

**Hearing on the Global Tax Environment in 2016 and Implications for  
International Tax Reform**

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HEARING  
BEFORE THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED FOURTEENTH CONGRESS  
SECOND SESSION

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## Hearing on the Global Tax Environment in 2016 and Implications for International Tax Reform

U.S. House of Representatives,  
Committee on Ways and Means,  
Washington, D.C.

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The committee met, pursuant to notice, at 10:02 a.m. in Room 1100 Longworth House Office Building, Hon. Kevin Brady [chairman of the committee] presiding.

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\*Chairman Brady. The committee will come to order. Welcome to the Ways and Means Committee hearing on the global tax environment in 2016, and implications for international tax reform. America needs a new 21st century tax code that will grow families' paychecks, grow local businesses, and grow our economy. It is why we are holding this hearing today about international tax reform, a critical component of our comprehensive plan to overhaul our tax system from top to bottom.

Global events demonstrate how it is more important than ever that we make progress now in reforming our broken tax code. When Americans read the news or turn on the television, they regularly learn another major American job creator that is moving their headquarters to another country.

First two months of this year we have already heard of three major American employers that decided to move overseas. And every one of these moves results in fewer American jobs, fewer small business opportunities, and weaker economic growth. To the millions of people who remain unemployed or under-employed, these developments are more proof that our economy isn't working for them.

We are holding this hearing today so we can talk about the real root cause of this issue, and determine the best path forward to save jobs and protect American workers.

As chairman of the committee, I look forward to hearing from witnesses and members about the impact of the current U.S. tax system, including our exorbitant corporate tax rate.

I also want to hear from you about the OECD's base erosion and profit-shifting project. Worldwide, American companies are rightly concerned that the BEPS project

will result in higher foreign taxes, higher compliance costs, and double taxation. As countries around the world incorporate the BEPS ideas into their tax systems, many more companies could be forced to restructure their business operations and move U.S. activity such as research and development overseas.

And I would appreciate your thoughts on the European Union's state aid investigations that threaten to subject American businesses to retroactive taxes going back 10 years.

Each of these factors is making it harder for our businesses and the hard-working Americans they employ to compete successfully. The end result is driving American job creators to take their jobs and their investments to other countries.

So, instead of attacking American companies, wringing our hands, or suggesting the same old, tired Band-Aids, Congress should act now to fix our broken tax code, and stand strong against global developments that hurt our workers.

On this side of the aisle we are committed to delivering pro-growth tax reform that includes changes to our international tax system. I invite our colleagues on the other side of the aisle to join us. It is time to permanently lower America's tax rate, so that the estimated \$2 trillion in stranded U.S. profits can flow back into America to be invested in new jobs, new research, and new growth.

Our hearing today is another step in our plan to bring our tax code into the 21st century and protect American workers in their jobs. American people want leadership on this issue, and this Committee will deliver it.

I thank all of our witnesses for joining us today. I look forward to your testimony.

\*Chairman Brady. And I now yield to the distinguished ranking member from Michigan, Mr. Levin, for the purposes of an opening statement.

\*Mr. Levin. Thank you, Mr. Chairman. And welcome to all four of you.

There is no doubt that there needs to be tax reform, and that for it to be successful there must be changes on how companies engaged globally are taxed. There is considerable talk today that, as a first step, we should reform our tax code as it relates to companies that are American-based with operations overseas.

But there are immense difficulties in doing piecemeal tax reform, and it can't be done just to raise short-term revenue without considering long-term effects. And there are serious challenges in doing tax reform without considering the impact on domestic businesses. That is why the head of the Business Roundtable said last week -- and I quote -- "I don't think you can take them piecemeal, you have got to have revenue on the table. You have got to have lower tax rates on the table."

The odds seem strong that the only way to address tax reform is to undertake it comprehensively -- and I add -- on a bipartisan basis. For example, the large number of pass-throughs represents a major challenge to how you do business reform without doing individual tax reform. That does not mean that Congress should be frozen in place. Not doing one big piece does not mean that we cannot act when there is a smaller piece that goes after the abuses that would have to be addressed in any tax reform.

That is the case with the rapid race of inversions. More and more of the horses are galloping out of the barn using a huge loophole. Failure to close the barn door is bad for the American economy and unfair to the typical American taxpayer, who cannot lower their taxes by simply changing their address to another country with a lower tax rate. The Joint Tax Committee score of more than \$40 billion on a legislation that we introduced to stop inversions shows how abused this tax dodge is.

What makes it worse is that the companies that invert often then engage in earnings stripping. The U.S. entity usually ends up paying excessive amounts in deductible interest payments to its foreign parent, ultimately lowering its U.S. taxes. We need to shut the barn door before more and more horses run off from the United States and race overseas to lower the taxes they pay to the United States.

I yield back.

\*Chairman Brady. Thank you. And, without objection, other Members' opening statements will be made part of the record.

Today's witness panel includes four experts. Michelle Hanlon is the Howard W. Johnson Professor, and a professor of accounting at the MIT Sloan School of Management, where she teaches courses on taxation, business strategy, and accounting.

Raymond Wiacek is a partner in Jones Day's practice involving the tax and business aspects of financial and international transactions, including mergers and acquisitions, cross-border financing, and transfer pricing.

Itai Grinberg specializes in cross-border taxation issues and U.S. tax policy. Before joining the faculty at Georgetown University, Professor Grinberg was in the Office of International Tax Council at the U.S. Department of the Treasury. In addition, in 2005 Professor Grinberg served as counsel to the President's Advisory Panel on Federal Tax Reform, where he advised a bipartisan presidential commission that made sweeping proposals to restructure U.S. tax code.

And Edward Kleinbard is the Ivadelle and Theodore Johnson Professor of Law in business at the University of Southern California's Gould School of Law, and a fellow at the Century Foundation. Before joining USC law, Professor Kleinbard served as chief of staff at the U.S. Congress's Joint Committee on Taxation, and was previously in private practice.

The committee has received your written statements. They will all be made part of the formal hearing record. You each have five minutes to deliver your oral remarks. We will begin with Ms. Hanlon. You may begin when you are ready. Welcome.

STATEMENT OF MICHELLE HANLON, PROFESSOR OF ACCOUNTING,  
MIT SLOAN SCHOOL OF MANAGEMENT

\*Ms. Hanlon. Chairman Brady, Ranking Member Levin, and distinguished members of the committee, thank you for inviting me to participate in this hearing.

As you know, the U.S. has one of the highest statutory corporate income tax rates in the world. In addition, the U.S. has a worldwide tax system. In contrast, 28 of the other 33 OECD member countries have adopted some form of a territorial tax system that allows active business income to be repatriated with little or no additional home country tax. The combination of the high corporate tax rate and the worldwide tax system is out of step with much of the rest of the world, and has led to negative economic consequences for the United States.

The U.S. has a worldwide tax system with deferral. Describing it at a very high level, it operates such that U.S. -- the U.S. taxes active foreign earnings, but not until they are repatriated back to the U.S. Thus, U.S. corporations have strong incentives to leave the active earnings of foreign subsidiaries in the foreign subsidiaries because doing so defers the high U.S. tax.

Deferring the high U.S. tax increases current cash flows, often lowers the firm's effective tax rate for financial accounting purposes, and allows the U.S. multinational to more effectively compete for non-U.S. investments. As a consequence, U.S. multinationals are estimated to hold more than \$2 trillion -- and rising -- in un-remitted foreign earnings, a substantial portion of which is in cash.

In addition, there is anecdotal evidence and academic research that shows that this lockout of foreign earnings leads companies to borrow more in the U.S. in order to fund domestic investment and return value to shareholders.

It is extremely puzzling to me why we choose to retain a tax system that makes it economically rational for corporate managers to hold such large cash reserves on foreign subsidiaries, while simultaneously issuing so much debt in the United States.

Ever more concerning, though, may be the consequences in the market for corporate control. The evidence and the academic research suggests that, after a cross-border M&A, the merged entity is less likely to locate the parent company in a country with a worldwide tax regime.

In addition, evidence suggests that acquirers and M&A deals are less likely to come from worldwide tax jurisdictions. There are also studies that specifically examine the effect of locked-out earnings and cash of U.S. multinationals. For example, the more

locked-out cash a U.S. target has, the more likely it is that it will be acquired by a foreign acquirer.

There are also several studies that show that U.S. companies with large amounts of locked-out cash are more likely to spend that cash to purchase foreign but not domestic companies, and make foreign but not domestic capital expenditures.

Finally, we have the transactions that have grabbed the media headlines, inversions, where U.S. companies reincorporate as foreign companies through cross-border mergers. We should be concerned about inversions for a variety of reasons. However, continuing to only focus on legislation to discourage inversions will not correct the much bigger problem that we have, that corporations do not want to be domiciled here because of our high tax rate and worldwide tax system.

Many other changes are happening around the world, which the other witnesses here today will speak more about. But let me offer one example and potential consequence. Many countries have enacted or are contemplating innovation box tax policies that apply a lower tax rate to income attributable to innovation.

The OECD, as part of the BEPS project, has put guidelines in place that will require nexus, meaning some association to research and development. If the U.S. does nothing in terms of tax reform, it is likely that U.S. companies wanting the lower rate of the innovation box will have to move some R&D activities -- meaning jobs -- into those jurisdictions. This type of real response will take time. But if the U.S. does not act to make our tax code more in line with the rest of the world, such a response -- at least to some extent -- seems inevitable.

In summary, the United States is currently an outlier with a high corporate tax rate and a worldwide tax system, and this is leading to negative economic consequences. The U.S. has many attractive non-tax factors, but this is not an excuse for retaining an outdated tax code.

Moreover, the non-tax advantages of the United States are not as strong as they once were, and other countries are working hard to use their tax laws to compete. The UK, which has many similar non-tax factors has a significantly lower corporate tax rate, which is soon to be 18 percent, a territorial tax system, and a patent box.

In my opinion, we need to benchmark our tax system to other countries that are currently competing with us for business activity and jobs, and we need to reform our tax system in a way that attracts businesses and economic activity to our shores.

Thank you again for inviting me to participate in this hearing. I look forward to your questions.

\*Chairman Brady. Thank you, Professor.



Mr. Wiacek, you are recognized.

## STATEMENT OF RAYMOND WIACEK, PARTNER, JONES DAY

\*Mr. Wiacek. Good morning, and thank you for inviting me to this important hearing. My name is Ray Wiacek, and I have been a tax lawyer for 40 years -- hard to believe -- and the head of our global practice for too many years to count. We were requested to testify on the global tax environment, what you face as you consider tax reform. So my written testimony touches on BEPS and state aid and great disparity and territoriality and a number of other issues.

I hope I get a BEPS question, for example, or a state aid question, but I want to talk about competition. And I want to talk about competition fought through the tax code. It is real. It is not the "C" word, it is not a word that just comes up from tax lobbyists. It is not an empty suit.

The UK has a 20 percent corporate income tax rate already scheduled to go to 18, and it taxes the return on intellectual property at 15 percent, already going to 18 percent. Of course, we have a 35 percent rate.

Now, the UK didn't pass this elaborate rate structure and regime on a lazy Sunday afternoon for fun. They did it to compete. They did it to attract investments. They did it to attract jobs. And they did it through their tax code. And this competition is fierce and political. The UK would have you believe -- it would tell its citizens that there would be no unemployment, there would be no cut in education costs, there would be no cut in rent subsidies, if only the American multinationals paid their fair share.

BEPS. BEPS has the avowed purpose of increasing the take, the revenue, from multinationals, many of which are American. And, by the way, they also -- it also has as its objective to share that additional revenue more fairly with the rest of the world. That is, not with us.

State aid is kind of the little brother to BEPS, where, retroactively, the guys in Brussels are going after our companies and seeking big back taxes. For example, from Apple they are seeking \$8 billion to \$9 billion in back taxes with respect to a business plan that was submitted to the European governments involved in advance, fully disclosed, and approved in writing.

Now, let me tell you. That \$8 billion or \$9 billion, should the EU be successful, with either hurt our American company or, because it is a tax, will be creditable in the United States and we, the Treasury, will bear the burden of the state aid actions.

When we lose in this competition, when an American icon is taken over, it has terrible effects on jobs and our communities. People say that, you know, when an American company, an icon, becomes the subsidiary of the foreign company, it doesn't make any difference. It is still a great company, it is still operating in America, the greatest

marketplace in the world, so it doesn't make any difference. To me, that is like telling somebody here who is in the Majority, maybe in a veto-proof Majority, and is now in the Minority that it doesn't make any difference because, what the heck, you are still a Member. Well, I mean, Anheuser Busch was the king of beers. Now it is one of a number of brands in a beer portfolio run by InBev from Brussels. That is not the same. That is not the same. And St. Louis is going to be hurt by that.

