Testimony of
Mr. Thomas J. Falk
Chairman and Chief Executive Officer
Kimberly-Clark Corporation

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Good morning Chairman Baucus, Ranking Member Hatch, and distinguished members of the Committee. Thank you for this opportunity to share my views on the need for changes in our tax system.

First, I will provide a brief overview of Kimberly-Clark and our global businesses, and then I will address some of the reasons we believe the current U.S. corporate tax system hinders growth, puts American companies and workers at a competitive disadvantage in the global marketplace and impedes economic growth in the U.S.

For nearly 140 years, Kimberly-Clark has provided consumers with the essentials for a better life. With brands like Kleenex, Scott, Huggies, Pull-Ups, Kotex, Poise, and Depend, we estimate that one out of every four people around the world use our products each day. We are also a leading provider of safety products that help protect both workers and the environments in which they work. In addition, medical professionals turn to Kimberly-Clark for a portfolio of products essential to the health and hygiene of their patients and staff, including surgical drapes and gowns, face masks, exam gloves, and infection control and pain management products. Our products and businesses touch a wide range of the economy around the world.

We depend on continuous product innovations to meet the evolving needs of our customers and build our Personal Care, Consumer Tissue, Kimberly-Clark Professional, and Health Care businesses. This commitment to innovation has earned us the No. 1 or No. 2 brand share position in more than 80 countries.

The consumers we serve live in more than 150 countries, and we must have a global presence to serve them. Being close to our consumers, and the retailers through whom we sell our products, is necessary to effectively develop products which meet our consumers' diverse needs and to enable the effective marketing and efficient distribution of those products. Additionally, due to the nature of many of the products we sell, which are lightweight, bulky, and costly to ship, our manufacturing operations must be located close to the consumers we serve. Thus, we operate more than 100 facilities in 36 countries and employ 57,000 employees worldwide. More than 15,000 of those employees are based in the U.S. The rest work in other regions of the world and support our local businesses there.

Most of the products we sell in the U.S. are designed, developed, and manufactured here. In fact, a large portion of our annual $300 million research and development budget is spent in the U.S. We have more than 1,400 employees conducting research in the U.S., and our U.S. manufacturing footprint is significant. We employ 10,000 people at 23 production facilities in 17 states.

The U.S. market is our largest market, but the categories in which we compete are mature. Although we already have a major presence outside the U.S. – almost half of our net sales are to consumers who live in countries other than the U.S. – we consider developing and emerging markets to be among our biggest growth opportunities. Profits generated by Kimberly-Clark's overseas affiliates are directly related to foreign business activity.

The U.S. Tax System Puts the American Economy, U.S. Workers, and U.S. Multinationals at a Disadvantage

Successful U.S.-based businesses, large and small, are an engine of growth for the American economy. As a group, U.S.-based multinationals employ nearly 22 million U.S. workers, more than 19 percent of the total U.S. private-sector workforce. In addition to directly creating jobs for American workers, U.S.-based multinationals indirectly contribute to a significant portion of U.S. economic activity and U.S. jobs through the purchase of goods and services from smaller U.S. businesses. The U.S. operations of the typical U.S.-based multinational buys more than $3 billion in goods and services from more than 6,000 American small businesses, and relies on those small-business suppliers for more than 24 percent of total input purchases. U.S. small businesses are critically important partners with U.S.-based multinationals. The combined direct and indirect employment generated by worldwide American companies is estimated at 42 percent of total U.S. private employment.

Foreign operations of U.S.-based multinationals also contribute to the generation of high quality jobs in the U.S. in areas such as manufacturing, marketing, research and development, headquarters activities, and stewardship. However, U.S.-based multinationals are losing ground in the global economy as foreign-based multinationals, not hindered by an uncompetitive tax system, emerge and grow. According to the Business Roundtable, in 1960, U.S.-based multinationals made up 17 of the world's 20 largest companies. By 1985 that number had fallen to 13, and by 2010 just six of the world's 20 largest companies were U.S. based.

To be successful, businesses need high performing and talented employees, a steady stream of innovation to keep pace with competitors and evolving consumer preferences, the willingness and capability to continuously improve all aspects of their business, stable and predictable energy and other input supplies and pricing, and a favorable tax and regulatory environment. As other countries provide these essentials for business success to a greater extent than the U.S., U.S.-based multinationals lose ground in the global economy. The result is slower economic growth, fewer American jobs and lower government tax revenue.

