COMMITTEE ON TAXATION

April 13, 2015

Savings & Investment Working Group
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Senators:

As the Senate Finance Committee continues to consider tax reform legislation, Financial Executives International's (FEI) Committee on Taxation respectfully submits the following views for your consideration. The Committee on Taxation urges Congress to enact corporate tax reform that lowers the statutory corporate income tax rate, adopts a competitive territorial tax system, does not pick winners or losers or discriminate against any particular industry or type of income, and provides for consistent treatment of taxpayers engaged in the same or similar activities. The Committee on Taxation commends the Finance Committee for making tax reform a priority and urges that reform be pressed forward with urgency notwithstanding the considerable political impediments to be overcome; each month that passes without enactment of tax reform will result in lost jobs and lost opportunities for economic growth in the United States because our current business tax system is uncompetitive and out of step with international norms.

FEI is the leading advocate for the views of corporate financial management. Its almost 11,000 members hold policy-making positions as chief financial officers, treasurers, and controllers at companies from every major industry. FEI enhances member professional development through peer networking, career management services, conferences, research, and publications. Members participate in the activities of 74 chapters in the U.S. and a chapter in Japan. FEI represents both the providers and users of financial information. FEI's Committee on Taxation formulates tax policy for FEI in line with the views of the membership. This letter represents the views of the Committee on Taxation.

Committee on Taxation Views on Tax Reform

The Committee on Taxation respectfully requests your consideration of these views as you review tax reform proposals.

<u>Overall Goals of Federal Tax Reform</u>

The overall goals of any tax reform effort should be to promote U.S. economic growth, increase U.S. job opportunities, and improve the competitiveness of U.S.-based companies in U.S. and international markets. As a general matter, a tax system with the lowest possible tax rates that allows U.S.-based companies to compete on a level playing field in the U.S. and abroad is desirable to advance these goals. Furthermore, a tax system that is simpler and permanent would reduce the tax compliance burden on companies and provide certainty for companies making business decisions to grow and compete.

Key Components of Federal Tax Reform

- Provide Competitive Corporate Tax Rates. Reductions in corporate tax rates would allow U.S. companies to be more competitive, grow, and create jobs. A significant reduction in the U.S. corporate income tax rate is needed for the United States to remain competitive in the global marketplace and to promote continued U.S. economic growth and job creation. U.S.-based companies face the highest corporate income tax rate among OECD countries. Lower corporate income tax rates would make domestic investment more attractive and would create an incentive for companies to perform high-profit activities in the United States.

- Adopt Competitive International Tax Rules. U.S. tax rules affect the competitiveness of U.S. companies and the availability of capital in the U.S. The U.S. tax system should allow U.S. businesses to compete on a level playing field in domestic and international markets. The current worldwide tax system should be replaced with a territorial system for the taxation of foreign source income. U.S. corporate income tax rates applied to the worldwide profits of U.S. companies place them at a tax disadvantage compared to companies based in countries that have both a lower corporate tax rate and a tax exemption for repatriated foreign earnings. The adoption of a competitive territorial system without expense allocation would benefit the U.S. economy by encouraging foreign business profits to be invested in the U.S. by eliminating the current “lock-out effect”. In designing a territorial system, additional consideration should be given to how foreign income earned prior to enactment is treated. Such consideration should include the combining of positive and negative earnings of separate entities and not taxing foreign earnings that are invested in plant property and equipment.

- Foster Technological Innovation. Technological developments are an important component of economic growth and high paying jobs. The Research and Development (R&D) credit encourages technological development; however, uncertainty about the future availability of the R&D credit reduces its effectiveness. Many other countries not only have lower corporate tax rates generally but also provide more competitive tax incentives designed to attract R&D activities, and without an incentive of its own, the United States could lose valuable research jobs. Tax reform provides an opportunity to enhance the attractiveness of the U.S. as a place for technological innovation by strengthening and making permanent the R&D credit and by considering new incentives enacted in other countries such as an “innovation box” structure.

- Encourage Savings and Business Investment. Business investment is another important driver of economic growth and jobs. Any tax reform effort should avoid increasing the tax burden on individual savings and capital investment. Retaining or enhancing accelerated depreciation and maintaining the option to utilize LIFO inventory accounting helps promote U.S. capital investment and job creation. The corporate AMT, which discourages capital formation, exacerbates business cycles, and complicates the current tax structure, should be repealed.

- Ensure Industry-Specific Neutrality. Tax reform should not burden a specific industry, sector, or type of income.