I am from Detroit. We are all rooting for Fiat Chrysler. My goodness, we hope it succeeds. The North Jefferson plant is humming. But Fiat Chrysler is not Chrysler, and Sergio Marchionne is not Lee Iacocca. It makes a difference when we lose these companies.

When I first started practicing long ago I represented Firestone. My firm started in Cleveland 125 years ago, and Firestone was one of the great companies of America. Now, of course, it is Bridgestone Firestone. Still a client, still a great company. But it is different. I used to go to Akron. Akron isn't what it used to be.

And just by chance, as I was thinking of this example, in the Sunday Times, this Sunday Times, there was a story about the difference between Akron then and now, and the story was about the hundreds and hundreds of dilapidated and abandoned homes in Akron because it is no longer the tire capital of the world.

Small businesses are affected, too. We talk about them all the time as the generator of jobs. They are the generator of jobs. But they are all part of the big guys' supply chain. Who do you think they make the labels for? Who do you think they make the boxes for?

I got an example there, too. GE moved to Boston, so we are not talking about a foreign takeover, but do you think the businessmen in Connecticut are happy with that? Do you think the restaurants that are lining up and down the parkway to feed the GE employees are happy with that? What if GE had been taken over and moved abroad?

So -- but that is my message, the competition is real. And, you know, we can let the great be the enemy of the good, but -- thank you.

[The statement of Mr. Wiacek follows:]

\*Chairman Brady. Thank you, Mr. Wiacek.

Professor Grinberg, you are recognized.

STATEMENT OF ITAI GRINBERG, ASSOCIATE PROFESSOR OF LAW,  
GEORGETOWN UNIVERSITY LAW CENTER

\*Mr. Grinberg. Chairman Brady, Ranking Member Levin, and distinguished members of the committee, good morning. My name is Itai Grinberg, I am an associate professor of law at Georgetown. It is a pleasure to appear before you today to discuss the European Commission's state aid investigations, and the way that those investigations impact the international tax environment that we face.

The international tax environment around the world is becoming both less stable and less favorable to American business. The BEPS project at the OECD was justified as an attempt to prevent the old framework for international taxation from falling apart and being replaced by unilateral action, double taxation, and what the OECD termed "global tax chaos."

Unfortunately, the post-BEPS environment already shows signs of becoming characterized by much of the global tax chaos the BEPS project was supposed to prevent. We are seeing an increase in unilateral actions and more double tax disputes, especially in the transfer pricing area.

The European Union's state aid investigations with respect to tax ruling practices represent an extreme example of the emerging challenges. EU law generally prohibits so-called state aid that threatens to distort competition by favoring certain businesses. The European Commission can retroactively demand assessments that reach back up to 10 years when it labels a tax result "state aid."

EU state aid law dates the 1950s and was intended to prevent EU member states from subsidizing domestic national champion companies. In contrast, in the recent cases against American businesses, the Commission is claiming that EU member states provided illegal state aid to our companies merely by providing them legal certainty through tax rulings that clarified how generally applicable national law would apply to those companies' facts.

These investigations are novel and unprecedented. Moreover, they do not seem to meet the test for state aid, because the kind of rulings at issue were broadly available to multinationals around the world. The enforcement reality, though, is that almost all the revenue and all but one of the named company investigations involve American businesses, even though rulings of this type are held by many, many European-headquartered multinationals.

Moreover, the remedy the EU imposes when member states provide illegal state aid is deeply inappropriate, to say the least, when applied to a foreign firm, instead of the domestic national champion firms for which the state aid regime was created.

In the current cases, when the Commission finds that a member state has acted illegally, the remedy -- the remedy -- is to demand they take potentially billions of dollars from an American business. Importantly, those payments could be creditable. So the Commission's decisions may amount to demanding a multi-billion-dollar transfer from U.S. taxpayers to the EU member states the Commission claims acted illegally.

In addition to basic rule of law concerns, the state aid investigations raise questions about whether the European Union may be discriminating against American business. Studying the difficult issues that arise under section 891 of the code, which was enacted to address such discrimination, is one important policy step the U.S. Government can take.

But more broadly, the EU's investigations are just one more indication of the urgent need for U.S. international tax reform. Our singularly high corporate tax rate and worldwide system are severely out of line with international norms. These EU investigations highlight yet another negative consequence of that.

Our international tax system is allowing American businesses and the U.S. fisc to be turned into pawns in an inter-European fight between high-tax France and low-tax Ireland. In the current environment, with many countries searching for politically painless revenue sources, the foreign tax credits provided by our current system and that would exist in a minimum tax are a ripe target for governments looking to effectuate transfers from foreign taxpayers to their own coffers. Other developed economies can't be targeted in the same way the United States can, because they have true dividend exemption systems.

More generally, continuing to impose relatively high income tax rates on multinationals places the U.S. at a disadvantage in today's global economy, given the mobility of capital, intellectual property, and, importantly, high-skilled, high-quality jobs.

So, thank you for the opportunity to testify before you today. I would be delighted to take any questions you may have.

\*Chairman Brady. Thank you, Professor.

Professor Kleinbard, you are recognized and welcome.

STATEMENT OF EDWARD D. KLEINBARD, PROFESSOR OF LAW,  
UNIVERSITY OF SOUTHERN CALIFORNIA GOULD SCHOOL OF LAW

\*Mr. Kleinbard. Thank you. You know, Akron isn't what it used to be. But neither is Birmingham, England, neither is Clermont-Ferrand, France. Let's not in this hearing confuse worldwide macroeconomic trends on the one hand with tax policy on the other.

And further, let's not confuse international tax reform with the taxation of outbound investments by U.S. firms in the form of foreign direct investment. International is a two-way street. And let's think a little bit more about what international tax reform means when we consider the United States of America as a source country, as a place in which to invest.

Yes, we need to redesign the outbound international tax system. The United States is, by far, the largest exporter of foreign direct investment in the world. And, yes, the U.S.

statutory corporate tax rate is too high. But the statutory rate is largely irrelevant to the foreign operations of U.S. firms.

For example, Pfizer tells shareholders that it operates under a 25 percent worldwide effective tax rate. But it appears that Pfizer's cash tax bills on its worldwide income actually are in the neighborhood of six or seven percent. The same is true for many U.S. multinationals. And what is more, when U.S. firms borrow in the United States to fund dividends to shareholders, as Apple just did, that operates as the economic equivalent of a tax-free repatriation of those funds.

The essence of a territorial tax system is that income should be taxed where it is really earned. But it defies credulity that single-digit tax rates reflect the taxation of earnings in the places where they actually arose. And yet, in fact, U.S. firms would claim that 53 percent of all their foreign business income has its economic nexus in 6 tax havens.

I don't claim that the international tax system is harmless, much less desirable. But of all its many faults, anti-competitiveness is not one. When it comes to BEPS and EC state aid cases, I find U.S. multinational cries of pains to be hyperbolic and premature. The U.S., along with every other G20 country, endorsed the final OECD BEPS package in September 2015.

I am disappointed in particular that country-by-country reporting is at all controversial. Companies do not have a legitimate claim that their stateless income tax planning techniques that they use to drive down their tax rates to single digits somehow constitute protected, proprietary information akin to the formula for Coca Cola.

Like it or not, U.S. multinationals will not enjoy single-digit tax rates on their foreign income indefinitely. Adopting toothless territoriality will not forestall foreign countries from asserting their taxing rights, but will lead to more erosion of the U.S. domestic tax base, and that is the real irony at work here.

There is a big tax competitiveness problem that is staring at us, but it is the competitiveness of the United States, as a business environment. The U.S. is also the largest importer of foreign direct investment in the world. International tax reform should, therefore, involve rethinking the attractiveness of the U.S. as a source country, as a place in which to invest, not just a jurisdiction from which to invest.

Lower domestic statutory rates lead to more domestic investment by both foreign and domestic investors. And with more domestic investment, comes more national income, more jobs, and better paying jobs.

Lower U.S. rates by themselves reduce the gap between the effective rates that U.S. multinationals and their foreign peers report to their shareholders, but so too does addressing earnings stripping, which is one of the two big payoffs from inversions. By stanching the bleeding of the U.S. domestic tax base, Congress would simultaneously protect U.S. revenues and raise the worldwide effective rate on those inverted companies

and on other foreign firms that use earnings stripping into -- from the United States to turn the U.S. into a low-tax paradise for themselves.

I don't fault companies for inverting, I don't hold them to some higher obligation to corporate patriotism, but I do hold Congress to a higher standard. Repairing flaws in the model is not a tax hike, but, rather, reflects an appropriate commitment to maintaining the enormous and delicate machine that is the tax code that has been entrusted to this Congress by the 50 congresses that preceded it. Thank you.

\*Chairman Brady. Thank you all for your excellent testimony. We will now proceed to the question-and-answer session. Let me begin.

Professor Hanlon, Ranking Member Levin made, I think, a common analogy. His point is we need to close the barn door before more American companies leave. What I am interested in is what is fueling the fire that is driving these American companies out?

Your testimony laid out an entire range of events going around the world, and combined with our uncompetitive -- A, have you ever seen a confluence of events that drives investment and U.S. jobs overseas, grabs our U.S. revenue, and makes us less competitive? Have you ever seen a confluence like this ever occur?

And two, what is your thought on the urgency for Congress to act in this area?

\*Ms. Hanlon. That is a good question. I think the pressure has just been building over time. So it -- in terms of a confluence of events, I think just increasingly, as the rest of the world changes, the pressure has been building on the U.S. and we haven't really done anything to change our tax code at all.

So, the way it stands right now, we are just so out of line with the rest of the world that I think that is what is driving companies to leave and try to seek out a better environment. And I think that is what drives them to do the tax planning that they do. They need to be competitive in these foreign jurisdictions. And I wouldn't expect any different behavior from them.

\*Chairman Brady. To the issue of urgency, how long does Congress stand by?

\*Ms. Hanlon. You know, I think it is already too late in some sense. But on the other hand, you wouldn't want to rush and make a policy even worse, so you want to make sure that you think it through. But there are some things that are obvious to do, and that is lower the corporate tax rate.

\*Chairman Brady. Yes. So rather than a Band-Aid approach, go after the real solution in this.

\*Ms. Hanlon. That is what I would recommend.

\*Chairman Brady. Mr. Wiacek, you talked about the BEPS project. More importantly, what happens when companies move overseas, what the -- sort of that cascading effect here at home.

So what is -- in this global environment, what is the threat of job loss, locally, when we see these companies invert or leave?

\*Mr. Wiacek. Well, you know, I agree with Ed that tax is not the only factor in competition, and that we can be out-competed because a foreign company invents something we wish we had, or our management is slow, or the foreign company operates under lax environmental regulations or with low labor prices. But I don't understand how anyone can think that tax isn't part of the competition.

You compete, ultimately, with your bottom line, your after-tax cashflow. And if one company is taxed at 35 percent, and another company is taxed at 15 percent, or if you start with 35 but then plan to get it down, the other guy starts at 15 and also plans to get it down. It is the money that is left over that you can invest in wages and jobs, and invest in the future, and sponsor ball teams in your local community. And if the money you have left over is less, all those things are less.

And, moreover, the way you determine the value of your company is by multiplying your after-tax cashflow, as one measure. That is what determines the value of your stock. So the foreign guy's stock is worth more, so he has a currency that is very valuable. And your company is worth less. That is exactly what happened to Anheuser. And you get taken over.

\*Chairman Brady. Mr. Wiacek, can I ask -- because I am really piqued by the point you made in both your written and your oral testimony, that when global companies leave, there is an impact on local communities that maybe you don't think about from the vendors and the small businesses-- can you talk a little about that?

\*Mr. Wiacek. Well, sure, because I think one of the reasons I was invited is I am the practitioner. So, you know, I have been to Akron, I have been to what was world headquarters and isn't any more.

And Congressman Levin, I am from Detroit, you know. I have been to the old site of the Dodge Main plant that is no longer. And we know what happens. I would use Detroit as an example, because it is my hometown. There are a lot of factors besides tax, but just look at Detroit. It is devastated. And you know, I am going to choke up, it is so devastated.

So what happens? What happens to all the local vendors? Well, in Michigan, the whole economy was based on the auto industry. At one time we were -- we had all big three. They were three of the five largest corporations in the world. And Michigan was an unbelievable state. It had more recreation and more tool and die companies and more suppliers than anybody. And those places are all gone.

And I use the past, because that is not what is -- those are not the companies that are going to be affected going forward. But we can't lose another round of companies. So maybe we are not going to be big in the auto industry any more or not, but we are big in tech now, and we are big in pharma now, and we are big in branded products, like Starbucks. And we can't lose those companies, too. And they are all under threat.

