Boise Inc.
1111 W. Jefferson Street, Suite 200 Boise, ID 83728

April 15, 2013

The Honorable Jim Gerlach
Chair
Manufacturing Tax Reform Working Group
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Honorable Linda Sanchez
Vice Chair
Manufacturing Tax Reform Working Group
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Honorable Peter Roskam
Member, Manufacturing Working Group
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Representatives Gerlach, Sanchez and Roskam:

Thank you for your letter dated March 18, 2013, inviting Boise Inc.'s perspective on how to improve the tax code and incentives of importance to U.S. manufacturers. We appreciate your work to develop bipartisan comprehensive tax reform legislation.

Background on Boise Inc.:

As you may know, Boise Inc., headquartered in Boise, Idaho, manufactures paper and packaging products. These include papers used for communication, such as office papers, commercial printing papers, envelopes, forms, and newsprint, as well as papers that are associated with packaging, including label and release papers used for food labels and other applications. The company also manufactures linerboard and corrugating medium, which are combined to make containerboard, the base raw material in our corrugated sheets and containers. The company employs approximately 5400 employees, primarily in the U.S., and most of whom are located in rural parts of the country.

We focus on working safely, creating opportunities for our people, and using natural resources intelligently in our manufacturing and distribution processes to help sustain and improve the environment.

The U.S. forest products industry is a leader in making substantial investments in renewable energy equipment and facilities to generate electricity and other useable forms of energy used for its operations. Approximately 65% of the energy used at paper mills is generated from carbon-neutral biomass energy.

Forest products companies are among the largest employers in the U.S. manufacturing sector, exceeding employment levels of the automotive, chemicals, and plastics industries. As an industry, U.S. payroll exceeds $50 billion annually. The industry provides generous compensation to its employees, located in some of the most rural areas of America. The earnings of pulp and paper mill workers exceed the average for all U.S. private sector workers by about 50%.

Boise's Position on Tax Reform:

The system of corporate taxation in the U.S. is uncompetitive with other developed nations. Boise Inc. supports broad-based reform that will result in a competitive system of taxation for U.S. businesses.

Most reform proposals are focused on reducing tax expenditures, including accelerated depreciation and the production activities deduction, in order to either pay for a rate reduction or to increase revenue. However, eliminating these expenditures without a significant reduction in the tax rate would disadvantage domestic manufacturers relative to their international competitors.

We support broad-based reform, if the reform is substantial. The current system is least competitive with regard to the corporate tax rate and the taxation of multinational businesses; however, if all reform does is broaden the base, then we are at risk of being uncompetitive with regards to depreciation allowances and business incentives as well.

Meaningful reform would trim corporate income tax rates to ~25%, would include all forms of business income, including taxation of pass-through entities, and would maintain competitive tax expenditures that encourage R&D and manufacturing activities.

Effects of Reform on Boise Inc.:

The fact that paper manufacturing is capital intensive and profits are eligible for the Domestic Production Activities Deduction means Boise Inc. and other paper manufacturers are increasingly at risk of being disadvantaged by base broadening, relative to non-manufacturing entities. Reform that reduces the tax benefits received from capital investment and the Domestic Production Activities Deduction, without providing sufficient rate reductions, could severely disadvantage all domestic manufacturers.

Successful tax reform will result in a system that features an internationally competitive corporate tax rate, maintains competitive recovery methods and lives for depreciation, allows for low-cost repatriation of foreign earnings to the U.S., and fosters innovation with a generous R&D credit. The system should also allow for the free movement of capital by maintaining parity between dividend and capital gain rates.

Responses to "Questions on Tax Reform" posed by the Manufacturing Tax Reform Working Group of the U.S. House Committee on Ways and Means

Manufacturing Tax Incentives: A Tax Code to Increase U.S. Manufacturing:

From the perspective of your industry/company, which provisions in the current Tax Code do you consider the most important to manufacturers?

> The tax provisions that have the greatest positive impact for our company are accelerated depreciation and the domestic production activities deduction.
>
> Also of importance is parity between the taxation of dividends and capital gains. The free flow of capital between enterprises and investors is an important element of our system, and a lack of rate parity between the two primary ways that capital can flow out of a business affects business and investor decisions unnecessarily.

Of these provisions, in the context of comprehensive tax reform, which of these would you be willing to give up in return for a lower rate?

> In the context of comprehensive tax reform, we are open to modifications to all aspects of the tax system, as long as the result is an internationally competitive tax system that does not provide barriers to manufacturing competitiveness. It is important to note that the marginal rate is not the only element of competitiveness. The U.S. should adopt a system that delivers competitive rates as well as competitive provisions, including personal property depreciation, real property depreciation, and research & development benefits that encourage capital investment

The U.S. Corporate Rate, Manufacturing Tax Incentives and the Global Landscape:

Are the tax incentives available to U.S. manufacturers similar to the tax incentives available to your international competitors? If not, please provide examples.

