Association for Financial Professionals®

February 22, 2012

The Honorable Dave Camp
Chairman, Committee on Ways and Means
U.S. House of Representatives
1100 Longworth House Office Building
Washington, DC 20515

Dear Chairman Camp:

The Association for Financial Professionals (AFP) [1] welcomes the opportunity to provide you and the Members of the Committee on Ways and Means (Committee) with our thoughts on the issues addressed at the February 8, 2012, hearing on the interaction between tax and financial accounting on tax reform. AFP's Financial Accounting and Investor Relations Task Force[2] (Task Force) is pleased to offer our feedback based on input we continue to receive from our members. We hope that our comments will add to the discussion and we welcome the opportunity to discuss them in greater detail with your staff.

The Task Force supports the Committee's mandate to evaluate the current corporate tax structure and make recommendations for improvement. Most AFP members agree that corporate tax reform is needed. We applaud your willingness to look at all aspects of the taxing policy, including the accounting rules, when considering your options. However, AFP's longstanding position is that Congress and the accounting standards setters should act independent of each other.

Article 1 of the Constitution gives Congress, among other powers, the power to collect taxes and make the laws necessary to ensure the execution of that task. Similarly, the accounting standard setters are charged with establishing and improving standards of financial accounting and reporting to provide decision-useful information to investors and other users of financial reports. While the two processes often complement each other, they clearly have different objectives.

Legislation should focus on tax reform in terms of the overall economic impact to industries, innovation, employment, and the national debt. The rules governing the accounting for taxes

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[1] AFP represents approximately 16,000 finance and treasury professionals from over 5,000 corporations, including the Fortune 1,000 and the largest middle-market companies. Our membership includes a significant number of corporate treasurers who are responsible for the protection and management of corporate cash, cash flow requirements and corporate investments; and controllers and CFOs, who are responsible for their corporate accounting, financial reporting and regulatory compliance.

[2] AFP's FAIR task force, a subcommittee of the Government Relations Committee, monitors the activities of the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB), the Securities and Exchange Commission (SEC) and other government and standard-setting entities that affect corporate accounting, financial reporting and investor relations.

created by the Financial Accounting Standards Board is a convention to report those legislatively enacted tax rules consistently. Thus, any changes Congress makes to the tax code that warrants an accounting change will be subsequently taken up by the Financial Accounting Standards Board (FASB) for their independent review and due process.

While the topic of your hearing was on the impact of corporate tax reform and accounting, a great deal of time was spent discussing corporate tax reform as it pertains to the current tax rules on repatriated earnings. AFP's longstanding position on taxing repatriated foreign earnings is that Congress' action should include permanently reducing the tax rate to a percentage that would incent companies to return foreign earnings to the U.S.

Because companies can currently choose when to repatriate foreign earnings, and therefore when to pay U.S. taxes on those earnings, the lost tax revenue or opportunity cost of this tax treatment is extremely low. In fact, a reduction in the current tax rate would likely increase tax revenue in the U.S. both in the short- and long-term because there would no longer be such a strong incentive to keep those funds offshore to avoid paying the high U.S. taxes. Additionally, the likely inflow of capital into the U.S. would stimulate capital investment and hiring, contributing to economic recovery in the short run and economic growth in the long-term.

Recently, AFP conducted a membership survey soliciting their views on taxation of cash that is repatriated from overseas operations. Twenty-six percent of survey respondents indicate that their organizations made fewer investments in U.S. operations as a result of the tax placed on cash repatriated from U.S operations. Two-thirds of respondents that work at organizations that have non- U.S. based operations indicate that the tax on repatriated foreign earnings at current rates have little to no impact on the decision to continue and/or establish operations outside of the U.S. Conversely, nearly two-thirds of survey respondents from similar organizations state that the same tax has discouraged their organization from repatriating cash back to the U.S. and using it to invest in corporate growth (i.e., capital investments, hiring more workers, research & development).

A majority of financial professionals tie a reduction in the taxes imposed on repatriated cash from overseas operations to increased capital investment and employment in the U.S., with a greater impact resulting from a permanent reduction in the tax. Sixty-one percent of survey respondents link even a temporary reduction on the tax levied against repatriated cash to greater capital investment and/or hiring in the U.S. However, seventy-four percent of the respondents foresee a similar positive outcome from a permanent tax adjustment.

As you know, President Obama recently announced his plans surrounding corporate tax reform. AFP applauds the Obama Administration's willingness to examine all options when deciding the best course of action needed to repair our nation's current tax system. We strongly encourage White House staff to work with your Committee to consider comprehensive changes that would incent companies to bring back their foreign earnings and invest those resources in the U.S. A tax policy that continues to harm the competitiveness of the U.S. will only encourage companies to further expand their investment and hiring in other countries. Therefore, AFP strongly encourages changes to the corporate tax system that would incent companies to return foreign earnings to the U.S. Without such an incentive, many companies will either continue to build cash balances outside of the U.S. or invest their cash in the foreign country where it was earned, generating no stimulus to the domestic economy.

AFP applauds the Committee's willingness to examine all options, to include the financial accounting and reporting impact, when deciding the best course of action needed to repair the current tax system. We appreciate the opportunity to provide our thoughts on this topic.

If you have any questions about our comments, please contact AFP's Director of Accounting and Financial Reporting, Salome J. Tinker, CPA at 301.961.8871 or sjtinker@AFPonline.org or AFP's Director of Government Relations and Public Policy, Jeanine Arnett, at 301.885 or jarnett@AFPonline.org.

Respectfully submitted,

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