The U.S. system of corporate taxation puts American companies and the American economy at a disadvantage when competing in the global marketplace. The combination of a high statutory tax rate, taxation of worldwide earnings, and the complexity of our tax rules creates an uncompetitive tax environment for U.S.-based companies and discourages investment in the U.S. economy.

High Statutory Tax Rate

The combined federal and state tax rate in the U.S. averages approximately 39 percent, which significantly exceeds the rates in most other countries. For example, our largest foreign markets include Canada, the United Kingdom, Korea, and Australia, which have combined federal and local tax rates that range from 24 percent to 30 percent. Canada, the United Kingdom, and Korea all are expected to reduce their rates further in the near future. The average combined tax rate among the member countries of the Organisation for Economic Co-operation and Development (OECD) is now 25 percent and is expected to continue to decline.

Even many developing and emerging countries have lower income tax rates than the U.S. For example, China and Russia are among our most significant growth markets, and their tax rates are 25 percent and 20 percent, respectively. In the increasingly aggressive and competitive global market, it is difficult for U.S.-based multinationals to compete effectively with non-U.S. companies who benefit from lower tax rates in their home countries.

The higher tax rates in the U.S. also put American companies at a significant disadvantage when evaluating foreign acquisitions. Expansion through acquisition can be an effective approach for entering a new market segment, a new country, or acquiring technology. Due to lower tax rates, foreign companies can generally afford to pay more to acquire a non-U.S. company and still earn their targeted return. When U.S. companies lose out on these acquisitions, they lose ground in the global economy. The result is lower profits, fewer earnings repatriated to the U.S., smaller returns to U.S. shareholders and slower U.S. economic growth and job creation.

Taxation of Worldwide Earnings

In addition to its high tax rate, the U.S. taxes the worldwide earnings of U.S.-based companies, whereas most developed countries do not tax their local companies in a similar manner. With the recent adoption of territorial systems by Japan and the United Kingdom, the U.S. is the only G8 country where businesses are subject to a worldwide tax system. Under the current U.S. system, all repatriated income of U.S.-based companies is subject to U.S. tax which creates an incentive for companies to leave their cash outside the U.S. Repatriating foreign income to the U.S. facilitates reinvestment in product development, capital spending, or returns to shareholders. Free flow of capital is critical to attract economic investment.

Kimberly-Clark has a strong history of capital investment in the U.S. and of paying dividends to our shareholders. For each of the last five years, we have averaged more than half a billion dollars of capital spending in the U.S. In addition to supporting jobs at Kimberly-Clark, our investment generates jobs and economic activity at our suppliers and in the surrounding communities. 2011 marks the 77th consecutive year that Kimberly-Clark has paid a dividend, and we have increased our dividends paid per share for 39 years in a row. These dividends are an important source of income to our shareholders, which include a significant number of mutual funds, state and local pension plans, and individual investors. In addition to generating income tax revenue, dividends stimulate the American economy when shareholders spend those dividends on everyday needs.

Our current system of taxation results in American companies facing much higher tax rates than most of their foreign-based competitors, which pay little or no home-country tax on income earned abroad. For example, one of our primary global competitors is headquartered in Sweden. Sweden has a 26 percent tax rate and exempts foreign-source dividends from domestic taxation. When competing in China, both companies pay the same rates of tax. However, the Swedish headquartered company can repatriate its foreign earnings to Sweden and reinvest those earnings in job creation and product development without paying additional tax. In contrast, for Kimberly-Clark, repatriation of those earnings to the U.S. results in an additional layer of tax. This residual tax causes many U.S.-based multinationals to delay repatriation of foreign earnings and, consequently, creates an artificial barrier to investment in the U.S. Rather than impede the free flow of capital, we need a tax system which facilitates the flow of capital to the best opportunities and enables job creation.

