Position Paper on Corporate Tax Reform
Submitted by LORD Corporation
Cary, NC
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LORD Corporation strongly supports corporate tax reform to make the U.S. competitive with other major economies and stimulate domestic economic growth. Specifically, LORD supports reducing the top marginal rate and moving to a territorial system of taxation. These policies would spur increased demand for our products and technologies, and enable us to reinvest capital in the U.S. to fuel our growth.

A lower corporate marginal rate would promote increased capital investment in the U.S. by LORD and other firms from around the world. Under a reduced top rate, each U.S. capital investment decision would immediately be more attractive than at present. Even for firms whose current effective rate is below the top marginal rate, new investments will always be judged using the top rate in the investment analysis.

A move to a territorial system of taxation will be critical to increase our competitiveness and enable LORD to reinvest in the U.S. If we do business in a country with a lower tax rate, we are at a competitive disadvantage in that country if we also must pay U.S. taxes in order to repatriate the profits to the U.S. LORD manufactures 70% of its product sales domestically and exports 30% of that production. Overall, 50% of our sales come from outside of the U.S. Roughly 50% of our profits are made on our international sales, resulting in large cash generation in many of the foreign countries where we operate.

At the same time, the majority of our cash needs are for domestic use. Approximately 85% of our $80 million in R&D expense during 2013 will be in the U.S. Going forward, we expect to increase the U.S. share of our total R&D expense to protect our intellectual property. In the last five years, 64% of our $184 million in capital investments have been in our domestic facilities. Looking ahead, we project even higher domestic capital investment driven by two large projects in Northwest Pennsylvania.

As a result of the current global system of taxation, LORD has $70 million in cash in foreign countries that would require a tax of roughly $10 million to repatriate to the U.S. Over the next five years, we expect to accumulate another $100 million outside of the U.S. The tax levied on these earnings would be significant, and tantamount to a penalty for choosing to reinvest these profits in our U.S.-based R&D and capital requirements.

The cost associated with repatriating these earnings reduces the attractiveness of LORD making investments domestically relative to investing in the countries where the cash is generated. Reducing the top marginal corporate tax rate would partially solve the problem by bringing the U.S. rate more in line with many other countries since the U.S. tax is calculated on the difference between the U.S. rate and the foreign rate already incurred. However, in our case, LORD would still incur a cost in most cases, leaving a territorial system as the most effective solution to spur additional investment in the U.S.

Finally, LORD is a technology-oriented company that sells new solutions to the Aerospace and Defense, General Industrial, Oil and Gas, Automotive, and Electronics Industries. Our significant investment in R&D (8 to 10 percent of annual sales) has allowed LORD to more than double in size over the last ten years to more than $860 million in revenues during a difficult economic period, while also sustaining and creating new jobs. Maintaining the R&D tax credit, even at a lower top tax rate, is critical to our competitiveness in conducting R&D domestically relative to our global competitors, as other countries have similar incentives along with highly competitive marginal tax rates.

LORD appreciates your willingness to consider these factors as the discussions continue on potential reform of the U.S. corporate tax code.

Respectfully submitted, Rick McNeel
Chairman of the Board, LORD Corporation