



## COMMITTEE ON TAXATION

March 27, 2009

The Honorable Harry Reid  
Senate Majority Leader  
S-221 United States Capitol  
Washington, D.C. 20510

The Honorable Mitch McConnell  
Senate Minority Leader  
S-230 United States Capitol  
Washington, D.C. 20510

The Honorable Nancy Pelosi  
Speaker of the House  
H-232 United States Capitol  
Washington, D.C. 20515

The Honorable John Boehner  
House Minority Leader  
H-204 United States Capitol  
Washington, D.C. 20515

Dear Congressional Leader:

We are writing on behalf of the Committee on Taxation ("COT") of Financial Executives International ("FEI") to address several of the proposals that were included in President Obama's budget plan that was sent to Congress on February 26, 2009. As Congress moves through the budget process, we respectfully request that you carefully review the many budget proposals that will create hundreds of billions of dollars in tax increases on businesses.

FEI is a professional association representing the interests of more than 15,000 chief financial officers, treasurers, controllers, tax directors, and other senior financial executives from over 8,000 major companies throughout the United States and Canada. FEI represents both the providers and users of financial information. The FEI Tax Committee formulates tax policy for FEI in line with the views of the membership. This letter represents the views of the Committee on Taxation.

The tax provisions in President Obama's budget would confront U.S. businesses with daunting challenges in the best of economic times. During this period of economic struggle, however, as businesses seek enhanced access to capital, increased liquidity, and renewed job growth, hundreds of billions of dollars in business tax increases will impede economic recovery.

Moreover, many of the tax policies in the budget plan would have a detrimental long-term impact on the competitiveness of U.S.-based businesses in the global economy. COT strongly urges that any major tax policy changes be addressed in the context of a broader tax reform effort, in which a significant corporate tax rate reduction is considered concurrently.

While many details of the President's budgetary policies are not yet available, it is clear from the limited detail in the budget outline that upcoming proposals will affect both private and publicly held companies across the country. Several proposals that would have a harsh impact on the overall economy and the competitiveness of U.S. companies should be carefully reviewed, including:

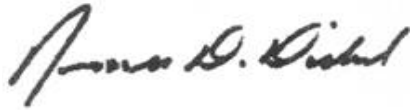
- *U.S. tax rules relating to foreign business income.* This is sometimes referred to as "deferral," and it is a key feature of our tax code that helps U.S. companies compete in international markets. President Obama's budget submission called for "reform" of the deferral policy, but offered no specifics on the contours of any such reform. Any proposal that would significantly change the current deferral policy should be carefully reviewed because Congress should promote policies that help American businesses compete with companies from other countries. The U.S. tax rules already include strong provisions on international business income that should diminish the concerns about abusive techniques. Growth opportunities for a large percentage of U.S.-based companies are in international markets. U.S. companies grow domestically, and U.S. jobs and wages increase, when U.S. companies succeed internationally. In sum, deferral is an important feature of our tax code and should be preserved so long as the U.S. maintains its policy (rare among developed nations) of taxing worldwide income of US-based companies.
- *Last-in, First-out (LIFO) inventory accounting method.* President Obama explicitly called for repeal of the LIFO accounting method in his fiscal year 2010 budget request. LIFO has been expressly permitted in the tax law for 70 years and has a solid foundation in financial accounting and economic theory. Moreover, LIFO accurately reflects income for tax purposes because current revenues are matched against current costs. The repeal of LIFO as a method of inventory accounting would have an adverse effect on the finances of companies in many different industries, including general manufacturing, publishing, retail and textiles. In some cases, companies might be forced to raise significant equity or debt capital in order to maintain their current financial position if LIFO is repealed. LIFO encourages companies to maintain their investment in inventory and grow their business, which in turn furthers job creation.
- *Tax increases targeting a single industry.* As a matter of sound tax policy, COT opposes singling out specific companies or industries for increased taxes. Such measures disrupt and distort business and investment decisions by individuals and business to the detriment of the U.S. economy.

COT commends the inclusion of a permanent Research and Development (R&D) tax credit in President Obama's fiscal year 2010 budget request. The credit also should be strengthened by increasing the Alternative Simplified Credit rate to parity with the regular credit. The R&D credit spurs innovation and economic growth and creates high-wage American jobs. A permanent extension of the strengthened credit would enhance its incentive value by providing the certainty that would permit companies to factor it into their long-range project planning.

In conclusion, we note that the U.S. corporate income tax rate is higher than the rates in all other OECD countries (save Japan, which is considering rate reductions and a shift to territorial taxation this year like almost all of our trading partners). The high U.S. tax rate creates a long-term competitive disadvantage for U.S.-based businesses. We encourage Congress to lower rates and restore the U.S. corporate tax system to a position that does not disadvantage U.S.-based businesses in the global economy.

FEI would welcome any opportunity to discuss these issues or to provide additional information. FEI staff and business leaders from FEI's member companies are available to speak on any of these issues. If you or your staff should have any questions feel free to contact Matt Miller, Senior Director, Government Affairs at 202-626-7804 or [mmiller@financialexecutives.org](mailto:mmiller@financialexecutives.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Ron D. Dickel". The signature is fluid and cursive, written in a professional style.

Ron Dickel  
Chairman  
FEI Committee on Taxation

cc: The Honorable Timothy F. Geithner  
The Honorable Peter R. Orszag  
The Honorable Lawrence H. Summers