

**Testimony of Michael D. Fryt**

**Corporate Vice President, Tax**

**FedEx Corporation**

Chairman Camp, Ranking Member Levin and members of the Committee, I very much appreciate the opportunity to appear before you today to discuss FedEx and the importance of fundamental tax reform to FedEx. We believe that reducing the U.S. corporate tax rate significantly to be more in line with the rest of the developed world is essential to overall economic and job growth and will help our company continue to invest in critical infrastructure to compete and grow.

FedEx Corporation is a Fortune 100 company headquartered in Memphis, TN. We provide a broad portfolio of transportation, e-commerce and business services under the respected FedEx brand. Consistently ranked among the world's most admired and trusted employers, FedEx inspires its more than 290,000 team members to remain "absolutely, positively" focused on safety, the highest ethical and professional standards, and the needs of our customers and communities.

Before delving into the details of how we analyze tax reform, it is important I describe a couple of fundamental aspects of our business and our tax profile. First, with respect to our business, we own and operate a global expedited transportation network, which is a huge part of the value proposition we provide to our customers. We connect more than 90% of the world's GDP in 48 hours or less. So, if a business of any size – small, medium, or large -- wants to move its product from Beijing to Billings, or Cleveland to Cologne, or Manila to Mexico City, we can do that for them, without them having to invest the many billions of dollars in capital that would otherwise be required to build their own distribution networks. And given that 95% of the world's population, and 75% of its purchasing power, is today outside the U.S., it goes without saying that global markets are a critical component of the future growth and success of U.S. businesses and, I daresay, the United States itself.

More to the point, our business, and value proposition to our customers, is based on our *global* network. If our global network is competitive and grows, we grow, both around the world, and in the United States. If it does not grow, or has too many holes, we will not be competitive and will not grow – or worse.

This is demonstrated by a few facts about our company. In 1989, before we began operating a global network in earnest, we had 56,000 U.S.-based team-members and \$4 billion in revenues. By 2010, we had grown to 290,000 team-members, 245,000 of them in the United States, and our revenues had grown to \$35 billion. And our taxes *in the U.S.* (federal, state, local, income,

property, sales & use, FICA, FUTA, etc.) had increased from \$370 million per year to over \$1.4 billion per year.

With respect to our income tax profile, we are a full-rate taxpayer. Our effective tax rate has not been below 35% in more than 20 years. As you know, this is definitely on the high end, both in the U.S. and around the world. This is a real competitive disadvantage for us.

But it is not just this competitiveness aspect of the current U.S. corporate tax code that is troublesome. In addition, today's corporate tax code creates distortions in economic decision-making; it diverts capital from its most efficient and effective use; and it leads to lower wages and employment. It is for all of these reasons that we are intensely interested in corporate tax reform and we are encouraged by the strong bipartisan momentum we see developing for this.

Like many of you in Congress, our company has also already been evaluating, and even modeling, some proposals. We are evaluating these from two perspectives – our country's macro-economic perspective, and our narrower company's perspective. We are, of course, interested in the macro-economic effects, because we, like you, and our team members, shareholders, customers, and communities, desire a strong, vibrant, competitive economy, which can improve our lives and those of our children and grandchildren. We strongly believe – as do many reputable experts across the world – that a significantly reformed corporate tax code can help provide that.

From our company's perspective, our evaluations are done bearing in mind that we have an obligation to our shareholders, team members, and other important constituencies, to maximize value, in the form of bottom line earnings, earnings per share, and cash flow. Our models are not precise, of course, particularly when there is still a good deal of information not yet available, but they do give us a directional idea of how tax reform could affect us.

Overall, we believe the ideal corporate tax reform would include a materially lower rate, something at least close to the average OECD rate of 25%, with capital investment incentives, such as the 100% expensing that just expired at the end of last December and is included in the House-passed version of H.R. 3630 currently pending before the House-Senate conference committee.

We have also said, however, that if tax reform, including corporate tax reform, must be revenue-neutral, so be it. In other words, we are willing to put all base-broadeners on the table for a significantly simpler and reformed corporate tax code with a materially lower tax rate. In that regard, if capital cost incentives, such as expensing or accelerated depreciation, are one of the things that must be put on the table, we will live with that, assuming of course, it enables a much lower tax rate. We must recognize, however that would come with a cost, both macro-economically and to our company.

