Statement of the Active Financing Working Group

The Active Financing Working Group applauds the Committee on Ways and Means and the Select Revenues Subcommittee for holding its hearing on the critically important topic of expired and expiring tax provisions.

It is essential that the active financing rules be reinstated retrospectively, to the beginning of 2012, and extended forward.

The active financing rules, which have broad bipartisan support, are necessary to maintain the competitiveness of the U.S. -based financial services industry and of manufacturing companies that rely on financial services arms to provide financing for large-ticket manufactured products.

With the active financing rules, the global active business income of U.S. financial services firms is given the same treatment as is provided for the active business income of other, non-financial U.S. companies doing business outside the U.S. The active financing rules are not a special incentive. Rather, they simply apply the general rules of deferral to the financial services sector of our economy.

Select Revenues Chairman Tiberi noted in his opening statement that deferral for active financing income is “among the most important recently expired provisions that must be extended.” Select Revenue Ranking Member Neal agreed noting that it is “essential that the active financing rules . . . be extended.

The Active Financing Working Group also notes the testimony of Dr. Roseanne Altshuler, Professor and Chair, Department of Economics, Rutgers University, before the Senate Finance Committee in January. She correctly identified the active financing rules as one of the “fundamental policies of our current tax system” and called for the rules to be made permanent. In her words, “It does not make sense for provisions that are more properly considered structural features of our tax system, like the active finance exception, to be temporary in nature.”
The active financing rules provide that U.S. financial services companies will be taxed by the U.S. on active business income earned by their foreign subsidiaries only when the income is repatriated to the United States. As a result, that income is taxed on a current basis at the same local country rate (e.g., the UK rate is 24%) paid by non-U.S. competitors serving customers in that country. Absent this rule, U.S. subsidiaries serving customers in foreign markets would be subject to immediate tax at the 35% U.S. rate, which would place them at a decisive competitive disadvantage.

The active financing rules have already expired. U.S. businesses urgently need the rules to be reauthorized. The rules are critical to the ability of U.S. financial services firms to win foreign business, compete in foreign jurisdictions to serve local customers, and to be global market leaders. If U.S. firms are disadvantaged in global markets, foreign firms will become dominant. It is in the interest of the United States to have U.S.-owned companies among global financial services industry leaders.

The active financing rules do not come at the expense of U.S. jobs. The provision of financial services is inherently a local business. To make loans, sell insurance, provide credit, or lease machinery, the business has to be where the customers are located. U.S. financial services companies cannot serve foreign markets without having an active foreign presence.

To the contrary, the active financial services rule supports U.S. jobs. Tens of thousands of jobs at U.S. headquarters and in U.S. service centers are directly attributable to supporting the business of serving global customers outside the United States. Further, U.S. manufacturers rely on the active financial services rule to promote their export of products made by American workers; the rule allows them to offer competitive financing through their foreign affiliates.

In sum, the Active Financing Working Group urges Congress to extend the active financing rules immediately. Their continuation is critical to the competitiveness of American financial services firms and the tens of thousands of U.S. jobs that are dependent on that competitiveness.
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