Honeywell

David M. Cote
Chairman and
Chief Executive Officer

Honeywell
P.O. Box 3000
Morristown, NJ 07962-2496

973 455-6768
973 455-4002 Fax
dave.cote@honeywell.com

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The Honorable Jim Gerlach
Chair, Manufacturing Working Group
Committee on Ways & Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Linda Sanchez
Vice Chair, Manufacturing Working Group
Committee on Ways & Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Peter Roskam
Member, Manufacturing Working Group
Committee on Ways & Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Congressman Gerlach, Congresswoman Sanchez and Congressman Roskam,

Thank you for asking Honeywell's views on how to improve the tax code and tax incentives for U.S. manufacturers. We agree that it is critically important for Congress to hear from all stakeholders in order to create a more pro-business tax code.

Honeywell is a Fortune 100 company that invents technologies and manufactures products to address some of the world's toughest challenges linked to global macrotrends such as energy efficiency, clean energy generation, safety and security, globalization and customer productivity. With approximately 132,000 employees worldwide, including more than 22,000 engineers and scientists, we have an unrelenting focus on performance, quality, delivery, value and technology in everything we make and do.

The U.S. tax system is grossly inefficient and globally uncompetitive – and fails to serve as an enabler for U.S. companies. Reducing the corporate tax rate so that it is competitive with other major economies, eliminating market distorting expenditures, simplifying the code, and moving to a dividend exemption system are keys to reforming the tax system in order to incentivize economic growth in America. These goals should take priority over both current and proposed business tax incentives.

Having the highest statutory corporate tax rate of all OECD countries puts U.S. companies at a distinct disadvantage to foreign competitors. Reducing the statutory rate to the average OECD rate would lower the cost of capital and encourage growth in the U.S. A meaningful reduction in the tax rate would enable companies to better compete both domestically and internationally.

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Small companies which do not benefit from complex tax provisions that may be eliminated by comprehensive tax reform would further gain from a lower rate.

We also are the only major developed economy without a dividend exemption system for taxes on foreign earnings. The current worldwide system makes U.S-based companies less competitive in the global market and traps cash outside the U.S. that could be invested here at home. For example, U.S. companies can be at a disadvantage against foreign competitors for U.S. acquisition opportunities since they may be required to borrow from third-parties or bring cash back to the U.S. at an added cost. In either case, the costs are greater when compared to a non-U.S. company. Moving toward a dividend exemption system would enable manufacturers and other companies to compete on a level playing field with their non-U.S. based competitors in the global market, as well as allow cash earned abroad to be efficiently invested in the U.S.

The complexity of the tax code is as astounding as it is inefficient. As Congress moves forward on reform, simplicity, fairness and efficiency should be critical components. For example, the R&D credit is complex and requires significant resources simply to calculate. Simplification would reduce the administrative burden and broaden the pool of companies that are able to take advantage of such provisions (i.e., smaller businesses).

Finally, an "innovation box" would help U.S. companies compete globally. An "innovation box" would subject specific types of income attributed to intellectual property, patents or other intangible assets to a certain rate of tax. Other nations have employed this provision to spur and attract innovation. An expansion and simplification of the R&D tax credit or a well-constructed innovation box could lead to greater manufacturing advances and incentivize production in the U.S.

Thank you for this opportunity to provide input on how to best reform our tax code to support manufacturing in the U.S. I believe that the reforms outlined above will benefit not just manufacturers but other U.S. companies both large and small. Tax policy can and should be a key enabler to growing an economy that creates the jobs which we all want. We welcome the opportunity to continue discussing these issues with you and your staffs.

Sincerely,

David M. Cote

Dave Cote
Chairman and CEO