And everybody just talks about inversions all the time. I didn't even mention inversions, because if you pick up the Wall Street Journal each day -- there was another China acquisition today. There was another acquisition by Brazil yesterday. There is continuous acquisitions of our companies that have nothing to do with inversion, and in some cases have nothing to do with tax. It is just that we are here before the Ways and Means Committee, so we are talking about the tax component of it.

But we better figure out for our communities and our country what is happening and why we are losing. And one of the reasons we are losing is that we have a non-competitive tax system.

\*Chairman Brady. Good. Thank you, Mr. Wiacek.

Final question, Professor Grinberg, you made the point the BEPS project -- developments -- many countries are coming down hard on American companies. They are not going after their own companies, they are coming after ours, both in a revenue grab, a jobs grab, and an investment grab.

Some argue that the answer is to impose tougher rules on American companies. I believe -- I believe Republicans believe Congress should try to leapfrog our trading partners and economic competitors by fixing our tax code in a way that helps American workers and companies compete. Can you give us your insight?

\*Mr. Grinberg. Thank you --

\*Chairman Brady. Should we be taking -- should we be solving the problem, addressing the fire that is driving these companies either overseas or to be targets of foreign acquisitions?

\*Mr. Grinberg. Thank you, Mr. Chairman. I couldn't agree more. I think that if we just talk about inversions, we are talking about the tip of an iceberg. And we, you know, need to understand that they are symptoms of much deeper problems, that the EU state aid investigations also help you understand the direction the rest of the world is headed, which is to engage in much more significant, source-country taxation, which our countries -- our companies will be exposed to, to the extent that we remain in the system that we have today.

My view is that the right way to proceed is to think about a much, much lower corporate tax, and move to dividend exemption as a minimum, while also keeping in mind that we have a world that is moving away from residence country taxation, and



towards source country taxation, and away from income taxation, and toward consumption taxation. And so what that means for the United States is that we should think seriously about moving towards a system that defines the U.S. source base that we wish to defend, and then taxing exclusively on that basis, which would include jettisoning the concept of corporate residence as a basis on which we tax.

Now, that would be a big leapfrog. But the first step is just to very -- if you want to do a smaller step, the very, very first leapfrog step is just to lower our corporate tax rate so that it is competitive with the, you know, countries that Michelle mentioned, which are our true competitors, and meanwhile, move to a true dividend exemption system. So --

\*Chairman Brady. Great. Thank you, Professor. I now recognize the distinguished ranking member, Mr. Levin, for any questions.

\*Mr. Levin. Thanks. Hi, Mr. Wiacek, a special hello. I worked at Dodge Main some years ago. And I think I and others share your concern.

So let me just say a word, Mr. Chairman, about fueling the fire. You just don't let it keep burning and not address, where you can right away, one of the causes. And when you say, "When we address inversions we are not getting at the basic problem, we are addressing symptoms," I think inversions are more than symptoms. But I think we learn you also need to address symptoms. Otherwise, the basic problem festers and grows.

And no one is talking about addressing only inversions. We need to sit down -- I think your testimony shows how important it is that we address taxation broadly, comprehensively. We aren't going to do it right now, if we are realistic. And to allow these inversions to continue without taking further steps -- the Administration has already done what it thinks it can do. But the Majority here is relating to that doing nothing.

And then there is the earnings stripping issue. And what these companies are doing when they invert, they essentially then borrow money and they deduct the interest paid to this thing overseas that they helped create. And so they lower the taxes they pay in the United States.

So, it doesn't make any sense to let the fire burn -- whatever imagery you want to do -- or let more and more horses run out of the barn, saying, "We are going to close the door later."

So I think your testimony shows we aren't going to do this tomorrow. Mr. Grinberg, what you suggested is really, really basic.

So let me just ask Mr. Kleinbard to comment. You talked about competition and also BEPS, what it meant, and what is going on. Just say a few more words as to how you think we should look at what is happening in Europe. It is clearly a problem, but how do we address it?

\*Mr. Kleinbard. Sure. The first point to keep in mind is that BEPS was a project of the G20 countries and, as such, represents the highest levels of agreement among the major countries of the world. The very foundations of the territorial tax systems that the other witnesses have urged depends on figuring out where income, in fact, is earned. And BEPS, at its heart, was trying to do that, trying to get to a better set of tools to figure out where income is earned. There is no source taxation without that.

When it comes to state aid, I take a different view than does Itai. I don't see the state aid cases as the EC, the European Commission, substituting its tax judgement for that of Luxembourg or Ireland. I see, instead, the European Commission asking the question, "Were these bona fide tax agreements at all that Luxembourg entered into?"

And there, for example, the answer is clearly no. One man issued every ruling. One man issued a dozen rulings a day. Those rulings were scarcely read, much less negotiated. And those rulings, the way I see the EC, the EC is simply saying, "Maybe those rulings are just shams. They were devices used to deliver some kind of tax subsidy through the mechanism of an advanced pricing agreement in order to hide the fact that it was state aid, not that these were, in fact, tax agreements at all."

\*Mr. Levin. Thank you.

\*Chairman Brady. Thank you. Due to the scheduling constraints for our Members, and in the interest of allowing as many Members as possible to ask questions during today's hearing, without objection we will reduce question time for each Member to three minutes. Members who are --

\*Mr. Levin. Mr. Chairman, you and I discussed this, and I just want it to be clear that this is not a precedent for how we are going to handle --

\*Chairman Brady. No, sir. You are exactly right. Thanks for making that --

\*Mr. Levin. That should be utterly clear. You have a special need on your side.

My own judgement is that this needs to be just the beginning of our discussion of international tax. And we need to sit down on a bipartisan basis and really dig into these issues. And so I had real qualms about limiting it to three minutes. As long as it is not a precedent, and let it be the precedent today that we are going to really dig into these issues deeply and effectively, and on a bipartisan basis.

\*Chairman Brady. Agreed. And I will recognize Mr. Johnson for questioning.

\*Mr. Johnson. Thank you, Mr. Chairman. As you know, this Committee has been looking into tax reform for some time.

And let me ask you, Ms. Hanlon, please, do recent international developments make fixing our broken tax code more urgent than it was five years ago?

\*Ms. Hanlon. Yes.

\*Mr. Johnson. That is a good answer. Secondly, do these international developments just impact big companies, or does this also affect Main Street and American jobs?

\*Ms. Hanlon. I think what you have heard today suggests -- and I think it is true -- that it impacts big companies and Main Street and American jobs. It is very hard to separate those two things, because they are so intertwined. So I think it affects everybody, all of us.

\*Mr. Johnson. It affects you and me, too, doesn't it? Okay. So the longer we wait to do reform, the greater impact on jobs, right?

Thank you, Mr. Chairman. I yield back.

\*Chairman Brady. Thank you, Mr. Johnson. I would like to take a moment of personal privilege. We are honored to have the former chairman of the Ways and Means Committee, the Honorable Bill Thomas of California, joining us today. Chairman Thomas, would you stand and be recognized? Thank you so much for joining us..

[Applause.]

\*Chairman Brady. You look a little like the guy in the portrait, right in the middle of the wall over there. Thank you, Chairman.

Mr. Rangel, you are recognized.

\*Mr. Rangel. I am always encouraged when there is words like "bipartisanship." And this situation is getting so serious that I would encourage you -- there he goes -- well, so much for bipartisanship.

[Laughter.]

\*Mr. Rangel. But it would seem to me that we ought to get together, as members of the committee, and decide what it is that we would want to do without the hearings. Bring in the experts, ask the questions, and then decide that we have to go to our leadership and say, "This is important." Hearings are good, but most of the time we have already made up our minds of what we want to do. And there is no press here.

So I do hope that there would be informal discussions as to how we can help our country out and avoid people saying that, under this President, nothing meaningful will be done. Because the way the presidential elections are going, it is very possible that someone could get elected that the Congress could say that, "We are not going to do anything that she wants done." And if the Congress is going to take that position with the executive, it doesn't really leave much hope for those corporations that want to make us competitive by going where they can be the most productive.

I was very interested, Mr. Wiacek -- and with all of your experience as a tax lawyer, you sounded like someone from the community, you sounded like the frustrations that we hear in both parties. You sounded like someone that says, "America isn't doing what we expect her to do." And it would seem to me that if the United States Congress had that much feeling about it, that we could do something to alleviate the losses that we are suffering, not only financially, but in terms of the hopes and aspirations of so many Americans.

Now, it has to be true that when we have this extremely high 35 percent corporate tax, that a lot of corporations, domestic corporations, are paying it, but very few international corporations are paying such a tax. I think Mr. -- Professor Kleinbard said that Pfizer pays nine percent.

Isn't it abundantly clear that corporations don't pay the same taxes?

\*Mr. Wiacek. Well, it is not abundantly clear. And the -- everyone starts with a certain corporate rate and does their planning and seeks to reduce it. So we can either compare our headline or our statutory rates to our effective rates, but we are being out-competed on the tax code.

\*Mr. Rangel. I am saying these multinational corporations are leaving our jurisdiction and avoiding tax liability so they don't pay the 35 percent. Isn't that true?

\*Mr. Wiacek. They -- our corporations do seek --

\*Chairman Brady. I am sorry, Mr. Wiacek, all time has expired.

Mr. Nunes, you are recognized --

\*Mr. Rangel. What are you talking about?

\*Mr. Nunes. Thank you, Mr. Chairman.

\*Mr. Rangel. I thought you said we had three minutes.

\*Mr. Nunes. Ms. Hanlon, I have a question for you. I have introduced the American Business Competitiveness Act, ABC Act, which is based on the X-tax that was developed by David Bradford and others. As you are aware, it does away with subpart chapter F. It taxes amounts effectively connected with businesses in the United States -- be a five percent toll.

In the U.S. we continue to see the growing trend of inversions. For example, in my home state of California, biopharmaceutical companies have been the target of foreign acquisitions in recent years. Since 2010, almost 70 percent of U.S. and foreign biopharmaceutical company acquisitions have been by foreign companies.

So, in your expert opinion, Professor, could you tell the committee how the X-tax cashflow system that I have proposed -- how that would impact those types of acquisitions switching to a territorial system, like my plan does?

\*Ms. Hanlon. Well, I think, to some degree, because we haven't run the experiment, we can't say exactly how it would affect it. But I think your question kind of gets at the spirit of what was said a little bit earlier. And I think it is very important to think broadly when we think about tax reform.

There are many options that we could choose, and we could think about small -- "small" moves, like just dropping the corporate rate, which I think all four of us agree needs to be done, or we could think about something bigger. And I think the X-tax is a good option that we should consider and think about all the effects that it would have.

So, I agree that this is something we should think about, and not only limit our view to small changes in the system, but also think a little bit more broadly about other things we could do to reform the tax system.

\*Mr. Nunes. Well, thank you, Professor.

I would like to -- Mr. Grinberg, would you like to -- are you familiar with the X-tax system?

\*Mr. Grinberg. Sure.

\*Mr. Nunes. Oh, your mike, sir.

\*Mr. Grinberg. Thank you, Mr. Congressman. So the thing about moving to a consumption tax rather than an income tax, is that -- which an X-tax is -- is that it is simply a much more pro-growth system than an income tax. An income tax creates distortions that a consumption tax does not.

The United States is actually a reasonably low-tax country, we are just a high income tax country. There is no reason we need to live with the distortions that the income tax system creates. We have alternatives available to us.

And so, I think it is correct to study consumption tax reform options that can help the United States be a more competitive economy while remaining, you know, relatively distributionally similar. So --

\*Mr. Nunes. Thank you, Mr. Grinberg, and thank you, Mr. Chairman. I yield back.

\*Chairman Brady. Thank you. Dr. McDermott, you are recognized.

\*Mr. McDermott. Thank you, Mr. Chairman. A very eminent philosopher once said, "Those who fail to learn from history are doomed to repeat it." Now, that is a very fancy way of saying what I learned in Chicago as a kid: The fix is in.

This is a sham hearing. It is not going anywhere.

The Speaker, before he got to be Speaker, when shown the OCED [sic] BEPS program said, "Ultimately, the solution is to bring our tax code into the 21st century, allowing companies to bring back their earnings without penalty." Now, if that is the goal, to bring back their money from overseas without penalties of any sort, we ought to look at the last time we did that.

Not many Members on this Committee were here in 2004, when we provided a repatriation holiday. This was -- allowed companies to bring back their offshore profits at a lower tax rate than that 35 percent we always hear about, which is a sham in itself. The effective rate is about 16 percent for most corporations in this country.

But never mind. They brought their money back. And they promised that they were going to use it to create jobs, and they were going to do all kinds of great things for this country. The 15 companies that benefitted the most from that 2004 tax break cut more than 20,000 jobs. They brought back all that dough from overseas at low rates that we gave them. We said, "Oh, bring your money back and invest in America." They brought it back, and they sent it to the stockholders in the next afternoon. That is what happens when you get this kind of thing.