- Provide Appropriate Transition Relief. A major shift in tax policy could have a negative impact on some industries and companies, and create considerable uncertainty. Appropriate transition relief to allow carryover of tax attributes such as net operating losses, general business credits, and minimum tax credits, for example, should accompany any fundamental reforms.

Business Views on Former Chairman Camp's International Discussion Draft

In 2012 FEI's Financial Executives Research Foundation (FERF), in collaboration with the Committee on Taxation, polled and interviewed senior tax executives to get their views on Former House Ways and Means Committee Chairman Dave Camp's October 2011 discussion draft on international tax reform and provide constructive feedback. Among the positive factors from the proposal was the tax executives' belief that a territorial tax system and lower rate could enhance economic growth and increase the competitiveness of U.S. companies. FEI published the key findings in the Jan./Feb. 2013 edition of *Financial Executive.* An excerpt of the article is enclosed with this letter.

The Committee on Taxation looks forward to working with you to enact tax reform legislation that advances our goals. We welcome the opportunity to discuss these issues further with you and your staff. For more information about the Committee on Taxation and its views, contact Karen Lapsevic, Director, Government Affairs, at 202-626-7809 or klapsevic@financialexecutives.org.

Thank you for your consideration of our views.

Sincerely,

Committee on Taxation
Financial Executives International

Enclosure

Excerpt from “2013 Tax Outlook: What’s in Store for Business” by Andrew Prior, *Financial Executive*, Jan./Feb. 2013

House Ways and Means Committee Chairman Dave Camp (R-Mich.) invited stakeholders to analyze the discussion draft released in October 2011 [by Camp] and to provide constructive feedback on the proposals to achieve revenue-neutral tax reform. Financial Executives Research Foundation (FERF), in collaboration with Financial Executives International’s (FEI) Committee on Taxation (COT), polled and interviewed senior tax executives to get their views on the discussion draft.

Among the key findings:

- Senior financial executives are attracted to the main elements of the Camp discussion draft — fiscally responsible corporate tax reform that promotes economic growth through a competitive statutory corporate tax rate and an internationally competitive participation exemption (territorial) tax system.
- Senior financial executives wish to participate in the further development of these proposals and to offer their technical expertise and practical experience regarding ways to improve the U.S. tax system.
- Senior financial executives urge Congress to maintain a focus on U.S. competitiveness to ensure that any revenue-raising tax proposals do not undermine the overall goal of improving the ability of U.S. companies and workers to be globally competitive in both domestic and foreign markets.

The U.S. corporate tax system is viewed as less competitive than other countries’ tax systems. A majority of tax executives polled and interviewed felt that, on average, their foreign competitors were subject to more favorable corporate tax systems in their home countries. They pointed to lower corporate tax rates, territorial tax systems and more favorable R&D and manufacturing incentives. “I don’t believe any of our competitors have a worse tax system than the U.S.,” said the chief tax officer of a large multinational manufacturing company.

Corporate rate reduction and territoriality are viewed as critical components of tax reform. As discussed above, several tax executives cited lower corporate tax rates and territorial tax systems as key reasons other countries have more advantageous tax systems for business than the United States. “I think the key for everybody is a corporate tax rate lower than 25 percent; this would help any company regardless of size,” said one tax executive. Several tax executives said a territorial tax system would encourage U.S. investment of foreign earnings by removing the tax impediment to increased remittances. Incentives to reward retention and development of intellectual property (IP) in the U.S. are also important to some businesses. “If the proposal included an ‘innovation box,’ we would invest in even more R&D in the U.S.,” said a tax executive at a large technology company. The U.K. and other countries have adopted innovation or “patent” box regimes that provide preferential tax rates on certain income related to intellectual property.

Companies are still evaluating the potential impact of U.S. tax reform proposals. A number of tax executives said they had reviewed the Camp discussion draft and expressed support for the overall goals of lowering the corporate tax rate and adopting a territorial tax system. However, some tax executives suggested the need to refine and further develop the details of the territorial tax proposal and understand the domestic base broadeners before they could evaluate the potential impact on their companies. “The question for us is will the number get low enough and how will they pay for it?” a tax executive said. “The real key to the U.S. economy is economic growth and we should be mindful of adopting tax policies that enhance our growth,” the tax executive said. Among the positive factors from reform noted by tax executives was the reduction in uncertainty from enactment of a stable, permanent tax system and their belief that a lower rate and territorial tax system could enhance economic growth and increase the global competitiveness of American companies. The executives expressed a strong interest in continuing to assist policymakers in their efforts to reform the tax system, understanding the constraints of doing so in a revenue-neutral environment.