financial executives international

COMMITTEE ON TAXATION

July 17, 2017

The Honorable Orrin Hatch
Chairman
Senate Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Chairman Hatch:

Financial Executives International's (FEI) Committee on Taxation respectfully submits the following views to the Senate Committee on Finance in response to your June 16 request for feedback on tax reform. The Committee on Taxation urges Congress to stimulate economic growth by enacting tax reform in 2017 that lowers the statutory corporate income tax rate, adopts a competitive territorial tax system, encourages business investment and job creation, and provides for consistent treatment of taxpayers engaged in the same or similar activities.

FEI is a professional association representing the interests of more than 10,000 chief financial officers, treasurers, controllers, chief tax officers, and other senior financial executives from over 8,000 major companies throughout the United States, Canada, and 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 the Committee on Finance works with the Treasury Department to develop comprehensive tax reform legislation in 2017.

Overall Goals of Federal Tax Reform

The overall goal of any tax reform effort is simple – promote U.S. economic growth. We believe the best way to achieve this goal is through a permanent law change to a competitive territorial tax system with the lowest possible tax rates.

Stable, Predictable and Simple Regulations Promote Economic Growth

Businesses feel empowered to make impactful investments in economies that have stable, predictable and simple regulatory regimes.

As a collective of both decision-makers in the business arena and experts in taxation, we additionally support the following specific key components of federal tax reform:

Key Components of Federal Tax Reform

- Provide Competitive Corporate Tax Rates. Reductions in corporate tax rates would allow American companies to be more competitive, grow, and create jobs. A significant reduction in the U.S. corporate income tax rate to a level competitive with our trading partners is needed for the United States to remain competitive in the global marketplace and to promote continued U.S. economic growth and job creation. Today, the top U.S. corporate tax rate, including state corporate income tax, is approximately 39%, which is more than 14 percentage points higher than the OECD average. A competitive corporate income tax rate would make domestic investment more attractive and would create an incentive for companies to perform high-profit activities and create new jobs in the United States.

- Adopt Competitive International Tax Rules. The current worldwide tax system should be replaced with a territorial system for the taxation of foreign source income in a manner that does not discriminate against any particular industry or type of 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 U.S. worldwide system, when combined with the high U.S. rate, creates perverse incentives for inversions, profit shifting, and foreign acquisitions of U.S. companies. The adoption of a competitive territorial system would benefit the U.S. economy by eliminating the current "lock-out effect" and encouraging foreign business profits to be repatriated and invested in the United States.

- Provide an Incentive to Repatriate Foreign Earnings. In designing a territorial system, additional consideration should be given to how foreign income earned prior to enactment is treated. Any "mandatory repatriation" through taxation of such foreign earnings should be at a significantly reduced rate to maximize investment in the U.S. economy. Any provision should also permit the netting of positive and negative earnings of separate related entities, as well as the pooling of foreign tax credits of CFCs with positive and negative earnings. Additionally, it should not tax foreign earnings that are invested in plant, property and equipment, earnings that support regulatory capital or reserves, or earnings that are otherwise required to be maintained in a foreign jurisdiction for regulatory purposes, which are similarly illiquid.

- Foster Technological Innovation. The research and development (R&D) tax credit encourages technological developments, which are an important source of economic growth and high-paying jobs. Many other countries not only have lower corporate tax rates generally, but also provide greater tax incentives designed to attract and retain R&D activities. While it is understood that tax reform could involve the elimination of special-interest deductions and credits in favor of providing lower tax rates, we strongly support maintaining and enhancing the permanent R&D credit, which incentivizes companies to conduct R&D in the U.S. and to maintain and expand the high-skilled research jobs (and the directly associated manufacturing jobs) that drive this economic investment. Additionally, proposals that require companies to capitalize their research and experimentation (R&E) expenses rather than deducting them in the year incurred not only substantially reduce the incentive to engage in valuable and innovative research activities in the United States but also conflict with the R&D credit's policy goal of stimulating investment in R&D. Therefore, we support continued full expensing of R&D costs.

- 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. Although accelerated capital cost recovery is an important incentive for investment, many businesses also rely on debt to finance their business. A combination of accelerated capital cost recovery and continued deduction of net interest expense would offer businesses of all sizes flexibility and incentive to make and finance new investments. For example, making permanent the 50% bonus depreciation allowances while retaining deductibility of net interest expense may be preferable

compared to choosing full expensing over any allowance for interest deductions. The corporate AMT, which discourages capital formation, exacerbates business cycles, and complicates the current tax structure, should be repealed.

- 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 should accompany any fundamental reforms.

The Committee on Taxation appreciates your efforts on tax reform and looks forward to working with you to advance tax reform legislation that advances our goals. We welcome the opportunity to discuss these issues further with you and your staff.

Thank you for your consideration of our views.

Sincerely,

Committee on Taxation
Financial Executives International

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