And we -- although we heard about the other thing, about the fix that you really don't understand. These companies, they sell something in Germany. Do they pay the German tax rate? Do they, Mr. Kleinbard?

\*Mr. Kleinbard. They do only if they are poorly advised.

[Laughter.]

\*Mr. McDermott. Yes. If they are well advised, they do it in the Cayman Islands.

\*Mr. Kleinbard. In the end, right, the income is --

\*Mr. McDermott. Or Bermuda.

\*Mr. Kleinbard. Yes, sir.

\*Mr. McDermott. Or The Netherlands, or Luxembourg. Any place to get one of those -- or Ireland, even. I mean the Irish are not -- you know, we are not very smart, but we are smart enough to know if we have a low-enough tax rate, we can draw a lot of stuff in that isn't taxed in France and isn't taxed in Berlin and isn't taxed all over the world.

This tax structure is not going to be solved by a hearing where people have three minutes to talk about it. This has got to be -- you have -- we had the Senate Member over today to the Democratic study group who said, "Nothing is going to happen in the Senate on taxes." So whatever you talk about today is just a sham. This is not real tax reform. It took six years under Reagan.

\*Chairman Brady. Thank you. Mr. Tiberi, you are recognized.

\*Mr. Tiberi. So much for bipartisanship. Mr. Wiacek, in your written testimony you talk about examples in communities of corporate headquarters going overseas, and the impact. And one of them is in Ohio that you mentioned, my home state, Bridgestone, Firestone.

In Columbus we are really lucky to have a number of corporate headquarters, both domestic and international companies, and many of them are -- most of them are involved in many other ways, in addition to just having a lot of jobs. In fact, one company, AllBrands, has seen the CEO in the company give tens of millions of dollars to Ohio State to create a state-of-the-art medical center. And I think it is safe to say that if they were headquartered in Dublin, Ireland, they wouldn't do that.

My question to you is can you go through the ripple effect that is created in communities? We often solely talk about jobs, which are really important, but the ripple effect that is created when a corporation is moved overseas, not just in terms of jobs, but what it does in a community, the investment that many employees and executives make in many different things, and the impact that has. And, in addition to that, how recent developments in the BEPS project and what foreign governments are doing, unilaterally, to heighten that impact.

\*Mr. Wiacek. Sure, and let me take BEPS first, just for a moment, because Ed made the comment that attacking BEPS is premature. And that is what got us to the place we are now. We thought that it was just advisory, and that we would get a crack at it because we have to adopt each of the proposals, country by country. But what we forget, while we wait about -- tax reform people are asking about -- is the barn door open? Is the fire burning?

So we are not in control of international taxation. Inherent in the definition of "international" is there is at least one other country involved, sometimes many. And they are galloping forward, and they are moving on. And BEPS is out of the barn and running.

And BEPS -- look, if BEPS works, and we have a level playing field, that is actually all we want, as a competitive manner. And I don't care whether the rate is the German rate of 15 percent versus the U.S. effective rate of 16 percent or -- just so everybody plays by the same rules. But that is not what is going to happen with BEPS, or at least not for 10 or 15 or 20 years, because the different other countries are not going to adopt

all of the proposals. Each country is going to adopt the proposals that is best for it. Each country is going to adopt the proposals in its own language.

Someone talked about the privacy -- oh, Ed did. And he said, "Why shouldn't we give all of our tax returns to every country?" Well, Germany already doesn't think it is a good idea, either, and has said it is not going to do it. And France has already said, "What the heck?"

So this thing is just going to be -- the whole international system is getting rewritten right now in Paris and Brussels. And we better catch up, because we would like to put a stamp on that. And they are not writing it in a way that is favorable to us.

And I am sorry I didn't get to your community question, and maybe I will get an opportunity.

\*Chairman Brady.

Thank you. Mr. Doggett, you are recognized.

\*Mr. Doggett. Thank you, Mr. Chairman, and thanks to our witnesses.

I think if this Committee had any genuine interest in addressing those companies that are dodging their taxes by declaring themselves un-American, we would have already approved the anti-inversion legislation that has been pending here for years. We would have approved a tax that is, in concept, the same as what we do for wealthy individuals who renounce their citizenship, and say, "Your earnings may have been deferred, but they are not tax free," and impose that tax. And finally, we would be asking the United States Treasury Department to use its full authority to stop the Pfizer inversion and the other runaway inversions that are occurring.

Instead, what we have is the call for an international tax reform that is nothing more than an excuse for discrimination. If Star Wars is competing down the street from Austin Java, it is Star Wars that has got the lowest tax rate right now through all the schemes that it has set up on its intellectual property and its offshore subsidiaries. And what this Committee is saying, "Cut their taxes some more, but don't do anything for Austin Java."

It says to Pfizer that is up here, whining about the fact that it has to pay maybe a nickel, maybe even as much as \$.07 or \$.08 on its worldwide earnings, we need to cut their taxes a little more, but Davila Pharmacy and the other community pharmacies around the country, they don't get their taxes cut at all.

It says to Burger King, "It is okay to go run off to Canada to invert. We are going to cut your taxes more. But we are not going to do anything with Estella's down the street that is a local, domestic business that is competing."



And the committee's determination to discriminate against domestic businesses is so extreme that last week even the Business Roundtable, that has as its members so many of these multinationals, rejected this approach with its chairman saying that tax reform cannot be piecemeal, that "You've got to have revenue on the table, lower tax rates, and simplification in order to have a compromise for all."

I agree with a pro-growth, job creation tax policy, but it can't discriminate against American businesses. We aren't talking about a compromise here with the testimony today. We are talking about continuing to have an uneven playing field for our businesses, and to tilt it a little more through further so-called international tax reform.

Specifically, I would ask you, Mr. Kleinbard, what you think about the so-called innovation box, or giveaway box, or whatever, and whether Pfizer needs additional tax breaks.

\*Mr. Kleinbard. In 11 seconds, I am opposed.

[Laughter.]

\*Mr. Doggett. Good.

\*Mr. Kleinbard. It simply rewards people today for research they did years in the past.

\*Chairman Brady. Well done.

Mr. Reichert?

Thank you for sticking to the time, on the dot.

\*Mr. Doggett. Mr. Chairman, may I just ask, as you go to the next witness, your consent, unanimous consent --

\*Chairman Brady. Without objection.

\*Mr. Doggett. -- to put in the letter that you received from the financial accountability and corporate transparency group?

\*Chairman Brady. You bet, without objection.

[The information follows: [The Honorable Lloyd Doggett](#)]

\*Chairman Brady. Mr. Reichert, you are recognized.

\*Mr. Reichert. Mr. Chairman, could I ask the clock be set at three minutes, that --

\*Chairman Brady. Yes. Yes, sir.

[Laughter.]

\*Mr. Reichert. My time was ticking away there. Thank you. Thank you, Mr. Chairman.

I usually stick to a script, and I am going to go off the map a little bit here. I am just getting frustrated by hearing some of the comments today.

I have -- I look like I have been in Congress 40 years, but I have just been here -- this is my twelfth year. So I was a cop before this, and cops are all about getting stuff done, right? I just want -- you know, I think Mr. -- is it Wiacek? I want to -- Wiacek?

\*Mr. Wiacek. Wiacek.

\*Mr. Reichert. Thank you. You know, I thank all three -- all four witnesses. You have provided some great testimony here today for us to be educated. However, I think that, Mr. Wiacek, you have really touched, you know, me in a personal way. I think I can -- I mean I can see your emotion, your passion. Even though we are talking about tax reform, which is not -- you know, how can you get excited and passionate about -- unless you start talking about what it does to people in America.

And the anger that we see in America today is all about what is happening right here in this Committee, the lack of bipartisanship, some of the comments made here to me are depressing, disgusting, and absolutely uncalled for. We have been working on tax reform for the past eight years that I have been on this Committee. Through Dave Camp and through Mr. Brady, and even when the other side was in the Majority, there was some attempt. But we have got to work together.

And in the last minute and 30 seconds, I want Mr. Wiacek to continue on -- with his conversation on how this affects all businesses across America, and what your solutions are. Just list them right off, you know, 1 through 10. Whatever you have got, man, I am ready to write them down.

And, you know, I don't know how we can say that companies are only paying six and seven percent. I am talking to companies that are paying 50 percent.

Mr. Wiacek, please.

\*Mr. Wiacek. So I appreciate, by the way, the competition between the international company that sits next to the local company, and what does the local restaurant pay versus the Burger King. But if we don't get the international side right, Burger King is going to not only be in Canada, it is going to be run by the Canadians, and you are still going to have the tax competition, because now the Canadian company is not taxed on its U.S. income, it is a territorial system, it is going to have a lower rate.

And someone talked about the German -- don't even pay the German tax. The German tax is only 15 percent, by the way. And our tax is 16 percent, even if we take into account all the planning or the so-called -- so what is going to happen if we don't solve the international side is we are going to lose more and more of the companies. And then the company that is reducing its taxes isn't even American, it is a foreign company that sits next to your domestic company. So these things are very hard.

And wow, in 12 seconds what would be my list of things that we should do? Can I follow up with a supplementary thing to you or something?

\*Mr. Reichert. Yes, you can.

\*Mr. Wiacek. Because it is a very difficult topic.

\*Mr. Reichert. Please do, thank you. Thank you.

\*Chairman Brady. Thank you --

\*Mr. Reichert. Mr. Chairman, I yield back.

\*Mr. Wiacek. But we do need to get on with it.

\*Mr. Thompson. Thank you, Mr. Chairman, and thank you, witnesses, for being here.

Could each one of you witnesses just tell me -- do you believe that tax cuts, either international, domestic, or otherwise, tax cuts should be revenue-neutral? Just a yes or no.

\*Ms. Hanlon. I don't think they necessarily have to be.

\*Mr. Wiacek. No.

\*Mr. Grinberg. I don't think corporate tax reform should be revenue-neutral, necessarily.

\*Mr. Kleinbard. I think that the United States needs more tax revenues than it is currently collecting. I think that the business tax system can be reformed in a revenue-neutral way to still be more efficient --

\*Mr. Thompson. I am a little perplexed, because the idea that we would not push policy here that is revenue-neutral -- at some point you have got to -- you know, you have got to pay the piper. And I don't think it is good public policy to say we are going to do all this stuff and then, you know, somebody else figure out how to pay for it. Or, as one prominent Republican has been saying, "We will let Mexico pay for it." It just doesn't work. You have got to pay the bills.

Mr. Kleinbard, the chairman stated when he -- in his opening remarks that there is all this U.S. money stranded overseas. And we have heard time and time again that it stifles investments in this country. Is that accurate? Are there examples of ways to still invest in this country, still pay dividends in this country, notwithstanding the fact that you have some of your capital invested overseas?

\*Mr. Kleinbard. Sure. It is not a great idea to have a system in which firms are encouraged just to keep large quantities of cash in their offshore subsidiaries. But the consequences of that have been vastly overstated.

It is simply not the fact that that money is buried in a backyard in Zug. That money, to the extent that it is invested in dollar assets, is in the U.S. economy. As my example of Apple, which just borrowed \$12 billion in the U.S. capital markets demonstrates, it is possible to get to the tax equivalent of a tax-free repatriation of those funds. The money can be invested anywhere in the United States, except the pockets of the shareholders of that company.

So the idea that the money is trapped overseas is false. It is not a desirable tax system, there are inefficiencies, but it is not the case that we have the kind of trapped money that is sometimes described.

\*Mr. Thompson. Thank you. I yield back, Mr. Chairman.

\*Chairman Brady. Thank you.

Dr. Boustany, you are recognized.

\*Mr. Boustany. Thank you, Mr. Chairman. I am angry too. I want to express the same anger my colleague just expressed.

This is an urgent problem. It is an urgent problem. We have to impart the urgency, not only to people in this room, but beyond, to the American people, as to what is happening to American business.

Look, we throw around the terms "EU," "state aid," "inversions," "OECD," "BEPS," "action items." We all know what those things mean, but people across this country don't have a clue. But I think they do understand what happens when a multinational U.S. company that started here and grew here leaves from middle America and goes to Dublin, or it goes to Tokyo. They understand that.

What they don't understand are what are the second-order and third-order effects of that. What happens to the suppliers and the other companies, small businesses, LLCs, private companies, that are part of the supply chain? What happens beyond that to local establishments, whether they are restaurants or whatever?

We need to make that case and impart that sense of urgency throughout this country, because American business is under assault. And it is not just American multinationals, it is all of American business. And we need to start talking in those terms. This tax code is broken.

Now, we need data from you guys. So, Mr. Wiacek, I am just curious. Do we have any hard data on these second-order, third-order, fourth-order effects in communities across this country as a result of what is happening with this very hostile environment that is leading to inversions at an alarming rate, and leading to mergers and acquisitions where U.S. companies are leaving or they can't compete?