> The U.S. provides similar incentives in form, but not always in magnitude. The current system of accelerated depreciation provides for competitive cost recovery of machinery and equipment, but

modifications to slow the rate of recovery would likely result in an uncompetitive position. The research and development credits and expensing are structurally similar to other countries but many other countries have more attractive regimes in place that are easier to comply with, provide more benefits, or receive less scrutiny upon audit.

The Production Activities Deduction is an example of an incentive provided to domestic manufacturers that most foreign jurisdictions do not provide in their tax systems. There are a large number of credits that exist in the U.S. Code that are relatively unique to the U.S.

In general, what impediments are there in the U.S. Tax Code that makes it difficult for American Manufacturers to compete in a global marketplace?

Higher tax rates make it difficult for businesses to attract and justify capital for investments and, ultimately, to create value for their investors.

International planning and structuring benefits the largest of businesses, but the level of sophistication required to execute these plans leaves mid-size businesses at a competitive disadvantage. A system that provided lower rates and low-cost repatriation would create less incentive to structure around the US worldwide system that is in place today. It would also create a better level playing field for small to midsize businesses operating predominantly in the U.S.

Are companies at a competitive disadvantage due to the fact that the U.S. currently has the highest statutory corporate tax rate of all OECD countries?

Yes, one of the primary responsibilities of business is to return value to investors. A higher tax in the US makes it more difficult to return value to shareholders relative to competitors operating in lower tax jurisdictions.

Would eliminating the tax expenditures listed in #1 and replacing such expenditures with a meaningful reduction in the statutory corporate tax rate help manufacturers to better compete domestically and/or internationally? What about for pass-through entities and smaller manufacturers if the individual marginal rate is reduced?

To remove the expenditures in #1 in order to create a broader base that could support a lower rate would provide a cosmetic fix to the overall competitiveness issues. Reform in this capacity would likely shift the burden of taxes toward manufacturers, resulting in a net increase in taxes paid. More taxes paid by manufacturers would result in reduced returns to investors so it is difficult to conclude that we can compete better in that system. It is critical that expenditures that are friendly to manufacturing also stay competitive internationally.

We are not prepared to comment on individual marginal rates and their impact on competitiveness for smaller manufacturers. Historically, when there has been a lack of parity between corporate and individual rates we would see a shift to or away from corporate ownership. If the goal of the government is to not influence such decisions it would make sense to maintain a consistent relationship between corporate taxation and the taxation of pass-through income.

Improving the tax code for manufacturers: Reforming Manufacturing Tax Incentives:

Should any of the manufacturing tax provisions be modified to ease the administrative burden of compliance such as R&D? If so, how should such provisions be modified?

The Research and Development Credit should be rationalized to maximize its effectiveness and be benchmarked against the benefits offered by other countries so that it provides a competitive incentive for business to conduct their R&D activities within the United States.

A lack of predictability surrounding the longevity of many manufacturing incentives has been a challenge for the past several years. The R&D credit is frequently only extended for a one to two year period into the future, and even then only after it had already been expired for a year. Other provisions, such as those offered under Sec. 48, have short time horizons that can make them difficult to consider in a long-term capital plan. A key principle of tax reform should be to provide a system which will allow businesses to create long-term plans for growth using tax provisions they can rely on.

Can you discuss how your company relies on or takes advantage of certain cost recovery provisions in the tax code, such as accelerated depreciation? How do those recovery methods help manufacturers manufacture cash flows? Do you think there are areas in the rules governing depreciation that should be evaluated or modified in tax reform?

We have taken advantage of accelerated depreciation as well as the various bonus depreciation provisions that have existed since our inception in 2008. The timing of tax deductions and the resulting cash benefits are modeled into our project costing and approval processes. This makes depreciation recovery an important input in our investment decisions. The bonus depreciation provisions have had a similar effect in that they improve the cash flow impact of certain investments. These provisions ultimately do encourage additional investment.

We are satisfied with the depreciation rules and governance and have no changes to recommend.

How can the Tax Code better encourage manufacturers to innovate and develop new products here in the U.S.?

There are many factors that influence where manufacturers choose to source their research and development activities. Not all of the factors are tax focused, but to the extent that they are, the U.S. should provide competitive benefits that encourage the activity. These benefits include a competitive R&D credit, accelerated depreciation recovery, and internationally competitive tax rates for the resulting royalties.

Many of our global competitors utilize patent boxes or "innovation boxes" which essentially provide tax benefits for the commercialization of successful R&D. Do you believe implementing such a structure in the US would help manufacturers compete globally?

Some combination of "innovation boxes" and research and development credits/expensing should be used to make the U.S. system of taxation competitive globally. Once the system of taxation is competitive, factors not driven by the Code will dictate where manufacturers innovate.

Sincerely,

Alexander Toeldte

Alexander Toeldte
President and CEO, Boise Inc.

C: Virginia Aulin, P. Verdun, C. Forrey, Boise Inc.
Susan Petniunas, representing Boise Inc.