From a macro-economic standpoint, strong capital cost incentives, like expensing, generate new investment in new productive property, plant and equipment in the U.S. This, in turn, generates jobs. Attached as Exhibit 1 is a chart demonstrating the very strong – almost perfect – correlation of private employment and investment over the last 50 years. And, of course, with jobs comes additional tax revenues, etc. For example, it has been estimated that a FedEx purchase of one new large aircraft from Boeing injects nearly \$520 million into the economy, creates 1,940 jobs, and generates about \$45 million in federal, state, and local taxes. This cause-and-effect relationship, replicated across many capital investments by many companies across the entire U.S. economy, is one of the reasons expensing/bonus depreciation has had strong bipartisan support over the years.

From our company's perspective, we would generally expect a lower tax rate to increase our cash flow, bottom line earnings, and earnings per share. To the contrary, changing the current capital cost rules to slower recovery periods and/or methods would generally adversely affect our cash flow, with less of an impact on our bottom line earnings and earnings per share. This is important, because, as is often said, cash is the lifeblood of any business.

Our investors pay close attention to our bottom line earnings and earnings per share, but they also pay close attention to our cash flow and balance sheet. Our CEO and CFO are routinely quizzed about our cash flow and major inflows and outflows therefrom. One of the biggest outflows, for a capital-intensive company like ours, is capital expenditures. In our current fiscal year, for example, we are projecting \$4.2 billion in capital expenditures, up from \$3.4 billion last year.

Our investors applaud capital incentives like expensing, because our after-tax cash outflow on a new capital investment can be up to 35% less than what it would otherwise be in the first year (evening out over time, of course, because it is only a temporary tax benefit). Which, we believe, is how it should be, considering that expenditures on business property, plant, & equipment are similar to almost every other business expenditure -- including salaries and wages, utilities, and many intangible development costs -- all of which are generally expensed for tax purposes as incurred.

In the current debate on business tax reform, many references have been made to the need for revenue-neutral reform. From my company's perspective, this is where the rubber meets the road, so to speak. There are other factors, but the cash flow detriment from slowing capital cost recovery versus the earnings, earnings per share, and cash flow benefits of a lower tax rate is the most critical economic analysis for us.

If a tax reform package cannot get us to a significantly lower tax rate – something at least close to the average OECD rate – it will not be competitive, particularly if capital cost incentives are