What are those second-order, third-order, fourth-order effects? How does it affect the local hospital, the -- you know, a real estate agency? We need that data. Is there data available?

\*Mr. Wiacek. All right, so let us get it to you. There is such data, and there is data that is even more neutral, not what happens when the company leaves, or whether you fight the inversion fight, or why they left, or -- but just what a Procter and Gamble means for Ohio. And you can just trace that through every supplier and every restaurant, and how much revenue comes from the tax imposed on the wages of the employees.

And you know, a lot of you represent districts that have a city like the size of Akron or the size of Cincinnati or something. Just think what happens if you don't have that company. That is why I started with St. Louis. I mean the parks of St. Louis, the ball fields of St. Louis, all this stuff that the Busch family has done for that city -- I am sure they will still be generous, but it is different.

But you are right, I came up with --

\*Mr. Boustany. Our committee needs that data.

\*Mr. Wiacek. Need data.

\*Mr. Boustany. We have to all go out and make that case. It is not just us on this dais here, or you guys. It is everybody out there. We have to make that case about this urgency.

And I am sick and tired of the punitive measures being promoted on the other side against American business. We have capital that is locked out of here. Yes, they are doing it to get lower tax rates. Tax competition is real, it is part of economic competition. We have to win for the American worker, for the American people. It is time to act now. I yield back.

\*Chairman Brady. Thank you.

Mr. Blumenauer, you are recognized.

\*Mr. Blumenauer. Thank you. But I think it is important for us to think about how we act now, and for whom we act. There is no question that our broken corporate tax system has some -- I represent some people -- I don't know 50 percent that Mr. Reichert is talking about, but I represent some people who pay nearly the full statutory rate. They do business here, they manufacture here, they have assets. But that is not the average, and there are wild exceptions where people take advantage of it.

I loved the article in the New York Times this weekend about Wales, where the local businesses started to say, "We are not going to take it any more." The Starbucks pays no tax to the Great Britain. They finally were shamed into voluntarily coughing up a few hundred million, after having billions of dollars through these techniques that are legal, sort of. But the long-term impact for the people in that village is that they are paying the price in Great Britain.

This is not just something that is a concern of people on this Committee. There are problems of equity throughout the developed world, where people are concerned about stateless income, they are concerned about a lack of equity.

One of the things -- to my friend from Louisiana -- that we ought to do, we ought to have full transparency. It shouldn't be so hard to know what rates corporations are actually paying. It shouldn't be some proprietary secret about the double Dutch whatever it is that enables them to park huge amounts of corporate profits in a handful of jurisdictions where they don't really do business. Let's be transparent. Let's find out where the money is made, what amount is paid, and allow this Committee and the American public to make some judgements.

Now, I don't think we are going to have massive corporate reform on a -- by -- without making it revenue-neutral. We are going to need probably another revenue source. All these countries you are talking about that have different corporate systems have a value-added tax. Ted Cruz notwithstanding, I don't think we are going to have a national sales tax here any time soon. Part of the solution is a carbon tax to help buy this down. But part of it is transparency now, understanding how it works.

Part of the system is for us to stop making the code more complex, and dealing with little ancillary questions. Rather than looking at impacts for the people we represent, look at how we are going to pay the bill. Looking at other mechanisms to provide the resources Americans need, and to do so in a way that is simpler and less convoluted. And I think it would start with a little transparency that maybe we can help promote. Thank you, Mr. Chairman.

\*Chairman Brady. Thank you.

Mr. Roskam?

\*Mr. Roskam. Mr. Chairman, you have convened a really interesting discussion today. And if you step back and just listen to it, there are some themes. And the one

theme is nobody is defending the status quo. There is no voice here on the dais among the witnesses -- nobody is saying, "Oh, it is great, just leave it alone." That is really interesting. Everybody is communicating a sense of urgency about this.

I am from suburban Chicago. I get in and out a lot of companies in my district. And not unlike the Detroit situation -- Chicago is not Detroit, thanks be to God, but there is a lot of issues as it relates to tool and die manufacturers, precision tool manufacturers that are selling into these other markets, and it really does matter where worldwide American headquarters are doing business, and so forth.

And so, I think, you know, some of the differences between us -- some friends on the other side of the aisle will ascribe a bad motive to a worldwide American company. We tend not to ascribe the bad motive. But, you know, when it comes down to it, who cares? They are either staying or they are leaving. They are sort of doing a jail break like Walgreen's tried to do. They would have done it, if they could have done it, but they were under so much pressure and they have so much federal business in their drug stuff, they couldn't do it. But if they were some other company, they would have been gone right now.

So, Ms. Hanlon, question for you. You sort of mentioned this interplay between the inversion discussion, the tax rate discussion. Can you just educate us here on how those things play out together? They are not the same thing. How would you counsel us, moving forward? And what would be a couple of steps, if we were to gather around to try and move forward quickly? What would you counsel us?

\*Ms. Hanlon. Again, I think the number-one thing that, again, all of us agree on this panel is to reduce the corporate statutory tax rate. And it matters. The evidence in the academic research is very clear. That statutory tax rate matters. So I think the number-one thing to do is get that rate down.

Then, I think, consider some version of a territorial tax system. If you want to think more broadly, a consumption tax or some of the other options available to us are also worthwhile things to think about and may have a lot of benefits. But the -- again, the number-one thing to do, if you want to act quickly, is to get that corporate tax rate down and reduce the pressure on the U.S. companies.

\*Chairman Brady. Thank you. To balance out the questioning, we will be going to two-to-one in the questioning.

So, Dr. Price, you are recognized. Then we will --

\*Mr. Price. Thank you, Mr. Chairman. I too want to thank the witnesses for their testimony and, Mr. Wiacek, for your clear passion on this issue. What you demonstrate is that these issues are real to people, they affect real folks in real communities and our constituents across this great land.

Mr. Chairman, I don't know if you noticed, but there was an earthquake that happened in this room about a half-an-hour ago or 20 minutes ago. It is when Dr. McDermott said, "If you lower the tax rate enough you will draw a lot of stuff in." That is a great recognition of what needs to happen. We need to be drawing folks in, we need to be encouraging folks to start businesses and expand businesses. And I just appreciate the fact that -- my friend on the other side of the aisle recognizing that we need to lower the tax rate enough.

Some folks have even been candid on the other side. One said, "More tax revenue than currently collecting" is what we need. It is important for people to appreciate we collect more revenue to the Federal Government now than ever in the history of the country. Ever. This is the greatest amount of money that has ever been collected by the Federal Government.

So we can collect more, and the way you do that is through growth. And what we have done in our economy is actually decrease growth. Our growth rate is now 30 percent to 35 percent lower than it has been in the history of the country.

And then you got some peculiar comments on the other side: "We will force them to do it. We will stop those inversions because we will force those companies to not invert." Well, there is a good way to promote a commonality of theme with the business community.

Mr. Wiacek, I want to touch on -- I am going to get wonky here for a second on the BEPS project, the base erosion of profit shifting. This appears to me to be a revenue grab by foreign countries of American companies. And one of the ways they are going to do that is to require that this "sensitive company data," that has been belittled by another member of the panel, will be required to be given to the countries.

I ask you. Is -- what are the examples of this sensitive data? What data are they seeking? And what should the United States Government be doing to protect United States companies doing business overseas to make it so that they don't have to give away this kind of information that would make them non-competitive?

\*Mr. Wiacek. Well, in fairness to BEPS, I think it starts with a good motive, which is the motive we all have here, which is to admit the system is broken, and not just here, but across the world. The reason the system is broken is there is not a level playing field, and the systems aren't working well together.

We wouldn't need to lower the 35 percent rate if this Committee or this Congress could ensure that everybody else was paying it. So we could get 35 percent from Pfizer if Britain gets 35 percent from Glaxo. We could get 35 percent from Microsoft if Germany would get 35 percent from SAP. But when that is not what is happening, they are eating our lunch.



So BEPS was kind of a think tank, do-good effort to fix this. And in a lot of ways, it is fixing it. But the view in Europe of what is the right fix is not always in our interest.

Now, you talk about the --

\*Mr. Price. I will follow up with you.

\*Mr. Wiacek. I am sorry.

\*Mr. Price. Thank you.

\*Chairman Brady. Thank you, Mr. Wiacek, Dr. Price.

Mr. Kind, you are recognized.

\*Mr. Kind. Thank you, Mr. Chairman. Mr. Chairman, the complexity of this topic, I think, really does call for additional hearings. So hopefully, we will take some time to walk through all this. But we appreciate the testimony that we are hearing today.

Let me just ask all of you on the panel just a simple proposition on whether or not, no matter what we end up doing, if anything, on international tax reform, it should at least be revenue-neutral.

And the reason I say that is because I asked the Congressional Budget Office to get me some numbers recently. If we had paid for the extension of the Bush tax cuts a few years ago, and if we had paid for the tax package that was reported out last December, our budget deficit this year would be \$34 billion, not \$544 billion, as it is. And there is a propensity around this place to enact tax reform without paying for it. And that makes it very difficult, addressing the aging population that we have in this country today.

So let's just go right down the line. And I would like to hear each of your opinion on whether or not we should be paying for any changes in the international tax code.

\*Ms. Hanlon. There's ways that you could pay for it or cover the cost, but I don't think the reform necessarily needs to be revenue-neutral.

\*Mr. Kind. Okay.

\*Mr. Wiacek. I think, if you have the courage or the will or the way to raise additional money, that would be good. But if the great becomes the enemy of the good while BEPS proceeds and the rest of the world proceeds without us, and state aid proceeds, and our companies are leaving or something, that is a problem. Because we can wait around for a long time to get this right.

And the fact of the matter is, on international taxation, you folks are not in control. This is multilateral. This -- my main message: this is happening without you.

\*Mr. Kind. All right. So you are kind of fudging on that. I understand the complexity --

\*Mr. Wiacek. Well, okay. I didn't mean it to be a fudge, I meant it to be an answer.

\*Mr. Grinberg. So I worry a lot about opportunity for future generations. And for that reason, because I think the real consequences to not acting, I believe in revenue-losing corporate tax reform. And I think you can get the revenue other places.

I think that there are lots of opportunities -- if you need to get revenue, why would you do it here? Even the OECD, you know, says that the corporate tax is the least pro-growth tax out there, it is the most damaging tax that exists. They, in fact, recommend and note that every country -- every other country is going towards a consumption tax.

So, you know, we should think about doing some -- if we need revenue, not from this spot --

\*Mr. Kind. Mr. Kleinbard?

\*Mr. Kleinbard. We need revenue. Business tax reform should be revenue-neutral within business tax reform. There is plenty of revenue within business tax reform to do it in a revenue-neutral way. And the United States today is the lowest-taxed major economy in the world. The lowest-taxed major economy in the world.

\*Mr. Kind. All right, thank you. Thank you, Mr. Chairman.

\*Chairman Brady. Thank you. And, Mr. Kind, just to clarify from my standpoint, what I believe is that within dynamic, real-life scoring, overall tax reform can be revenue-neutral. But we are not going to leave growth on the table if we are off a dime a two. We are looking for jobs, we are looking for opportunity. We are looking to leapfrog and go to the lead pack of where our competitors are at.

Mr. Smith, you are recognized.

\*Mr. Smith of Nebraska. Thank you, Mr. Chairman. And thank you for the opportunity to have a dialogue here.

I will say that sometimes it can be a little frustrating, hearing some of the pessimism and why not to do something, and when we know that we have got an incredible problem with our current tax code. And I want to do what I can to move the ball down the field. And I think the importance of international tax reform is incredibly high.

Regardless of the fact that a lot of folks in my district, you know, they pay under the individual rate, many will face a tax rate as high as 47.9 percent. So we can hear about some of the single-digit effective tax rates and -- or maybe even zero effective tax rate. But we need to do our job in addressing the problems that we know exist. And I

would hope that, as we move the ball down the field, that we can actually help even small businesses through the corporate tax reform, international tax reform, and those items that any reasonable person would acknowledge need some correction.

Can any of you elaborate on how perhaps a small business, who does pay through the individual rate, individual code, would benefit from international tax reform? Go ahead, Ms. Hanlon.

\*Ms. Hanlon. You know, first, I guess I would like to clarify a couple things. It is very common for people to say, "Oh, individuals pay the 39 percent rate." But the IRS statistics would tell you that most of the evasion happens at the individual level, and for cash-basis small businesses. So it gets a little tiring to me to hear us all going after multinational corporations when the data actually would tell you that the tax evasion is stronger on the individual side, and for cash-basis small businesses. It is not like they are all paying the 39 percent rate.

Sorry, what was your question, again?

