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COMPTROLLER GENERAL'S REPORT
TO THE CHAIRMAN
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

Addressed

DEPARTMENT OF DEFENSE
STILL PAYING SOME
FOREIGN TAXES

Hille

D I G E S T

(Since the early 1950s the Congress has expressed concern that the United States not pay taxes to foreign governments on defense activities overseas. In 1979, the House Committee on Appropriations noted that some tax payments were continuing and reiterated its longstanding objection to such payments.)

In its fiscal year 1980 report, the Committee deleted funds in the Department of Defense's (DOD's) appropriation earmarked for this purpose and requested GAO to investigate U.S. policy and activities since GAO's 1970 report. The Congress went still further in the 1981 appropriation for military construction, expressly banning the use of funds for the payment of property taxes to any foreign government. DOD and State have initiated actions to obtain further tax relief.



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(The Departments of State and Defense have made some progress in reducing the tax burden on U.S. forces overseas. In the United Kingdom, the percentage of the tax assessment that is billed to U.S. forces has been negotiated downward and off-setting credits have been applied toward the U.S. obligation. The United States has also been afforded some tax relief in Germany. However, in these two countries--where over half of all U.S. forces deployed overseas are stationed--the United States still pays millions of dollars in taxes.)

Budget
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Issue
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PROPERTY TAXES IN THE UNITED KINGDOM

(While the United Kingdom does not have any levies specifically called property taxes, local governments raise money through so-called "rates" which are assessed as a percentage of the annual rental value of real estate. During Britain's financial year 1978-1979, DOD paid \$1.4 million in rates or similar payments on military bases and defense installations in the United Kingdom. In addition,

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U.S. military personnel living in privately leased apartments paid an estimated \$3.3 million through rates on rented housing units. (See p. 9.)

Military bases and defense installations in the United Kingdom are not assessed rates, but the British Treasury makes a so-called contribution in lieu of rates to local governments for this property. Under a 1955 agreement and subsequent revisions, the United States does not pay rates, but DOD reimburses the United Kingdom for a portion of its contribution. This reimbursement is lower than the full tax assessment and is based on an approximation of the value of services received by U.S. forces from the taxing bodies. Such services as fire, police, roads, and sewers are intended to be covered by these payments. U.S. contributions have been reduced from 35 percent of assessments in 1955 to 14 percent currently. (See p. 6.)

In addition, beginning in 1975 DOD received a credit of 50 percent of tax payments made on direct-leased and rental guarantee housing. This credit was increased to 60 percent in 1977. DOD payments for government-leased and rental guaranteed housing in the United Kingdom include a portion for property taxes, totaling about \$896,000 in 1978-1979. (See p. 7.)

U.S. officials in the United Kingdom believe U.S. tax payments could be reduced further. They have argued to the British that the large indirect tax payments on residences privately leased by U.S. military personnel more than cover the value of services provided to U.S. bases. Military personnel living offbase, according to U.S. studies, receive only about 30 percent proportional value of services. (See p. 12.)

GAO believes the U.S. tax burden in the United Kingdom could be reduced by \$1.4 million through negotiations with the British. The \$3.3 million paid on private leases could be cited to argue for elimination of contributions in lieu of rates on U.S. bases, tax payments on direct

leased and rental guarantee housing, and other payments currently being made to the British government, such as charges on U.S. Navy Europe headquarters in London and tax payments included in so-called accommodation charges (a type of rent). (See p. 13.)

In addition, U.S. diplomatic property in the United Kingdom, including the Embassy in London, is assessed a contribution in lieu of rates similar to that charged U.S. defense property. Payments amounted to \$347,000 in British financial year 1979-80. British diplomatic property in the United States is exempt from property taxes. (See pp. 13 and 14.)

PROPERTY TAXES IN GERMANY

From 1976 through 1979, DOD paid almost \$20 million in German property taxes for military family housing. Tax payments have grown from about \$2 million in 1970 to \$6 million in 1979. Moreover, these are just the readily identifiable direct tax payments. Taxes are also paid indirectly through rents on government-leased and guaranteed housing and through housing allowances paid to an estimated 55,000 servicemen who rent private housing in Germany. As in the United Kingdom, taxes are a part of the rental payment. DOD officials in Europe have not attempted to compile or estimate the extent of such U.S. indirect tax payments in Germany. (See p. 17.)

