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STATEMENT OF

COMMITTEE ON TAXATION

FINANCIAL EXECUTIVES INTERNATIONAL

BEFORE THE

SUBCOMMITTEE ON SELECT REVENUE MEASURES

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

HEARING ON

CERTAIN EXPIRING TAX PROVISIONS

APRIL 26, 2012

The Committee on Taxation of Financial Executives International (FEI) thanks Chairman Tiberi and Ranking Member Neal for the opportunity to submit this statement on the annual tax extender provisions. The Committee on Taxation urges Congress to act as soon as possible to extend these expired tax provisions. Inaction on these tax provisions has brought instability and uncertainty into the U.S. economy and put American companies at a competitive disadvantage in the global marketplace.

FEI is the leading advocate for the views of corporate financial management. Its 15,000 members hold policymaking positions as chief financial officers, treasurers, and controllers at companies from every major industry. FEI enhances member professional development through peer networking, career management services, conferences, teleconferences, and publications. Members participate in the activities of 86 chapters, 74 in the U.S., 11 in Canada, and 1 in Japan. FEI is headquartered in Morristown, NJ, with additional offices in Washington, D.C. and Toronto. The Committee on Taxation formulates tax policy for FEI in line with the views of the membership.

The Committee on Taxation believes that tax policy that supports economic growth includes certainty and predictability in the Internal Revenue Code (the "Code"). Many of the tax extenders have long been part of the Code, and taxpayers have come to expect they will be extended annually. Failure to extend some or all of these provisions before they expired, or doing so later in the legislative session with retroactive application, creates uncertainty, as well as tax financial reporting and planning challenges. The failure to extend these tax provisions in a timely manner reduces their incentive effects and raises taxes on businesses, leaving less income for investment and job creation. In addition, expired tax provisions can have a material impact on a business' available capital and public perception when disclosures are required in financial statement filings.

The Committee on Taxation supports tax reform that simplifies, makes certain and predictable, and improves the Code, while increasing the global competitiveness of U.S. companies. The Committee on Taxation also believes that these tax provisions should be carefully examined, along with all tax policies, in the context of fundamental tax reform. However, the Committee on Taxation believes that these tax provisions should not be allowed to remain expired during the careful and deliberative legislative process on tax reform. Nonetheless, the Committee on Taxation believes that permanent tax increases should not be used to pay for the temporary extension of these provisions and that permanent tax changes should only be considered in the context of fundamental tax reform.

Many of the provisions in the annual tax extender package have become fixtures of the Code. Despite their recurring expiration dates and uncertain renewal, taxpayers have come to rely on these tax provisions when making business decisions. The research and development (R&D) tax credit is such an example. While the R&D credit has been a proven incentive for R&D investment and job creation in the U.S., companies must rely on annual Congressional action to make the investment. Global competition for R&D is fierce, and the U.S. R&D tax credit only ranks 17th overall among the 34 countries in the Organization for Economic Cooperation and Development (OECD). That is why the Committee on Taxation supports not only extension of the R&D tax credit, but also efforts to modernize, strengthen, and make it permanent. In the meantime, failure to extend the current credit increases the risk that

R&D – along with the jobs, investment, and intangible property that may result – will be conducted outside the U.S. at the expense of our economy.

The Committee on Taxation believes that active financing exemption is another example of very sound tax policy within the tax extender package and should be extended. The active financing exemption is another longstanding tax extender provision that prevents the double taxation of income from active foreign business operations in the U.S. financial sector, including captive finance companies of U.S. manufacturers. It also ensures that American financial services providers and U.S. exports financed by captive finance companies are not put at a competitive disadvantage compared to their worldwide competitors.

A more recent tax extender that the Committee on Taxation believes should be extended is the related controlled foreign corporation (CFC) look-through rules. This provision also removes the double taxation faced by U.S. companies that operate and compete abroad. It allows related CFCs of a common U.S. parent company to make cross-border dividend, interest, rent, or royalty payments without creating subpart F income if the amounts are paid from active foreign business profits or effectively connected income. Without these rules, such reinvestments would be subject to immediate tax that competitors based in many other countries do not incur.

The Committee on Taxation also urges Congress to extend 100 percent “bonus depreciation” expensing. Temporary partial expensing has been enacted, enhanced, and reenacted several times since 2002 to boost economic recovery. The 100 percent expensing was enacted in December 2010 and expired at the end of 2011. The Committee on Taxation believes that expensing is an effective investment stimulus and should be increased back to 100 percent.

The benefits of renewing the annual tax extender package and 100 percent bonus depreciation to jobs and global competitiveness cannot be overstated. The United States not only has the highest corporate tax rate in the OECD, but also is the only OECD country that uses a worldwide system of taxation. These tax extender provisions help U.S. companies compete globally. U.S. companies and American workers can ill-afford the uncertainty caused by inaction on these important tax provisions.

The Committee on Taxation appreciates the opportunity to submit these comments and looks forward to working with Congress in support of extending these tax provisions as quickly as possible.

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