\*Mr. Smith of Nebraska. That is okay. And in terms of positive impact on small businesses, but --

\*Ms. Hanlon. Oh, yes. I think we have heard a lot about that. There is -- it affects jobs, it affects all of us.

\*Mr. Smith of Nebraska. Mr. Grinberg?

\*Mr. Grinberg. So, you know, I think you are right to worry about Main Street. Still the largest producer of jobs in the United States. The thing about Main Street is it often supplies corporate America, and that is important.

As you think -- if you think really broadly, if you go to a system that goes all the way towards moving away from, you know, income taxation as the base, there are real advantages for small business, too, of consumption taxation.

\*Mr. Smith of Nebraska. Thank you. Thank you, Mr. Chairman. I yield back.

\*Chairman Brady. Thank you.

Mr. Paulsen?

\*Mr. Paulsen. Thank you, Mr. Chairman. And just to follow up a little bit on that, you know, a lot of time when we have a conversation on this issue it is always being focused on the larger American job creators that are often the target, right, of these foreign takeovers, or that are forced to relocate their headquarters, just so they can remain competitive. And what often gets lost in that conversation, though, is the Main Street businesses, and that concept, and the ripple effect, the cascading effect.

And I am glad that we had some testimony -- Mr. Wiacek, you mentioned it, you have that in the written testimony, as well -- the effect that these takeovers and these acquisitions have on the small business community that either supply those large companies, or they provide goods and services to their employees.

And, you know, for me -- and Minnesota has had some instances of the inversion issue -- but consider, as an example, I mean, if you have a Minnesotan who loses her job when a company is actually forced to move their headquarters to another country because they have a lower corporate tax rate, more competitive international tax system, just because she ends up not going to work for the day, she is not going to stop on her way necessarily to the local Dunn Brothers coffee shop to get her coffee and her muffin. That might be a \$5 expenditure.

She may not be stopping after work to pick up her dry cleaning at the Pilgrim Dry Cleaners. So that might be \$25 right there, at the local dry cleaners. She is probably not going to be picking up her children from the New Horizon Day Care facility, which in Minnesota could be about \$60, \$64 a day. And then she may not be dropping off her husband to pick up the car that was left for an oil change overnight at Bobby and Steve's Auto World. And that could be \$40.

And then, finally, maybe on the way home she is not going to stop at the Cub Foods to purchase extra groceries that would be used either for dinner -- or they may not be going out to dinner for \$20.

So you add up that money, and it is about \$154, maybe just in that one day, you know, a very busy day. And, obviously, if you are to spread those activities out, even over the course of a few days, and then multiply it by hundreds of other employees that may be negatively impacted by losing their job from a large headquartered company, we are talking about lots of other Main Street Minnesota small businesses in the supply chain missing out on hundreds of thousands of dollars every week.

And even in an economy like Minnesota, that is actually doing pretty well. This would be a really big hit. And while this is only a hypothetical example, I think the whole issue of inversions and acquisitions and companies relocating overseas is very real, and your testimony absolutely describes that.

You know, you think about 51 U.S. or American companies moving or being reincorporated outside the United States since 1982, but 20 of those have happened just since 2012. We have had three more announcements just in the first month of this year. And our tax code has not kept pace with the modern economy. So it not only about keeping the headquarters that provide these good-paying jobs, but for me it is about the Dunn Brothers, the Bobby's -- and Steve Auto World, and others that rarely come up in these conversations that I think we need to focus on and keep the attention on.

So I want to compliment the chairman for the hearing, and make sure we don't leave job growth on the table as we move forward. And thank you for your testimony today.

\*Chairman Brady. Thank you.

Mr. Pascrell, you are recognized.

\*Mr. Pascrell. Thank you, Mr. Chairman. Thank the panelists, each and every one of them.

Mr. Kleinbard, you wrote an article in 2014 in the special report on tax notes which I find very intriguing, because it really contradicts a lot of what I have heard today, not from you, but from other panelists, concerning competitiveness.

So, in other words, this whole thing could be summed up, this discussion about whether we want to make Americans able to fit into a competitive system, is if those of us who question the direction we are going in, we don't want competitiveness, we don't want our businesses to compete, which is false, which is false.

You pointed out in that article very decisively -- in fact, you used an example -- what happened in 2013 to the Mylan Company, M-y-l-a-n. You derived about -- that company derived about 57 percent of its worldwide revenues -- essentially, gross receipts -- from the United States. Yet, as -- told investors that its worldwide effective tax rate was 16.2 percent. That is interesting. I find that interesting.

So, if it had faithfully complied with the SEC rulings that it identify its tax footnote, the United States tax cost of repatriating its offshore cash, but they didn't do it [sic]. They didn't do it.

So, I agree, competitiveness has nothing to do with what we are talking about. Working Americans across the country do not have the benefit of hiring consultants and shifting their earned income and assets around the world to find the lowest tax rate. That is what we are talking about, no matter how you slice it. Yet many multinational corporations do just that. And we are aiding and abetting this behavior with our lack of action on an outdated and overly complex tax code.

And when that happens, here is what happens. Like if I don't pay my taxes, my property taxes, regardless of what -- every state is different. In Patterson, New Jersey, and the next guy down the block doesn't pay his property taxes, or there is foreclosures and people can't pay their taxes, somebody has got to pick up the slack. And that is what we are talking about here.

So you could put it any way you want, about how this present system, which we all agree should be changed, needs to change in order to benefit corporations. I want you to know that this is a very important bottom line that we are talking about.

And I would ask you the question -- not going to have a chance to answer it -- you pointed out that the international reform is needed, but that today a good portion of our

tax revenue is flowing out of the United States. So discretionary spending has fallen to its lowest level since 1940. Here is what we are trying to do, Mr. Chairman.

\*Chairman Brady. Quickly.

\*Mr. Pascrell. Thank you for your indulgence.

\*Chairman Brady. Sure.

\*Mr. Pascrell. Here is what we are trying to do. We are trying to squeeze that discretionary money even further by making cuts here and cuts there, and trying to communicate to the American public, mind you, that the problem is that our corporations can't compete because of the tax system. And that is not the basis of the problem.

\*Chairman Brady. Thank you, Mr. Pascrell.

Mr. Marchant, you are recognized.

\*Mr. Pascrell. You are welcome.

\*Mr. Marchant. Thank you, Mr. Chairman. I represent a district that has a lot of multinational corporations, but a lot of very large corporations that operate in the United States. When I visit with them, this whole issue about tax reform is beginning to be a very sensitive subject because they have shareholders. Their shareholders are intelligent shareholders. They have boards of directors. They have hired very high-powered law firms and very good tax counsel. And in every case they are being told by all four of those levels that they need to do something about their taxes to either maintain profits or to enhance profits. That is, by the way, the job of the CEO, the CFO, the board, for shareholders.

So, we as a Congress owe it to the businesses of the United States to either simplify the tax code or lower the tax rate, where they do not have this constant internal conflict going on inside of their board rooms.

And people think, well, these are big corporations. Why should we feel sorry for them? Well, because they are a representative of the shareholders. They are broadly held. And I don't believe -- I believe that the pressure on these companies is going to increase daily. And all of the Wall Street Journal, all of the stories, all they are going to do is begin to apply an additional layer of pressure.

So I don't think we have just years to ponder this and think about it. I think that just because of the way our system is set up, we must act. Will it be revenue-neutral? It certainly has to take a strong factor of growth into it.

As far as the money overseas -- and I found Mr. Kleinbard's answer correct -- these companies can access that money, basically, by going to the capital markets over here, or

the bond market, and paying that. But that in itself is reducing the revenue to the Treasury, because they are then having to pay interest on that, which is then deductible, and it lowers their bottom line. And, in fact, the profits of those corporations are being penalized.

So, in my view, we don't have, you know -- we don't have a long time to ponder this. We have got to determine an effective way for those corporations to get the money back here, effectively. And we have got to figure out a way for our presidents and directors of these corporations to walk into their board rooms and say to their shareholders and directors, "No, we need to stay here, here is how we can do it," and not invert. Thank you, Mr. Chairman.

\*Chairman Brady. Thank you.

Mrs. Black, you are recognized.

\*Mrs. Black. Thank you, Mr. Chairman. I appreciate the panel being here today. This is such an important conversation that we absolutely have to have. And I know that some may say these hearings aren't worthwhile, but I will say for me they are very worthwhile. And I know they are for the people here in this audience and those that are watching, as well.

So, Professor Grinberg, I want to go to you, because in your testimony you specifically mention how continuing to make these mistakes in the global tax environment will be extremely costly, in terms of employment and opportunity, and especially for those younger generations.

I hear from the younger folks in my district all the time how difficult it is to find a job, or how few opportunities they have. And if we continue down this path of preventing our U.S. companies from competing globally, how will this impact, not just today, in what I am hearing from the younger generation, but also looking out -- my grandchildren and even my children, but my -- more importantly, my grandchildren 10 years or 20 years down the road.

Can you just look out and tell me what you think this is going to look like, if we continue down this road without making any changes?

\*Mr. Grinberg. Thank you, Congresswoman. It is an important question. The international tax environment is changing very rapidly. And I believe that the BEPS project will succeed, at least in requiring that in order to shift income to lower tax jurisdictions you must also shift jobs into that jurisdiction.

And as many people on both sides of this aisle have said and acknowledged, you know, we don't blame corporations for trying to get to a lower rate. And so, what will happen, unless we act to produce a competitive system that leapfrogs us at least to the middle of the pack, is that over time there will be corporations that migrate offshore, or

incorporate offshore to start. And more and more of their high-skilled, high-quality opportunities will be staffed abroad, as they have headquarters abroad and as the leadership of those companies just make decisions about where they want to have, you know, small and medium business suppliers, for example. They will be in Europe, not in the United States.

And, as a result, I really do fear that there will be fewer opportunities for younger people in the U.S. That will be a slow process. It is not like something that happens overnight. But if you think out a ways, you have to hope that the United States can move to a competitive system so as to make sure that, you know, future generations have the kind of opportunities that prior generations have had.

\*Mrs. Black. And I know my time is going to run out, I have eight seconds left. This not only goes to jobs, but it also goes to growing our economy, and where we are with \$19 trillion in debt. And if we don't have jobs and we don't have the economy moving along, we are going to sink.

So thank you so much for being here today, and I appreciate the opportunity to ask you that question.

\*Chairman Brady. Thank you. Mr. Davis, you are recognized.

\*Mr. Davis. Thank you very much, Mr. Chairman.

Professor Kleinbard, I represent downtown Chicago. So it is obvious that I have a number of multinational corporations. My question and my interest and my issue -- how do I keep them -- help keep them competitive with their global competition, and yet exact from them a fair share of the cost of doing business that will help to keep our economy solvent and growing? I think that is also the question Mr. Pascrell was really asking -- you didn't get a chance to answer.

\*Mr. Kleinbard. First step is lower the domestic U.S. corporate tax rate. If you think that people in your various districts are overburdened by taxes, first step is to lower the domestic corporate tax rate. We all agree on that. The second step is to protect the corporate tax base so that foreign companies can't strip income out and enjoy a low-tax paradise inside the United States available only to them.

People are not inverting because of the headline tax rates. Companies today invert for two reasons only: one is to get their hands on the offshore cash, tax free; the other is to set up the earnings stripping game, so that they can turn the United States of America, domestic income, into tax haven income. Those are easily fixed. Those last two points are easily remedied. Those, in turn, protect the base from depredation. Then, going forward, you want a medium rate, U.S. tax, with fewer tax expenditures, with fewer special deals.



Right now we have -- through accelerated depreciation we actually end up paying U.S. companies to make investment in capital equipment when that equipment is debt-financed. We need to, therefore, have fewer tax expenditures. We need to scale back interest deductions to make the system more neutral, and we have to reduce the rate. And then the United States of America is the competitive environment.

What the Congress needs to focus on is what Congress can control, which is the business environment in which Americans operate. And it is very odd to me that in this hearing we talk so much about the poor little multinationals and not nearly enough about what to do domestically for American companies and American citizens.

\*Mr. Davis. Thank you very much. Thank you, Mr. Chairman.

\*Chairman Brady. Thank you. Mr. Reed?

\*Mr. Reed. Thank you, Mr. Chairman, and thank you to our panelists.

Echoing on that comment, as I go into this, obviously, the focus of this hearing is talking about the corporate international tax reform. So I share the concerns of making sure that, when we talk about our pass-throughs and our individuals, I think there is a commonality across the aisle here that the tax code is broken for everybody. But what we are talking about today is international competitiveness, and how we are going to potentially take on this issue, going forward. So I want to make a note that I am committed to making sure that we stand with the individual tax reform, also.