DOD has approached German officials seeking relief from direct property taxes in the past. While some relief has been afforded in certain areas, German officials have been adamant in insisting on payment of taxes on family housing, calling them public charges not taxes. The Supplementary Agreement to the North Atlantic Treaty Organization (NATO) Status of Forces Agreement imposes a legal obligation to pay these charges.

While DOD has reached agreements in the United Kingdom, reducing tax charges to correspond more closely to the value of services provided, it has not pursued this avenue with respect to German land taxes. DOD officials in Germany have not identified the actual services provided

to U.S. forces by various German taxing bodies. Some Army officials in Germany told GAO that tax payments most likely greatly exceed any actual services received, but they had no data to support their opinions. (See pp. 22 and 23.)

OTHER TAXES BEING PAID

DOD pays a trade tax as part of the contract cost for a U.S. government-owned contractor-operated combat vehicle maintenance depot in Mainz, Germany. The tax, estimated to total about \$337,000 in 1980, is charged by the local community as a tax on business profits, even though the only profit earned by this contractor is the fixed fee provided by the U.S. Army. While at one time the contractor operating the depot was engaged in other commercial operations as well, since the late 1970s the sole activity is support of U.S. and NATO vehicle maintenance requirements. DOD has not looked at the trade tax payments since the depot took on this new status. (See pp. 25 through 27.)

Various environmental and pollution control payments could cause the United States considerable expense. Such payments are already made in the United Kingdom and the Netherlands on the basis that they are charges for services, not taxes. Germany is seeking similar payments, but the allied countries with troops in Germany are resisting making payments because they consider the German levies to be taxes not directly related to a specific, clearly defined and valued service. (See pp. 27 and 28.)

U.S. TAX RELIEF ACTIVITIES

In response to GAC's 1970 report, DOD and State organized the Interagency Committee on Foreign Tax Relief and the Foreign Tax Relief Program. While these initiatives have had some success, they need renewed emphasis if they are to remove foreign tax burdens from U.S. defense costs. The Interagency Committee, although active immediately after GAC's 1970 report, has not received the

resources or emphasis to continue as a vigorous advocate for tax relief. The two elements of DOD's program which would highlight tax problems and recommend solutions--country tax law studies and annual reports--were not always current or accurate and did not include all pertinent information on the United Kingdom and Germany. (See pp. 29 through 36.)

RECOMMENDATIONS

If further tax relief is not achieved in Germany, the Secretary of Defense should conduct a special property tax study to develop data on services provided to U.S. forces by local taxing bodies in return for payment of the land tax on family housing, and the extent to which U.S. personnel and dependents use those services.

In addition, GAO recommends that the Secretary of Defense

- study the German trade tax liability to determine whether the changed status of the Mainz Army depot justifies tax exemption and
- reemphasize the importance of the Foreign Tax Relief Program and assure that local commands maintain current country tax law studies and prepare comprehensive annual reports.

In addition, the Secretary of State should

- strengthen the Interagency Committee on Foreign Tax Relief and ✓
- examine the agreement with the United Kingdom to pay contributions in lieu of rates on U.S. diplomatic property to assure that the agreement affords the U.S. Government benefits commensurate with those provided to British Government property in the United States.

GAO further recommends that the Secretaries of State and Defense jointly

- pursue the elimination of contributions in lieu of rates on U.S. bases and the U.S. Navy Europe headquarters building, tax payments on direct lease and rental guarantee housing, and the tax portion of British accommodation charges and
- review results of the recommended DOD study of property taxes in Germany, and if warranted seek elimination or reduction of the payments to bring them more in line with the value of services provided by the taxing bodies.

AGENCY COMMENTS

GAO provided a draft of this report to the Departments of Defense and State. However, GAO did not receive official agency comments from either department in time to include them in this final report.

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ABBREVIATIONS

CILR	contribution in lieu of rates
DOD	Department of Defense
FRG	Federal Republic of Germany
GAO	General Accounting Office
NATO	North Atlantic Treaty Organization
SOFA	Status of Forces Agreement
UK	United Kingdom
USAFE	United States Air Forces in Europe
USAREUR	United States Army Europe
USNAVEUR	United States Navy Europe