

SUMMARY OF TESTIMONY of Jennifer Davis
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Committee on Ways and Means,
House of Representatives,
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The effort to deny foreign tax credit for any tax paid or accrued to the Republic of South Africa would be a significant further step on the road to ending apartheid, a road on which Congress placed its feet firmly with the 1986 passage of the Anti-Apartheid Act.

Under South African law, any person who advocates divestment or disinvestment is guilty of subversion, for which the penalty is up to 20 years in prison. Despite this danger, South Africa's major trade unions, the religious community, and others continue to call for divestment and sanctions.

Last year, the U.S. Congress responded to these calls by passing the Anti-Apartheid Act, which imposed a series of economic sanctions against South Africa. However, U.S. companies can still claim credit against their U.S. taxes for those paid in South Africa. Cutting off these tax credits would have a quadruple effect:

- 1] It would send a clear signal of intent to the apartheid regime that the U.S. Congress is still deeply concerned to find peaceful ways of eliminating apartheid, and provide continuing encouragement to democratic South Africans.
- 2] It would thus help deprive the apartheid regime of a flow of funds, much of which might be devoted directly to police and military repression and the implementation of apartheid.
- 3] It would add to the pressure already being exercised under the Anti-Apartheid Act on U.S. corporations to cut off all business links with South Africa.
- 4] It would have some revenue enhancing effect in the U.S.

The value of taxes paid by U.S. corporations to South Africa is somewhat obscure. We have used figures available from the IRS and the Department of Commerce's Bureau of Economic Analysis to compute ballpark figures.

In the first three years of this decade, U.S. corporations in South Africa earned estimated incomes of over one billion dollars, paid well over half a billion dollars into Apartheid's treasury, and earned some half billion dollars in credits from the U.S. treasury for making such payments.

Ending the tax credits could be expected to enhance U.S. revenue by \$100-\$200 million annually. It would also increase pressure on corporations to end collaboration with apartheid.

There is extensive documentation on the role of U.S. investment in apartheid South Africa, so I will only observe that as long ago as January 1978, the Senate Subcommittee on Africa issued a report declaring: "The net effect of American investment has been to strengthen the economic and military self-sufficiency of South Africa's apartheid regime."

Paying Taxes to South Africa

There is something particularly objectionable about providing tax credits for money paid to the South African Treasury.

Even a cursory examination of the South African Budget reveals the extent to which such income would be used to maintain the apartheid system, paying the police and soldiers who are now occupying Black townships and terrorizing Black school children.

In the period from 1971 to 1981, the defense budget increased by 860%, and it has grown dramatically since then, with a further planned jump of 31 percent in 87-88. Defense expenditure is a euphemism in South Africa, where most military activity involves the use of young white soldiers as an army of occupation seeking to pacify young Black people demanding basic human rights and equality.

Expenditures on the police force have also been increasing steadily. The police budget has almost doubled in the past four years. The South African government hides much of its repression expenditures in other budgets. For example, official statements have pointed to substantial increases in expenditures on education as proof that the government is committed to reform. **What is not mentioned is that the expenses of the troops occupying Black schools are paid from the education budget.**

There is increasing evidence that the international pressures being exerted on apartheid are having a significant impact on critical sectors of the white community.

U.S. action last year also triggered or accelerated extensive international action against apartheid. Twenty-five industrialized democracies have now imposed various economic sanctions against South Africa. New action by Congress could have an important impact in South Africa and internationally -- carrying the message that this House will not rest until apartheid is overthrown.

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Copies of the complete text are available for \$2.00.