Also, no one has talked about -- this has been 30 years, essentially, since the last time we did tax reform. So if what we are trying to do here today is to get to the middle of the pack, to catch up to other folks, are we going to get to the middle of the pack and then have to wait 30 years to become way behind in order to catch up again? Are we going to be that nimble, as you said, Mr. Grinberg, that the environment internationally is happening rapidly, it is changing rapidly?

So my real question to you is give me your best recommendation as to how we get ahead of the pack, how we make the American market competitive. And I am going to focus first of all, Mr. Grinberg, on Mr. Wiacek and Ms. Hanlon, because Mr. Wiacek is a practitioner. He is talking to the people in the field.

What is it that would put us ahead of the pack, and potentially keep us at the head of the pack for competitiveness for the next 20 to 30 years? Because, God forbid, we are not going to get to reform for another 30, 25 years down the road. Mr. Wiacek?

\*Mr. Wiacek. Well, if we want to have a real revolution here, the corporate income tax is just a bad way to raise money, or to contribute to the fisc. And if we really wanted to unleash American business domestically and internationally, we might consider eliminating the corporate income tax.

Now, that is just not going to happen, and you would, obviously, need to still have discretionary spending, and still take care of everybody, and you might have to replace it with a VAT or some other form of consumption tax --

\*Mr. Reed. So a consumption-based tax. Ms. Hanlon?

\*Ms. Hanlon. I mean I think I agree with this, and with the statements we have already said, in a sense, is there are a lot of things we could consider and a lot of things we could do that are bigger than just reforming the corporate tax system that we have today.

And I think the statements that were made before, that the corporate tax system -- corporate taxes, in general, are bad for growth, is true.

\*Mr. Reed. Because this is my concern. If we are not going to think big -- we are here to think big. I came here to Washington to fix problems. I came here to move the needle. And if all we are going to do is go to the middle of the pack, how much complexity, how much danger is there that, if we do this, and then all of a sudden the system reacts to it, how much loss -- how efficient is that?

If we are going to go big, why don't we go big and get it done, as opposed to go to the middle of the pack, everyone adjust, everyone gets more advice, creates different shelters, different structures? Why would we do that? That doesn't seem to make sense to me.

Does anybody understand? Can anyone defend that situation?

\*Mr. Wiacek. No, and you know that that is not what the rest of the countries are doing. So we keep looking for ways to get to the middle, or get money from the corporate income tax, and the rest of the world is not using the corporate income tax. So we are always going to be disadvantaged, even with a lower rate.

\*Mr. Reed. Appreciate it. With that, I yield back.

\*Chairman Brady. Thank you.

Mr. Kelly?

\*Mr. Kelly. Thank you, Chairman. Thank you all for being here.

It is interesting. And, Mr. Wiacek, I agree with you. I remember the old Detroit. I remember Clark Avenue, when they were building Cadillacs up there. I know Akron very well. I also know Butler, Pennsylvania, Eerie, Pennsylvania, where you see all these areas where we had great companies that are now nothing but rusting.

But I want to get to something that is really important, because I think what we talk about -- we all agree, and I agree with Mr. Rangel -- and I am only going to have three minutes to address this with you?

But seriously, I mean, we all agree on the same thing. But unfortunately, we are not able to fix it. And so it is the old story of while Nero fiddled while Rome burned. And it is to the point now where -- there is an old saying. When you are up to your rear end in alligators, that is not the time to worry about who was supposed to drain the swamp. The answer was we were.

So, addressing these things, there is three things, there are three factors, I think, that -- why companies invert, or they are foreign takeover targets. The first is a lock-out effect. The second is anti-competitive effect of U.S. statutory rates versus world rates. And the third is the ability for foreign-owned firms to strip the U.S. base. So, as we look at all these, if you don't do them all together -- because it is a two-sided coin -- there is no answer to his.

And I would just tell you in my business, the automobile business, you either pivot or you perish. You either understand that you live in a global, competitive nature, or you are not going to be part of it any more.

So, absent of fixing all of it, do any of you see anything -- it is not any one thing, is it? It is a number of things we have to fix. Is there any who want to weigh in? Does anybody agree that just -- if we just fix this inversion thing, and if we really beat the living daylight out of these guys that want to jump ship, we are going to keep them home?

\*Mr. Grinberg. Okay, so -- thank you, Congressman. I mean my view -- when I teach about the inversion rules and talk about proposals about them, I call them the Hotel California rules: you can check out, but you can never leave. And the problem with imposing those kinds of rules is that eventually no one new checks in. And also, you know, if the rule is that you have to be fully taken over by a foreign firm in order to check out, and you are in the Hotel California, that is what you will do.

And so, I think that is the difficulty with just focusing on inversions and not addressing the broader problems that exist in the system by moving to a modern, competitive system that puts us in a position to compete with the rest of the world.

\*Mr. Wiacek. I think, as I said -- and my testimony doesn't mention inversions -- I think inversions has unfairly stolen the debate. I testified about companies that are just taken over with no tax planning for competitive reasons. This is about competition. And, as I said, if you pick up the Wall Street Journal, there is a Chinese company buying an American division every day. It has nothing to do with inversions.

So don't let diversions [sic] steal the debate. They are just the tip of the iceberg. And we are losing jobs and companies every day because we are not competitive. And it is -- and that is what it is.

\*Mr. Kelly. I want to stay in touch with you, because you all have great ideas.

Thank you, Mr. Chairman.

\*Chairman Brady. Thank you.

Ms. Sanchez, you are recognized.

\*Ms. Sanchez. Thank you, Mr. Chairman, and to our witnesses for joining us here today. While I think that this hearing is important, and it is providing us a chance to delve deeply into some very timely tax issues, I would be remiss if I didn't start my time by urging the committee to take up true comprehensive tax reform, rather than just walling off the international piece.

And that is not to say that many of the issues that have been discussed today aren't important. Things like base erosion, inversions, and a generally outdated system, those are all very important. But you can't do the international piece without -- in a vacuum, because a tax code is like a spider web: if you tinker with one part of it, it has ripple effects throughout the whole.

Mr. Kleinbard, in your written testimony you discuss the relative relevance of the U.S. statutory corporate tax rate for multinationals versus the impact the rate has on purely domestic companies. And you started to discuss that a little bit with Mr. Davis's question. But I would like to push on this a little bit.

In your written submission you state that corporate tax rates inside the United States should be our highest priority, and that a lower domestic rate reduces, to some extent, the long-term attractiveness of inversions or stateless income planning.

I agree that competitiveness for all U.S. businesses is extremely important. But equally important, I think, is that fair playing field for domestic companies who also, we forget, employ workers and create jobs here in the United States -- domestic companies who, I might add, don't generally have the resources to take advantage of tax planning schemes in order to lower their effective tax rate. And I think it is important to distinguish between what is the statutory rate and what people actually pay as their tax rate.

So, Mr. Kleinbard, if we are attempting to get as close to a level playing field for domestic companies as possible, would international-only reform be the correct route to take?

\*Mr. Kleinbard. Well, I think the answer to that is no. When international is understood the way it is being described here, which is fixating on the taxation of foreign direct investment by U.S. firms, that is half of international, much less all of business. The other half of international, again, is that the United States is the largest importer of foreign direct investment in the world.

So if what you want is a level playing field, and you are going to insist that that be understood as meaning only international, well then, the United States is part of international. The United States is a source country, as well as a residence country. It is inbound, as well as outbound. Both parts really ought to be thought of.

And things like the base erosion point, closing off earnings stripping, closing off the excessive interest deductibility, dealing with the so-called hopscotch loans that motivate inversions, those protect the domestic base so that there is a level playing field with wholly domestic competitors.

\*Ms. Sanchez. Thank you very much. I yield back.

\*Chairman Brady. Thank you.

Mr. Renacci?

\*Mr. Renacci. Thank you, Mr. Chairman, and I want to thank the witnesses.

You know, Mr. Kleinbard, you had talked a little bit earlier about all these things we have to do, and then you ended by saying, "and that is how we can be competitive." And I think the answer is that is the issue. These multinational companies are not competitive, which gets back to what Mr. Wiacek said earlier, that the only way we can be competitive is to be able to compete. If I had a business today, and I knew that I could move it and save 17 percent or 22 percent, that is a savings, especially when you are working on a small margin. That is why we have to become more competitive.

You all have said we need to reduce rates. That is an easy answer. We could do that tomorrow. Here is the issue: We are not -- this country just doesn't have C corporations, they have pass-throughs. So you just can't reduce rates on corporations when you have pass-throughs. So you would all agree that that is probably the stumbling point between just reducing rates.

\*Mr. Kleinbard. No. Sorry, I can't. And I also can't agree with the idea that international firms are not competitive. There is just no evidence, when Pfizer is paying worldwide cash tax at a rate of six-and-a-half percent, where is the competitiveness --

\*Mr. Renacci. Have you ever operated a business?

\*Mr. Kleinbard. Have I operated a business? Yes. I was one of the executive committee of my law firm at the old days. It is a billion-dollar business.

\*Mr. Renacci. I was in a business for almost 28 years. I can tell you that if I could save 14 percent or 22 percent, I --

\*Mr. Kleinbard. They are not saving it, that is the point. There is not, in fact, a cash tax savings --

\*Mr. Renacci. I don't want -- with three minutes, I can't argue with you.

I -- go ahead, Mr. Grinberg.

\*Mr. Grinberg. I think you are right, that it is important to think about Main Street. And if you are kind of thinking about fundamental, comprehensive tax reform, and you want to leapfrog, then you need to find a way to address everyone's concerns. But if you go down that road, then I think you have to talk about very, very fundamental tax reform. That is why consumption tax looks attractive. A consumption tax looks attractive to Main Street, and it looks attractive to corporate America.

\*Mr. Renacci. One thing I do want to agree with, one of my colleagues talked about, you know, we have to get -- make sure the American people understand this.

I was thinking back, Mr. Wiacek, when you talked about Firestone. You know, Firestone, on March 18, 1988 the New York Times reported that Bridgestone acquired Firestone the night before. I live 15 miles away from that corporate facility, and I was a firefighter at that time, I was a businessman, I was a CPA, but I never really thought of the impact. Twenty-eight years later, I know what the impact is now.

I don't know if there is any statistics you can bring to the table on Akron in specific, but Akron is a great case study, because we have seen what happens when a major corporation leaves the city, and what it does. So I only have 23 seconds left, and I do want to move on to one other question.

Mr. Grinberg, you also said that it is important to recognize that countries around the world are moving away from residence country taxation towards source country taxation. I agree with that, it shouldn't matter where the residence is, it should matter where the source of the income is. Can you just touch on that?

\*Mr. Grinberg. So in three seconds all I can say is I agree. And, you know, I think that is another issue that Congress should consider. Thanks.

\*Chairman Brady. Thank you very much.

Mr. Meehan, you are recognized.

\*Mr. Meehan. Here is the bottom line -- and this is fascinating testimony, but I feel like, if I was in law school and I wrote the same paper, I would have two professors who would grade it completely differently. And that is one of the frustrations of this.

Mr. Wiacek, you talked -- the other thing that concerned me is the inequity of the playing field and what we are doing here in the country. You are suggesting that we have had American-based businesses that have relied on opinions that have been given by other countries, they have made their calculations based on that, and now European countries and others are changing the rules halfway around the game. So how do we respond to that?

But basically, the question is, I get asked by -- I have a lot of pharmaceutical companies in my back yard. When they leave, and they go to another country, all of the things that you discussed are part of it, Mr. Wiacek. What do I tell them? When they say to me, "What are you doing about it," what do I say? "Here is the answer."

\*Mr. Wiacek. So that is why they voted for you instead of me. But, you know, if they all leave, you know, as you go up and down the Garden State Parkway you know it is pharmaceutical central and we are in big, big trouble if that happens.

And you know, there has been this discussion that -- there is a vilification of the pharmaceutical and the tech companies for not paying a 35 percent rate. Thank goodness. You know? The 35 percent rate is not competitive. And Ed and everybody -- everybody has said we have to lower the rate. I don't think that is the only answer.

Then we move on to what do we do about deficits, do we have consumption tax, what do we do -- but just since a lot of them are in your district, there is nothing wrong with the planning they do, just as there was nothing wrong with getting a ruling from The Netherlands as to their business plans and what the tax effect would be in Europe about it.

If we get 16 percent from them, which was the rate proposed from someone on the Democratic side, that is a competitive rate. That is where they should be. If you actually expect everybody -- and you are really mad at them if they don't pay the 35 percent rate -- if they pay the 35 percent rate, they are toast. They are toast.

Now, I understand that you have a local restaurant that pays the 35 percent rate, or a pass-through that pays the 35 percent -- and we have to -- you know, we have to figure out how to do that. Heck, I pay 39.6. I work so hard for my clients I don't attend to my own taxes at all, and I just write the damn stuff and grit my teeth like every American.

