industry faces may lead to incorrect measurement of the effects of government policies to promote R&D expenditures. Therefore, it is essential that all taxes that are levied on a firm or industry be considered together to evaluate properly the effectiveness of any R&D tax policies.

We estimated the elasticities of cost, labor, physical capital, R&D capital, and intermediate inputs with respect to incremental R&E tax credit and the rate of R&D expensing. These elasticities have been constructed by multiplying the input price elasticities by the percentage change of rental R&D price due to a change in R&D tax incentives.\(^{12}\) The evidence suggests that a change in the rate of expensing has a much greater effect by far, almost 10 times, than a change in incremental R&E tax credit. This occurs because the immediate expensing of R&D expenditures constitutes 90 to 96 percent of the reduction of the cost of R&D expenditures whereas the incremental R&E tax credit is responsible for only a small fraction of the price reduction. The effect of the incremental R&E tax credit is nevertheless significant. Both effects are relatively larger in the low R&D-intensive industries than in high-technology industries, reflecting the fact that industries with a long tradition of R&D investment respond less to the cost changes of R&D investment. This is consistent with the evidence from the tax forms of 1981, 1982 and 1983 (see Cordes (1988, 1989)) showing that after the introduction of R&E tax credit, the high-technology manufacturing industries reported smaller increases in R&D expenditures than other manufacturing industries.

Based on the model estimates, the incremental R&E tax credit generated, on average, about $2.5 billion dollars of additional R&D expenditures per year in the manufacturing sector during 1981-1988. If it is adjusted with the eligibility ratio of about 0.63 (see Eisner et al., 1984), the R&E credit has stimulated about $1.6 billion dollars of additional R&D expenditures per year.\(^{13}\) This estimate is consistent with those reported by Baily and Lawrence (1992), Hall (1992), and Hines (1993), although it may be biased upward because there is evidence that many firms redefined activities as R&D after the introduction of the R&E credit.

Suppose that the government, instead of allowing the immediate deductibility of R&D investment, allows only the economic depreciation of R&D expenditures to be deducted from current income. With a discount rate and depreciation rate of 10 percent (see footnote 6), this implies that the value of the parameter \(\lambda\) is 0.5 and will account for, on average, about 35 percent decline in R&D expenditures, or about $16 billion per year for the manufacturing sector as a whole. Disallowing immediate deductibility of R&D expenditures would have much greater negative impact on R&D expenditures than abolishing the R&E tax credit. Production costs would rise by $14.3 billion as a result of the removal of 100 percent deductibility and by $2.6 billion as a result of abolishing tax credit. Industry-financed R&D would be reduced by similar magnitudes, $13.7 billion and $2.5 billion, respectively, with greatest impact falling on R&D-intensive industries (28, 35, 36, 37, and 38). The combined contribution of the tax credit and immediate deductibility of R&D expenditures is about $18 billion per year of additional R&D expenditures. This amounts to approximately 40 percent of the total privately financed R&D of the entire manufacturing sector. Moreover, if one takes into account the fact that government directly finances about 30 percent of total R&D performed in the manufacturing sector, the role of the federal government in support of R&D is quite clear.

**EFFECTIVENESS OF R&D TAX POLICY**

One way to evaluate the effectiveness of R&D tax policies is to measure the additional private R&D expenditures generated by the tax policies relative to forgone tax revenues. There is some disagreement among economists about the

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\(^{11}\)Cordes (1984), for instance, has argued that the ARCS, introduced in 1981 for plant and equipment investment, has moved the price of physical capital relative to R&D capital in favor of the former. Thus, the introduction of an incremental R&E tax credit was necessary to restore in some measure incentives for R&D investment.

\(^{12}\)The elasticity of cost with respect to tax incentives is given by \(\eta_{C,x} = \frac{\partial \ln C^x}{\partial \ln T} = \frac{\partial \ln p_x}{\partial \ln T}\).

\(^{13}\)Cordes (1989) has estimated that the credit stimulated about $560 million to $1.5 billion, whereas Hall (1992) has estimated that the additional spending stimulated is about $2 billion 1982 dollars per year.
effectiveness of R&E tax credit. For instance, Mansfield (1984, 1986) has estimated that the additional R&D expenditure per dollar cost to the government ranges between 0.3 and 0.4. Baily and Lawrence (1992) have estimated it to be about 1 to 1.3. About the same estimates as Baily’s are provided by Hines (1993), whereas Hall (1992) estimates that the ratio is about 2. These differences in estimates are basically due to the differences in price elasticities of R&D estimated by the authors.

