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"The Economic Urgency of Restoring Key Tax Provisions"
Statement for the Record
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Hearing on Certain Expiring Tax Provisions
House Committee on Ways and Means
Subcommittee on Select Revenue Measures
April 26, 2012

Chairman Tiberi, Ranking Member Neal, and Members of the Subcommittee, thank you for holding this important hearing on the value that tax extenders provide to the American people. Many of the provisions are integral to America's global economic leadership and our companies' ability to innovate and create new, good-paying, long-lasting jobs.

As members of this subcommittee well understand, the U.S. tax code is complex and, often, contradictory. An honest reading of the code will reveal that, for all of the pro-jobs and economic growth rhetoric we hear from all corners, the U.S. tax code unfairly targets American-based global corporations that account for the bulk of U.S. R&D spending, exports, and almost all outward direct investments. As we work together to recover from the worst economic recession in generations, we should adopt a tax structure that encourages companies to invest in the American people and American companies to produce the cutting-edge products that the world is demanding.

When the current package of tax extender provisions expired in December 2011, U.S. companies held their collective breath to see when – not whether – the Congress would reauthorize these job-creating provisions. Unfortunately, given the tenor of the politics of Washington, it is increasingly difficult to see a path forward this year. Each commitment of progress is met with a push for delay. We hope to see progress.

The technology sector agrees that the Congress should take a serious look at the merit of current temporary tax provisions as it looks at comprehensive tax reform. However, comprehensive tax reform is not expected until 2013, at the earliest. Absent an effort by Congress this year to pass a tax extenders package, critical job-creating tax provisions could be left off the books for two years or more. Even a delay of one year, which is all but certain, is unacceptable, especially at a time when other countries are not standing still to attract capital investment, and encourage companies to create jobs within their borders. Bluntly, our economy cannot afford extended congressional inaction on tax incentives that boost American jobs and the American economy.

The technology sector is focused on three specific extender provisions. The first is the Research and Development (R&D) tax credit. This is clearly a pro-jobs tax credit, with approximately 70 percent of the benefits of the credit attributable to salaries of workers performing U.S.-based research. This credit leads to more tax revenue, patents, and jobs. Here at home and around the world, R&D tax incentives have been proven to effectively increase private-sector innovation and boost economic growth.

The United States was the first nation to realize the importance of spurring R&D through the tax code, putting in place the R&D credit in 1981. Throughout that decade, the U.S. had the most generous R&D tax incentive in the world. However, as the Information Technology and Innovation Foundation has noted, other nations learned from our success and have not just copied us, but left us in their wake. By 1996, the United States had fallen to seventh in R&D tax generosity among the 30 OECD nations; by 2004, the U.S. had fallen to 17th. Other non-OECD nations – including our top global competitors – have overtaken the U.S. in supporting R&D.[1] And all of that was before the U.S. R&D tax credit was allowed to expire. Our global competitors would welcome Congressional inaction on the R&D credit; our economy simply cannot afford it.

In addition to R&D tax credit, the technology sector strongly supports an extension of two other expiring tax provisions on which companies depend to compete abroad and which are important to the U.S. economy: the exception under Subpart F for the look-through treatment of payments between related controlled foreign corporations (CFCs) and also the corollary exception for active financing income. In 2008, Professors Mihir Desai and Fritz Foley of Harvard and James Hines of the University of Michigan studied the domestic effect of U.S. firms' foreign investment and found that such investment is associated with increased U.S. investment, wages, employment, R&D spending, and exports.[2] The high-tech industry depends on serving markets around the world, and these provisions are crucial to our ability to compete abroad so that we can remain strong and create jobs here at home.

Mr. Chairman, we are ready to work with members on both sides of the aisle not only to win approval of the extension of these key tax provisions, but also on shifting the focus of the U.S. tax code to global competiveness. Our nation's outmoded tax policies are holding us back, and allowing those provisions that boost economic growth to lapse serves no good end. I know firsthand from my discussions with leading technology companies that corporate tax policy is a major driver of where to locate the next factory or facility, and the jobs that accompany it. These critical investment decisions are not a simple game of salary and supply-chain arbitrage. Yes, costs matter to companies, as they do to customers, but the factors that impact costs are multi-dimensional, with the business climate, including tax policy, often becoming a deciding factor.

Upgrading the tax code will go a long way towards reclaiming America's economic leadership position. Many of the most prominent companies in our country, and certainly many in the tech sector, did not exist or existed in a very different form when our code was last rewritten in 1986. Like other major markets have proved, an upgraded tax code must be simple, with innovation incentives like a permanent R&D tax credit at its heart to drive innovation, competitiveness, and good jobs here at home.

Again, we thank you for holding this hearing and look forward to working with you and the subcommittee members to enact an extension of these tax extensions this year, to be followed by comprehensive tax reform that places a focus on creating jobs, not driving them to foreign shores.

About ITI

The Information Technology Industry Council (ITI) is the premier voice, advocate, and thought leader for the information and communications technology (ICT) industry. ITI is widely recognized as the tech industry's most effective advocacy organization in Washington, D.C., and in capitals and key markets around the world. Our members are leaders in the top tier of the information and communications technology sector in the United States and around the globe, and include ten of the world's 50 largest companies, and ten percent of both the Fortune 50 and Fortune 100 companies.

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[1] Robert D. Atkinson and Scott Andes, *17 is Not Enough: The Case for a More Robust R&D Tax Credit*, 2011, 1.

[2] Mihir Desai, Fritz Foley, and James Hines, *Domestic Effects of the Foreign Activities of U.S. Multinationals,* 2008, 14-15.