Ironically, the U.S. tax system even can result in U.S. companies paying higher tax on the profit earned on products sold to U.S. consumers than their foreign-based competitors who sell to those same consumers. U.S. companies, such as Kimberly-Clark, own their intellectual property in the U.S., conduct their research, development, and manufacturing in the U.S., and tend to have a significant percentage of income subject to the higher U.S. tax rates. In contrast, foreign-based competitors, who manufacture outside the U.S. and develop their intellectual property outside the U.S., tend to have a lower percentage of overall profit subject to the higher U.S. tax rates. As a consequence, U.S. companies are disadvantaged versus global competitors when doing business in their own "home" country. The consequence is lower after tax profits, less money available to reinvest in their businesses or to fund dividend payments to their shareholders.

<u>Excessive Complexity</u>

Finally, the U.S. international tax system is highly complex and this complexity disadvantages U.S.-based multinationals against their global competitors. As the global economy has exploded, many U.S. businesses now generate more sales outside the U.S. Because the

U.S. rules for taxing foreign-source income have become increasingly complex and uncertain, American companies have an additional layer of risk and administrative burden compared to their global competitors. The U.S. needs a system of international taxation that reduces the cost of administration, reduces the risk of inadvertent error, and is easier to monitor.

America Needs a Tax System Which Promotes Investment in the U.S. and the Creation of American Jobs

America needs a corporate tax system that encourages both foreign and U.S. companies to invest in the U.S. economy and to create jobs. The bedrocks of such a tax system are a competitive tax rate in line with global averages and the ability to efficiently move cash to the U.S. for reinvestment in the American economy.

A pro-growth environment should also support U.S.-based innovation. A permanent research and development credit would support innovation, job creation, and economic growth in the U.S. Innovation through robust research and development is key to a successful company. At Kimberly-Clark, we spend more than $300 million annually on research and development and employ over 1,400 people at our U.S. research facilities. In addition to using the technology in our U.S. business, we license intellectual property related to proprietary technology and our well-known brands to our foreign affiliates. Royalties from our foreign affiliates support high quality U.S. jobs in our research and development function.

Recent proposals to move the U.S. tax system further away from competitive global norms by increasing U.S. tax on foreign earnings would put U.S. companies at a significant disadvantage. Retaining a worldwide system and ending deferral would impose an immediate 35 percent tax on foreign earnings of U.S.-based companies and require the payment of tax even though their U.S. operations may not generate sufficient cash from which to pay the liability. Burdening U.S.-based companies with a significantly higher tax rate than incurred by foreign competitors would significantly reduce the ability of U.S.-based companies to compete globally. This, in turn, would slow economic growth in the U.S. and impede the creation of U.S.-based jobs.

Recommendation and Conclusion

American companies have a terrific base of talent, an unrivaled track record of innovation, and some of the greatest products and brands in the world. But the rest of the world is catching up to us and the U.S. tax system creates an unnecessary competitive disadvantage to American companies and the American economy. A good first step to improving the competitiveness of the U.S. tax system is to reduce the combined federal and state tax rate to a level comparable to the combined rates in the rest of the OECD countries. The current combined U.S. tax rate is more than 50 percent higher than the average of the other OECD countries.

A second step would be to adopt a territorial system which exempts dividend income from U.S. taxation and taxes royalty income at a reduced rate. The current U.S. worldwide tax system imposes a significant tax on foreign earnings that are brought back to the U.S. for reinvestment here at home, discouraging job-creating domestic investment. By eliminating this extra layer of tax, the disincentive for American companies to reinvest their foreign earnings in the U.S. would be significantly reduced.

A third step would be to reduce the complexity of the U.S. tax system. The current complexity of the U.S. Tax Code requires U.S. companies to devote significant resources to ensure compliance. The time and money spent on those activities takes away resources that could be spent on product innovation, job creation and market growing activities. American businesses need a tax system that reduces the cost of administration, is stable and predictable, reduces the risk of error, and is easier to monitor.

To continue to prosper and improve the lives of consumers for another 140 years, Kimberly-Clark must grow our business at home and around the world. We must listen to the needs and desires of our diverse global consumers and continue to innovate and reinvest for future growth. To do all this, we need a corporate tax system that is competitive with global norms, is less complex and easier to administer, gives us the flexibility to manage our global operations in the most efficient manner, incentivizes the deployment of capital to the U.S., and promotes U.S. growth and job creation.

Thank you for giving me the opportunity to share my views on creating a tax system that supports the growth of American companies and enables the growth of the American economy and American jobs.

I would be pleased to take any questions you may have.