Our estimate suggests, on average, a benefit-cost ratio of R&E tax credit of about 0.95 for the period 1981 to 1988 for industries included in the sample. If this ratio is compared with the findings reported by other studies, our estimate is in the middle range. From our analysis, we can conclude that the R&E tax credit has not been a failure as the early literature on the subject had suggested, but rather that it has had a modest impact in stimulating private R&D investment. Moreover, if one takes into account the induced output effect from increases in industry R&D expenditures, as well as the spillovers from such increases, then the benefit-cost ratio of the incremental R&E credit will be higher.14

Table 3.2 reports the results of the following experiment. Assume that for the year 1988 the government abolishes the incremental R&E tax credit and allows only the economic depreciation of R&D expenditures to be deducted from the current income. With these assumptions, our estimates imply that the additional cost for the industry of the revenues saved by the government would be about $16.9 billion, but the reduction of R&D tax incentives in turn increases the rental price of company-financed R&D, leading to a reduction of $16.2 billion in private R&D investment.

The cost increases and reductions in R&D investment are not uniform across industries. In fact, in R&D-intensive industries, costs will rise as a consequence of the change in public R&D policy. However, the cost increases and reduction in R&D investment in response to the hypothesized changes in R&D tax policies are very large in R&D-intensive industries such as chemicals (28), machinery (35), electrical equipment (36), and transportation equipment (37). Low-technology industries, such as food and kindred products (20) and other manufacturers (42), would not be affected as much. This, of course, is not surprising because in the low-technology industries, R&D cost shares are very small; thus, removal of the subsidies has a relatively smaller effect on their cost.

The results reported in the two previous sections are based on the pre-1988 structure of the R&E credit. However, a recent extension of the analysis to the post-1988 period suggests that these observations also hold for the year 1992. The magnitudes of the effects vary over time and across industries, but the general policy conclusions remain the same.

### Table 3.2 Effect of R&D Tax Incentives on Production Cost and Demand for Private R&D in Manufacturing Industries in 1988 (in billions of current dollars)

<table>
<thead>
<tr>
<th>Industry Code</th>
<th>Zero R&amp;D Tax Credit (from 20%) (A)</th>
<th>10% R&amp;D Depreciation Rate (from 100%) (B)</th>
<th>Effect of Removing R&amp;D Tax Incentives (A) + (B)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Cost (R&amp;D Capital)</td>
<td>Cost (R&amp;D Capital)</td>
<td>Cost (R&amp;D Capital)</td>
</tr>
<tr>
<td>20</td>
<td>0.05 -0.05</td>
<td>0.26 -0.26</td>
<td>0.31 -0.30</td>
</tr>
<tr>
<td>26</td>
<td>0.03 -0.03</td>
<td>0.19 -0.18</td>
<td>0.22 -0.22</td>
</tr>
<tr>
<td>28</td>
<td>0.42 -0.40</td>
<td>2.32 -2.22</td>
<td>2.74 -2.62</td>
</tr>
<tr>
<td>29</td>
<td>0.11 -0.11</td>
<td>0.60 -0.59</td>
<td>0.71 -0.70</td>
</tr>
<tr>
<td>30</td>
<td>0.04 -0.04</td>
<td>0.22 -0.21</td>
<td>0.26 -0.25</td>
</tr>
<tr>
<td>32</td>
<td>0.04 -0.04</td>
<td>0.21 -0.21</td>
<td>0.25 -0.25</td>
</tr>
<tr>
<td>33</td>
<td>0.05 -0.04</td>
<td>0.25 -0.24</td>
<td>0.29 -0.29</td>
</tr>
<tr>
<td>34</td>
<td>0.04 -0.04</td>
<td>0.22 -0.22</td>
<td>0.26 -0.26</td>
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<tr>
<td>35</td>
<td>0.47 -0.45</td>
<td>2.59 -2.49</td>
<td>3.06 -3.24</td>
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<tr>
<td>36</td>
<td>0.47 -0.45</td>
<td>2.62 -2.47</td>
<td>3.10 -3.29</td>
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<tr>
<td>37</td>
<td>0.61 -0.59</td>
<td>3.38 -3.25</td>
<td>4.00 -3.83</td>
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<td>38</td>
<td>0.21 -0.20</td>
<td>1.16 -1.09</td>
<td>1.37 -1.28</td>
</tr>
<tr>
<td>40</td>
<td>0.03 -0.03</td>
<td>0.18 -0.18</td>
<td>0.21 -0.21</td>
</tr>
<tr>
<td>41</td>
<td>0.01 -0.01</td>
<td>0.06 -0.05</td>
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<tr>
<td>42</td>
<td>0.01 -0.01</td>
<td>0.05 -0.05</td>
<td>0.06 -0.06</td>
</tr>
<tr>
<td>Total</td>
<td>2.6 -2.5</td>
<td>14.3 -13.7</td>
<td>16.9 -16.2</td>
</tr>
</tbody>
</table>

**R&E CREDIT: POSSIBLE IMPROVEMENTS**

The extensive literature evaluating the effectiveness of R&E credit15 is beyond the scope of this chapter to survey. I can outline, however, a few criticisms and the benefits of potential improvements in the effectiveness of this fiscal instrument.

