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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

RELEASED

B-114435

JUL 25 1973

The Honorable Thomas E. Morgan
Chairman, Committee on Foreign Affairs
House of Representatives



Dear Mr. Chairman:

In your April 11, 1973, letter you enclosed some documents provided to you by Mr. Herbert A. Fechter, who works for the Department of Defense in Heidelberg, Germany. These documents outlined several areas concerning possible exemption from foreign taxes where, he believed, substantial savings could be effected.

The incl. summary of our inquiry into these matters responds to your request for a report on the results of our work. In essence, it shows that, contrary to Mr. Fechter's views, the U.S. military organizations in Germany are not paying the added-value tax applicable to the indirect procurement of gasoline products.

Agreements between the United States and the Federal Republic of Germany do not provide for exempting other gasoline taxes and vehicle fees included in those indirect procurements. Although American Embassy officials presently are adverse to renegotiating tax agreements that would permit exempting those taxes, U.S. military officials hope that, subject to the favorable resolution of a higher priority tax matter (land tax) now being negotiated with the German Government, relief from the indirect gasoline taxes and vehicle fees may be realized.

The taxes paid indirectly through housing allowances for military and civilian personnel and the fees paid the Canadian exchange on purchase of foreign-made automobiles can be saved if payments and purchases are made through a designated military organization. U.S. military authorities are considering establishing such an organization.

We requested U.S. military officials in Heidelberg to inform Mr. Fechter of these circumstances so that he will know the status of his suggestions.

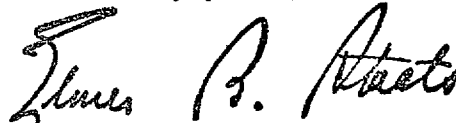
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Also enclosed is a copy of a letter we have sent to the Chairman of the Interagency Committee on Foreign Tax Relief requesting appropriate action in view of the potential savings. D2135

Please advise us if you desire additional information.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Arato".

Comptroller General
of the United States

Enclosures

INQUIRY INTO THE STATUS AND MERITS OF
CERTAIN EMPLOYEE SUGGESTIONS
REGARDING THE PAYMENT OF TAXES IN GERMANY

In four suggestions, submitted through U.S. military channels, Mr. Herbert A. Fechter, who works for the U.S. Army, Europe (USAREUR), outlined several areas where, he believed, substantial savings¹ could be effected.

Our objective was to determine the status and merits of the suggestions and of actions which might be under consideration. We discussed these matters with officials of the American Embassy, Bonn, Germany; USAREUR Judge Advocate General; and responsible directorates of USAREUR. Each suggestion is discussed separately below.

Suggestion 1 proposed that the added-value tax and fuel tax for indirect procurement of mineral oil products be recouped.

Mr. Fechter was referring to taxes paid on fuel by firms with contractual or other commitments with the U.S. Forces in Germany. Examples include contracts for moving household goods and for moving food to commissaries.

1. Added-value tax on fuel

The Judge Advocate General and U.S. military procurement officials demonstrated, as explained below, that, contrary to Mr. Fechter's statement, the U.S. Forces were exempt from the added-value tax on indirect fuel purchases. We explained the system to Mr. Fechter, who apparently did not understand the complex procedures under which that tax was administered.

The added-value tax is a one-time tax of 11 percent, paid by the ultimate consumer, on the total value of the product or service. Interim tax payments by firms in the production or service cycle may be recouped from the German Government or credited as a partial payment of the ultimate tax. For example, the contractor purchases fuel and pays the added-value tax but is granted an equal refund or credit since the cost of the fuel will be passed on to the user of its services. The contractor then adds the value of its services to the fuel costs and bills for the total amount plus the tax. After it collects, the contractor remits the tax, less its credit, to the German Government which at this point has been paid 11-percent tax on the total value of the contract.

¹ Mr. Fechter's estimates were converted to dollar equivalent at a current exchange rate of 2.60 German marks to \$1.

If the user is the U.S. Forces, however, the contractor is paid only the total amount of the contract but not the added-value tax. The contractor therefore has no tax to remit to the German Government and has already received a refund or credit for taxes paid thus no added-value tax is paid on the value of the contract to the U.S. Forces.

2. Fuel taxes. (Potential savings of \$15 million for 1971-72.)

Agreements between the United States and the Federal Republic of Germany, according to the Judge Advocate General and procurement officials do not provide for exempting indirect fuel taxes. To gain such an exemption would require a renegotiation of existing tax agreements, which neither the German Government nor the American Embassy representatives wish to do. The Judge Advocate General's Office would like to renegotiate the tax agreements in connection with a higher priority tax matter (land tax) now being considered. If the agreements are renegotiated and if the land tax matter is favorably resolved, USAREUR plans to ask for relief from the indirect fuel taxes.

Suggestion . proposed the recoupment of vehicle taxes paid by contractors serving the U.S. Forces. (Potential savings of \$2.2 million for 1971.)

Agreements between the United States and the Federal Republic of Germany do not provide for the recoupment of or exemption from these indirect taxes. The status of this suggestion is the same as that for the fuel taxes.

Suggestion 3 proposed that the U.S. Forces obtain relief for fuel oil and added-value taxes paid in connection with housing requirements by military and civilian personnel who live on the German Economy and who are provided with housing allowances. (Potential savings of \$700,000 in both 1970 and 1971.)