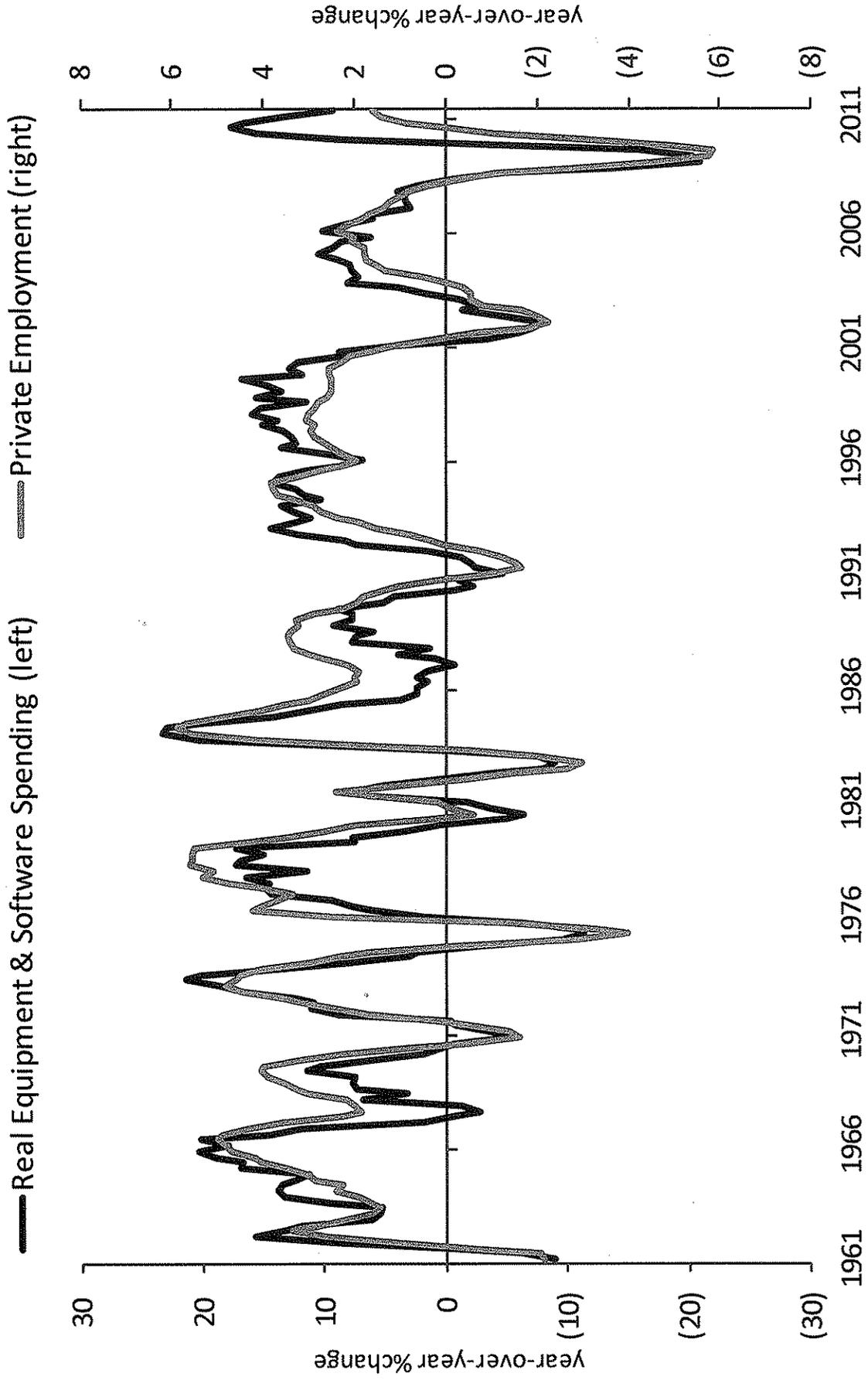
reduced or eliminated as part of the deal. Continuation of the kinds of tax rate differentials that we now see will only perpetuate the ability of our international competitors to devote more after-tax funds for reinvestment in their global networks than we can. Over time, a 10-percentage point higher effective tax rate on our business would reduce the amount of capital we could invest in our global network by billions of dollars, leading to significantly lower network improvements and expansions. As I explained earlier, since a big part of our value proposition to our customers is our global network, if we cannot keep up with, or exceed, improvements and expansions of our competitors in their networks, we will lose those customers, with ominous potential long-term consequences.

One final factor we consider in the context of tax reform is simplification and the inherent value thereof. Value in terms of lower compliance costs, in terms of more certainty and predictability, and in terms of freeing our business people to make business decisions based on the merits of our services versus those of our competitors, not on what the tax code says. Our business decision-makers have, many times, lamented the idiosyncrasies of our “arcane” tax system. I strongly believe our decision-makers, and others in thousands of companies like ours across the country, would be more productive if they needed not to worry about the proverbial “traps for the unwary” contained in our current system. This is difficult, if not impossible, to measure, but its importance should not be underestimated.

To summarize, FedEx, like many other businesses across this country, is intensely interested in comprehensive corporate income tax reform. We believe it is critical that this occur. Indeed, we do not think continuation of the status quo is an acceptable option, either for us as a company or for our country.

We commend the recent Tax Reform Discussion Draft released by Chairman Camp. We think it is an excellent starting point and urge that you continue your efforts to lower the corporate tax rate to be consistent with the OECD average, and to simplify. As I and many others in my company and other businesses have said many times -- we need to get back to the basics, where businesses of all sizes, all types, and all forms, make business decisions – and compete – on the basis of the merits of their products and services, not on the basis of what the tax code says.

Exhibit 1



Source: Bureau of Economic Analysis, Bureau of Labor Statistics