The current R&E credit is not targeted sufficiently to be very effective. For example, different types of R&D with different types of productivity and social rates of return may require a more flexible approach. In addition, the tax credits it is often claimed, accrue mainly to large firms in a few industries. Some of these, for example, defense contractors, are also major recipients of public R&D expenditures. A more flexible and targeted tax would be less vulnerable to these criticisms. For example, the credit could be focused to promote basic research and encourage university-industry cooperation in fields of research and development.

The mechanics of qualifying an R&D project, establishing the base year, and

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14For the empirical literature that supports this hypothesis, see Nadiri (1993).

classifying R&D expenses are not trivial challenges. An effort to simplify and tighten the existing rules is a worthwhile undertaking.

The on-again, off-again history of the R&E credit has contributed to great uncertainty on the part of firms and may have undermined the stimulus to R&D investment. Because of these and other problems associated with the law, administrative costs entailed with the R&E credit are high.\textsuperscript{16} The benefits of R&E credit would be significantly greater if it were permanent.

There is a need for R&D tax policies to promote not only new investment in knowledge creation but also dissemination of existing knowledge and findings among enterprises and industries. Small businesses, public-sector organizations, and traditionally low R&D-intensive sectors would benefit from a well-targeted technology diffusion policy.

There are two fundamental problems, one theoretical and the other practical, in evaluating the results of the econometric evidence and other methods to ascertain the effectiveness of the R&E tax credit:

1. The theoretical issue arises from the fact that firms may undertake R&D investment in part for strategic and competitive reasons. To that extent, they are likely to invest in R&D regardless of R&D tax treatment, although they will certainly have a financial interest in claiming the tax credit.

2. The measurement problem is related to the unsatisfactory state of the R&D price deflator used in various studies. There has been some effort to improve the quality of these deflators at both the aggregate and the firm levels, but the results are not satisfactory.

CONCLUSION

We have examined the effects of R&D tax policy on the cost structure of the manufacturing industries. It is important to recognize that R&D-specific tax measures are just part of a much larger set of taxes and governmental, fiscal policies that firms face at a given period. Firms rearrange their demand for various inputs to minimize their costs, taking into account the entire set of taxes that they may face. Firms' demands for inputs, particularly investments in physical and R&D capital, respond to changes in their own rental prices as well as to the price changes of other inputs. The cross-price effects can be large and significant. For example, in our study, an increase in the rental price of physical capital or the price of labor induces firms to invest more in R&D.

The existing R&E tax credit has been at best a modest success. The evidence on its cost-effectiveness is not as weak as to warrant abolishing it all together.\textsuperscript{17}

\textsuperscript{16}See Hall (1995) for further discussion.

\textsuperscript{17}See Mansfield (1986).

The immediate deductibility of R&D expenditures is by far the more important subsidy. If the government switched treating R&D expenditures like tangible investments, there would be a substantial reduction of privately financed R&D investment. As shown elsewhere, it seems that publicly financed R&D investment is a more appropriate tool for increasing efficiency and possibly for stimulating output growth, whereas R&D tax policy is a more appropriate tool for stimulating private-sector R&D investment.\textsuperscript{18} Using data for 1957-1992, our recent analysis suggests that the results reported here also hold for the years immediately following 1988.

Both instruments, subsidies and direct financing of publicly financed R&D expenditures, are important means of sustaining balanced output and productivity growth in the manufacturing sector, but current R&D tax policy should be reexamined to increase its effectiveness in promoting private investment in technological innovation diffusion.

ACKNOWLEDGMENT

The support from C.V. Starr Center for Applied Economics of New York University is gratefully acknowledged. I would also like to thank Seongjun Kim and Frances Hui for their help.

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\textsuperscript{18}See Mumbay and Nadiri (1996).
International Tax Policy, Investment, and Technology

HARRY GRUBERT
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MEASUREMENT OF NET INCOME

Although allocation rules may seem arbitrary and a nuisance, they arise out of the necessity, under an income tax, to measure net foreign income. Countries such as the United States that allow a credit for foreign income tax limit the credit to what the home country tax would be on the income. Otherwise, there would be an incentive for foreign governments to raise their taxes and effectively collect revenue on domestic U.S. income. Net foreign income, therefore, has to be measured. The problem is even more acute under an exemption or territorial system in which (active) foreign income is exempt from home-country tax. Any increased allocation of expenses to foreign income directly increases home-country tax liability.

The problem of allocating overhead expenses is familiar to us all as personal taxpayers and is motivated by considerations similar to those that give rise to expense allocations to foreign income. Many members of the academic community are probably acquainted with the “home office” deduction in which housing expenses have to be allocated between business and nonbusiness uses. Investment in tax-exempt state and local bonds is an example in which interest expenses have to be divided between taxable and non-taxable income. If an individual borrows and invests in state and local bonds, the Internal Revenue Code may limit the amount of deductible interest expense. This is analogous to a company that borrows at home and invests abroad where the income might be deferred indefinitely or, in any case, be out of the home-country tax base because it is shielded by foreign tax credits.

Nothing in these remarks should be construed as reflecting the view of the U.S. Treasury Department.