Mr. Fechter made his suggestion on July 21, 1971. USAREUR suggested to the Interagency Committee on Foreign Tax Relief 3 months later that exemption from these taxes be explored. The Committee contacted the American Embassy in Bonn, which after correspondence with USAREUR officials, sent an AIDE-MEMOIRE in May 1972 to the Federal Republic of Germany requesting relief from the fuel and added-value taxes. The AIDE-MEMOIRE suggested that:

"* * * As a possible simplified procedure, it would be possible for the forces to retain all invoices for utilities containing such tax charges and to submit total amounts for reimbursement to FRG [Federal Republic of Germany] authorities on a periodic basis together with documentation confirming that the forces have paid the taxes in question."

The German Government responded in October 1972 that there was no legal basis for any reimbursements and that exemption could be granted only if the U.S. Forces were the direct purchaser of the fuel. The German Government felt that this requirement was not being met.

The American Embassy pointed out to USAREUR in January 1973 that, to satisfy the exemption requirement, an agency should be established to purchase utilities. There is essentially no disagreement among U.S. officials that the payment of off-base costs can be exempt from taxes. The only problem is how best to obtain the exemption within the confines of the German Government's response to the AIDE-MEMOIRE.

At the time of our inquiry in May 1973, USAREUR was still considering the possible methods of realizing those exemptions, as discussed under suggestion 4.

Suggestion 4 proposed the establishment of a system whereby U.S. Forces personnel in Germany purchasing foreign-made automobiles do so through a U.S. organization, rather than through the Canadian exchange, to avoid gold flow in the amount of the fees charged for the transactions. (Potential savings of \$800,000 in 1969.)

This matter, on which Mr. Fechter submitted his suggestion in June 1971 has been under consideration by military officials in Europe since 1969. Mr. Fechter was advised of this fact in September 1971.

Most nations having forces stationed in Germany (Canada, France, Belgium, and the United Kingdom) have systems whereby their personnel can purchase foreign-made automobiles on the German economy without paying the 11-percent added-value tax. The United States has no such system, and U.S. military personnel buying foreign-made automobiles must either pay the tax or avoid it by processing the purchase through the Canadian exchange. The Canadian exchange charges a \$35 fee for this service.

U.S. personnel purchased over 22,000 new foreign-made automobiles in Europe during 1970. The extent to which these purchases were processed through the Canadian exchange is unknown. USAREUR officials feel the 11-percent tax was paid on a substantial number of purchases although others feel that the number is small because many European automobile dealers automatically process the purchases through the Canadian exchange.

Attempts have been made since 1969 to obtain Department of Defense approval to process these transactions through the European Exchange System. The U.S. Air Force, Europe, requested such approval in 1969 and 1971 and the Army in 1970 and 1971. The U.S. military position was that such a system would end payment of the added-value tax to the German Government or fees to the Canadian exchange and would result in savings to individuals and in gold flow savings to the U.S. Government. Officials of the Army and Air Force pointed out that the European Exchange System, if it were designated as the purchasing agent, would in no sense sponsor or advertise sales of foreign-made automobiles but would act simply as bookkeeper in the transactions while collecting small fees and that they saw no reason to fatten the dividends of the Canadian exchange system.

The only reply to the European military commands was made in February of 1970 when the Department of the Army stated that the suggested system would be inconsistent with Department of Defense balance-of-payments policy and that the Office of the Secretary of Defense did not support the recommendation.

For the last 3 years, USAREUR officials have been trying to find a method complying with the terms of the tax agreements. An official in USAREUR is preparing a decision paper for the Commander in Chief of USAREUR pointing out that he has the authority to establish or designate an organization to process the purchase of foreign-made automobiles. We were told that the proposed system on which approval was to be requested would provide that the designated organization act as an administrative agent for personnel living off base so that Mr. Fechter's suggestion concerning taxes on utilities for off-base housing might be implemented.

It seems that the proposed system not only would effect savings indirectly to the U.S. Government in dollar outflow and directly to the military and civilian customers but also would boost morale of U.S. personnel and contribute to the U.S. military welfare programs.



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INTERNATIONAL DIVISION

Mr. Louis G. Fields, Jr.
Chairman, Interagency Committee
on Foreign Tax Relief
Department of State

Dear Mr. Fields:

The Chairman of the House Committee on Foreign Affairs had requested that we inquire into the status and merits of some suggestions concerning possible exemption from foreign taxes which were provided to the Committee by a U.S. Government employee who works for the Department of Defense in Heidelberg, Germany.

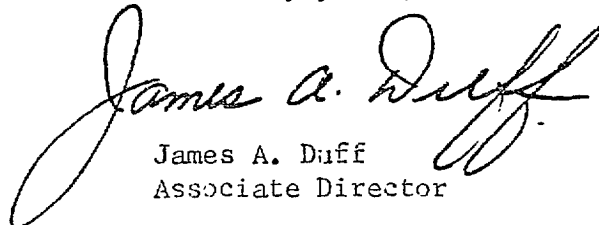
We are enclosing a copy of our report to the Chairman and a copy of the employee suggestions for your information and further action you may believe appropriate.

We recognize that the taxes discussed in the suggestions are indirect and subject to negotiation with the West German Government. Nevertheless, in view of the potential savings and the balance-of-payments drain, we believe that all appropriate efforts should be made to capture these tax benefits.

As Chairman of the Interagency Committee we know that you, as well as other members of the Committee, share our concern.

We would appreciate being advised of any further action taken on these matters.

Sincerely yours,


James A. Duff
Associate Director

Enclosures