Testimony of Mark Schichtel

Senior Vice President and Chief Tax Officer
Time Warner Cable Inc.

Before the House Committee on Ways and Means
Washington, DC

February 8, 2012

Chairman Camp, Ranking Member Levin and members of the Committee, thank you very much for inviting me to appear before you today to share our views on corporate tax reform. I am the Senior Vice President and Chief Tax Officer of Time Warner Cable and have held that position since we spun off from Time Warner nearly three years ago. As a Fortune 150 capital-intensive domestic company, we believe that tax reform that significantly reduces the corporate tax rate is critical not only to our growth, but to the growth of the overall economy.

Time Warner Cable provides high-speed data, video and voice services to over 14.5 million customers in the United States. We employ over 48,000 employees in 29 states across the country. We offer our workers secure white-collar and blue-collar jobs with competitive wages and generous benefit packages that support families, dreams and retirements. Last year, we hired over 7,300 people, including hundreds of veterans.

We are part of our nation's backbone that enables domestic businesses to compete regionally, nationally and globally. We connect individuals and businesses through high-speed broadband, video and voice services in ever evolving, consumer-driven ways. One of our highest growth areas relates to commercial services, helping businesses, especially small and medium-sized businesses, grow and thrive even in a challenging environment.

To better serve our customers and the communities in which we do business, we continue to invest to expand our broadband network, to improve our technology and to hire new people. Time Warner Cable spends about $3 billion a year on capital improvements, one-third of which goes to wages. In 2012, we are continuing to extend our network to new areas, connecting the internet and our services to even more businesses and families. Similarly, our capital investment supports the growth of our broad supplier network, including small and medium size suppliers across our national footprint and nearly a quarter of a billion dollars spent annually with minority and female-owned suppliers.

And the cable industry as a whole is a key economic driver. As of 2010, the cable industry (directly and indirectly) accounted for nearly 1.8 million U.S. jobs representing almost $77 billion in personal income. Gross economic output attributable to the industry amounts to more than $251 billion. Additionally, historical data suggests that for every $1 billion in revenue, "core" network companies provided 2,329 jobs.

As a business and an industry, we understand that our growth is largely tied to the overall economy. That is why we are strong advocates for tax reform generally and for a significant reduction in the corporate tax rate.

The 35 percent statutory tax rate will soon be the highest in the OECD (if Japan advances its plans to lower its rate in 2012). Our high corporate tax rate discourages domestic investment by U.S. companies, and makes the U.S. a less attractive place for in-bound foreign investment. Our higher cost structure, also places upward pressure on the price of products and services sold in the U.S. and the price competitiveness of our exports abroad. Thus, the current tax system is a barrier to economic growth. We believe that tax reform that significantly lowers the corporate tax rate will enhance economic growth, increase investment and employment, make domestic businesses more competitive and reduce the role of taxes in business decisions.

Our business and the cable industry generally have a high tax burden as compared to other businesses and industries. Our effective tax rate is historically around 39 percent, while our cash taxes are lower driven by temporary capital cost timing incentives such as bonus depreciation, the benefits of which are now reversing. Taxes are a significant business cost, ranking among our largest in terms of magnitude along with our programming, employee, financing and capital outlays. Although difficult to quantify and allocate, these taxes are ultimately borne by our investors, workers and customers through lower returns and wages, less investment and training, and higher costs and prices. And, because taxes affect rates of returns on investments and the prices of products and services, they are a major factor in our business planning.

Like most companies, we are strongly influenced by tax incentives that improve our GAAP financial reporting metrics, such as our reported income, effective tax rate and earnings per share. Items like the research credit and the section 199 domestic production incentive are differences that permanently reduce our taxes paid and concomitantly our effective tax rate, thereby encouraging new investments.

Given the capital intensity of our business, however, we rely even more on timing incentives that do not impact GAAP financial reporting, such as expensing or accelerated depreciation, which significantly enhance our actual cash flows and ability to invest in our people, technology and network infrastructure. These policies have and continue to support our business, consumers and the communities that we serve.

Over the decades, well-intentioned policy choices have helped produce a tax code and related regulations that are read in small print and measured in volumes. Each enacted policy objective is accompanied by a hefty helping of nuanced rules needed to implement, clarify and limit potential abuse. It's not just complexity that burdens our economy; it's the year-after-year starts, fits, stops, changes and uncertainty that frustrate business leaders, analysts and investors alike. Often the benefits are very large, swaying or thwarting decisions about what, when and where to invest. Subtle changes from one year to the next, intentionally or unintentionally, deny one company a benefit, while often heaping on an extra helping for another.

It's time for American businesses to put our industry-specific wishlists to the side and work collectively to support a more coherent and equitable approach to corporate taxation. We recognize that given competing priorities and deficit reduction efforts, corporate tax reform will most likely need to be revenue neutral.

We are part of the RATE coalition, a group of major companies and associations willing to put all of our respective tax expenditures on the table and broaden the tax base in order to bring America's corporate tax rate in line with the rest of the developed world. We advocate for a significantly lower rate, a simpler tax code, and predictable, consistent tax rules upon which business can make long-term decisions. We strongly believe that such changes will spur economic growth and create jobs in the U.S., increase American competitiveness and benefit American workers.

According to the Heritage Foundation, lowering the corporate tax rate to 25 percent would create an average of 581,000 jobs in the U.S. annually from 2011 to 2020. At their current high corporate tax rates, the U.S. and Japan suffered a net loss of 46 and 39 Fortune Global 500 company headquarters respectively between 2000 and 2011. Finally, studies suggest that workers bear up to 75 percent of the burden of the corporate income tax. According to Ernst & Young, this equates to lower wages and benefits of $100 - $200 billion at the average level of corporate taxes in the U.S. between 2000 and 2010.

We have so many advantages that make America a great place to invest and grow a business – our people, legal system and capital markets. Yet, we have an administratively cumbersome tax structure with an uncompetitive high statutory tax rate. We are pleased that there is a growing consensus for corporate tax reform that significantly reduces the corporate tax rate. We commend the Members of the Committee for their leadership in this regard.

We support such efforts, not just because it is advantageous for our company or industry, but also because it is good for our economy and our country. It's what we need to create a business climate that attracts investment, grows jobs and invigorates our economy. We would welcome the opportunity to work with the Committee Members and their staff on these important matters as tax reform progresses.

Once again, I want to thank Chairman Camp, Ranking Member Levin and the Committee for inviting me today. I very much appreciate this opportunity to testify and would be happy to answer any questions you might have.