But we have got to make these companies competitive. And my consistent point is it is urgent, because everyone else is galloping forward and doing it anyway and already. BEPS is out of the barn.

Source-based taxation isn't always the best idea. It is anti-American, because we are the resident country. We invent the stuff, we make the stuff, we sell the stuff. What source-based taxation says, "But I buy the stuff, and I would like to take a big piece of

the revenue." And that is -- that favors India and Brazil and Mexico and a lot of places that aren't us.

\*Chairman Brady. Thank you.

Mr. Neal, you are recognized.

\*Mr. Neal. Thank you, Mr. Chairman. Ms. Hanlon, I know that you have taken an interest in innovation box pursuits. And Mr. Boustany and myself, we have focused a proposal on that whole notion of the innovation box. Would you care to comment, and then maybe Mr. Wiacek?

And then I am going to have Mr. Kleinbard, whose book I feverishly read last summer and have been recommending widely to people, tell me why he disagrees with me.

Ms. Hanlon?

\*Mr. Wiacek. Do you want Ed to go first, or me, or --

\*Mr. Neal. No, no, you two go first. He is going to take the -- he will do the clean-up spot for us.

\*Mr. Wiacek. I am not a big fan of the innovation box or the patent box. I understand why it is there, or -- it is a little bit, to me, a part of the debate of how much do you want to bite off at any one time. So it bites off the return to -- and tries to be -- if you are the UK and you put it in, you are not trying to attract all investment, you are trying to attract the investment that is most wealthy, most modern. You are trying to attract technology. That produces the most jobs.

I would bite off more, and I would try to not do the patent box and fix international taxation. Other people here want to bite off the whole thing and fix all taxation. It is just kind of this step along the line for me --

\*Mr. Neal. Ms. Hanlon?

\*Ms. Hanlon. I think innovation boxes are, you know, possibly a good alternative.

Again, though, I think we need to reduce the overall corporate tax rate. That would be the best thing we could do. If that is too politically difficult to do, then a patent box becomes even more appealing at that point.

\*Mr. Neal. Okay. Mr. Kleinbard?

\*Mr. Kleinbard. Mr. Neal, first, I appreciate your kind words about the book. And second, I --



\*Mr. Neal. It was -- your book, by the way, was very reasonable. Entirely reasonable, when I --

\*Mr. Kleinbard. Completely inconsistent with my personality.

[Laughter.]

\*Mr. Neal. Go ahead. Finish, please.

\*Mr. Kleinbard. So, you know, I hate to -- ever to disagree with you, but I am not a fan of patent boxes. I do know that they will be job creators, but those jobs that they create -- that it creates will be entirely in the accounting profession, as people devote huge amounts of energy to squeezing all sorts of ordinary course business activity into the patent box.

I wrote, you know, a paper using Starbucks as a case study called, "Through a Latte Darkly." And in the paper what I discovered was that Starbucks pretends that its so-called Starbucks experience is a separate intangible that it can charge a license for. So when you start down the innovation box road you have that problem.

You also have the problem that you are rewarding for past behavior. We have lots of incentives right now for R&D, like the R&D credit, like the deductability of R&D expenses. I think that those make sense, those ought to be the focus, not the reward for past behavior that the innovation box offers.

\*Mr. Neal. I think my time has expired.

\*Chairman Brady. It has. Mr. Holding, you are recognized.

\*Mr. Holding. Thank you, Mr. Chairman. It is pretty clear from this hearing that our foreign rivals aren't stupid, and they have taken steps to attract business, innovation, implementing territorial tax system, lowering corporate rates, and aggressive IP regimes, including innovation boxes and research credits. So all of this serves to show how broken our own system -- everything that they are doing highlights a broken part of our own system. And it is my concern, if we don't do something now, it is the American worker that is going to pay for this.

Professor Hanlon, in your testimony you discussed, as we have said, the implementation of innovation or patent boxes by a number of foreign countries. And then, highlighting this, you touched on a concern of mine with this proposal, which is the OECD's nexus requirement.

So innovation and research is, especially in the life sciences, very important in North Carolina, and the fact that the life science sector in North Carolina accounts for about \$73 billion in economic activity and employs about 66,000 people across North Carolina. So

these are the high-paying, high-value jobs that are making North Carolina a leader in innovative research.

So, Professor Hanlon, could you please describe how the OECD's nexus requirement, in conjunction with the implementation of foreign patent box regimes, could affect research and development activities as well as jobs here in the U.S.? And if you see any steps that Congress could take to encourage and attract companies to conduct research and development here.

\*Ms. Hanlon. Sure. I think it is a good question. The OECD BEPS requirement for nexus basically will require companies to have economic activity -- meaning R&D, generally -- in the jurisdiction or in the entity that is going to get the benefits of the innovation box.

So it is a risk, in the sense if we don't do anything we will plausibly lose R&D jobs. Not just the income from the patents going forward, but actual R&D jobs will have to move offshore. And I think that is a big risk --

\*Mr. Holding. Because they are complying with OECD BEPS.

\*Ms. Hanlon. Yes, yes. And so that is a big risk. I think there is a lot of things we could do, a wide array of things. Increase the R&D credit. I think making it permanent was a great step, but we could increase those incentives. We could -- you know, the government could give more grants, we could do an innovation box. There is lots of things at our disposal that we could think about doing. But it is a risk, I think, if we don't do anything -- we don't reduce the corporate tax rate, we don't do any tax reform, we are at a serious risk of losing R&D jobs.

\*Mr. Holding. Right, because the foreign countries are putting in regimes to attract other -- to attract these businesses. And for them to take advantage of it they are just simply going to have to move the jobs out of the United States and into the other countries.

So thank you, Mr. Chairman, I yield back.

\*Chairman Brady. Thank you. Mr. Smith, you are recognized.

\*Mr. Smith of Missouri. Thank you, Mr. Chairman. I want to thank all the witnesses for being here today. This is an extremely important subject, as we all know, to discuss.

But I also want to make a point. I think that inversions are a huge, serious issue that we should all continue to examine. We have seen that. And it is clearly a symptom of our broken tax system in the U.S., and we need reform.

At the same time, I believe that we should be careful not to conflate the issue of inversions with foreign investment in the U.S., which, as we can see, can have a positive

impact throughout our country. I can give you a couple examples in my congressional district alone.

In my district, TG Missouri, which is a Japanese company that employs over 1,400 employees, one of the largest employers in our congressional district, has great, high-quality paying jobs. And, in fact, they are expanding. That is a foreign investment. That is different than inversion. But I want to make sure we are clear on that. And I think this Committee needs to be very careful when we are looking at the tax structure and looking at it.

There is also another company that has been mentioned around here that is located in Jefferson County in our district, a \$280 million investment for a bottling company to manufacture aluminum cans, aluminum bottles. There is really only one company that does aluminum bottles; you can figure that out. But that was a foreign investment, and not an inversion. And so we need to look at that when we are looking at the tax structure.

I do have a question, Mr. Grinberg. As things stand today, my constituents in southern Missouri are not all that worried about BEPS and what is going on over in the European Union. They really aren't. They are concerned about getting their crops in the ground and how to just make ends meet, balance their budget, live within their means. But you have been quoted in saying that the U.S. is one of the losers in the BEPS rule. Assuming the U.S. does nothing to step BEPS from being implemented, what is the impact of those families back in Missouri?

\*Mr. Grinberg. Thank you, Congressman Smith. So I think it is too late to un-ring the BEPS bells. I think that whatever one thought about the old international tax environment, the new environment puts greater competitive pressures on the United States, and means that we need to very substantially lower our corporate tax rate and move to a dividend exemption system as a first step.

I think that, you know, the families of the people in your district should be concerned about it because it is about opportunities and jobs for future generations of Americans, and they are affected by that.

\*Mr. Smith of Missouri. Thank you, Mr. Chairman.

\*Chairman Brady. Thank you.

Mr. Rice, you are recognized.

\*Mr. Rice. Recent polls say 65 percent of American families don't believe that their children will have the same opportunities that they have had. I think the American people do realize this.

And you know, it is perplexing and frustrating to me that the President and Republicans and Democrats and House and Senate Members all talk about this as a huge

problem for American competitiveness every day, every day, and yet we can't seem to push anything forward.

Let me ask you all a question, just a hypothetical. You got two companies, one an American company that wants to be patriotic, doesn't want to invert, and wants to pay every dime that it is supposed to pay, and it is paying a 35 percent rate. And then you have got an Irish company that is paying at 13 percent. And they both buy from the same suppliers, sell to the same customers, and they are competing hard every day. What is going to happen? What is the outcome of those two companies, Ms. Hanlon?

\*Ms. Hanlon. I think the Irish company will win.

\*Mr. Rice. They will either buy the American company, or the American company will go bankrupt, right?

Mr. Wiacek, do you agree with that?

\*Mr. Wiacek. I do. The Irish company will buy the American --

\*Mr. Rice. Mr. Grinberg, do you agree with that?

\*Mr. Grinberg. I think we should be --

\*Mr. Rice. Mr. Kleinbard, do you agree with that?

\*Mr. Kleinbard. No, for a reason. And the reason is simply that if the Irish company is doing business in the United States, selling to the same U.S. customers, it will be dragged into the U.S. tax net. So you have to compare apples to apples --

\*Mr. Rice. So three out of four agree that it is a matter of economic survival, it is not a matter of patriotism. If we punish inversions, does that solve that problem, Mr. Wiacek?

\*Mr. Wiacek. No.

\*Mr. Rice. Ms. Hanlon?

\*Ms. Hanlon. No.

\*Mr. Rice. Mr. Grinberg?

\*Mr. Grinberg. Again, inversions are a symptom of this broader problem. We need -- one of the things that --

\*Mr. Rice. So it -- I am sorry, I got limited time.

\*Mr. Grinberg. Yes.

\*Mr. Rice. It doesn't solve the problem, does it? Okay.

Do all you all favor a consumption tax over corporate tax? I heard the first three. Do you -- is that true?

\*Mr. Wiacek. When we can't lower the corporate income tax or fix our competitiveness problem in the corporate income tax sector because people talk about deficits or discretionary spending and another source and fairness, another source of revenue -- I think even Ed agrees, or we all agree that another source of revenue may be necessary.

Fred Goldberg testified before you folks for a --

\*Mr. Rice. I am sorry, I have got very limited time, I am sorry.

\*Mr. Wiacek. Okay, I am sorry. But --

\*Mr. Rice. In general, do you favor, Ms. Hanlon, a consumption tax over corporate tax?

\*Ms. Hanlon. Potentially, yes.

\*Mr. Rice. For economic growth?

\*Ms. Hanlon. Depending on the details.

\*Mr. Rice. Mr. Wiacek?

\*Mr. Wiacek. Potentially, yes.

\*Mr. Grinberg. Yes, we should move towards consumption taxation and away from --

\*Mr. Rice. Mr. Kleinbard?

\*Mr. Kleinbard. I actually have a comprehensive tax reform proposal called the dual business enterprise income tax. You will like the fact that --

\*Mr. Rice. Is that yes or no?

\*Mr. Kleinbard. -- that the business component of that functions as a consumption tax, but it is integrated with an income tax at the individual level.

\*Mr. Rice. Okay. Well, I yield back my last two seconds. Thank you. I am sorry I pushed so hard. I had to get all that out, I am sorry.

\*Chairman Brady. I think you set the record for questions today, Mr. Rice.

[Laughter.]

\*Chairman Brady. So, Mrs. Noem, you are recognized.

\*Mrs. Noem. Well, thank you, Mr. Chairman. And while I am sure everybody is glad to be getting down to the last few Members of Congress, we prefer to think of ourselves as the grand finale.

[Laughter.]

\*Mrs. Noem. So, South Dakota is primarily an ag state. It is our number-one industry. And while we don't have a lot of multinational companies located in the state, we are extremely competitive because we do not have a state corporate income tax. We do have some companies that have recently moved in, and it has been because of our tax climate. Babybel Cheese, a French company, has recently set up facilities within the state, and we are glad to have them.

But you know, companies look to locate in our state over other states, because of the environment that we have created. We know that we -- they need to be competitive and, if they are going to be in the United States, that we need to make that package as -- available to them so they can be successful, as well.

I guess I just wanted to ask you today, since I think virtually every question under the sun has been asked already, is if you could be a bit visionary for us. Tell me what each of you believes will happen if we do not deal with corporate income tax, international tax reform, in the next 5 to 10 years. What do you envision will happen to the economy in the United States, and American companies that are struggling to survive in this competitive tax environment, globally?

We will start with Ms. Hanlon.

\*Ms. Hanlon. In general, I think we will see a continuation of the trends we have already observed, meaning we will see more companies trying to exit the U.S. We will see more companies being acquired by foreign companies. We will see more cities, perhaps, that look like Akron. So I think it is quite a risk. And I don't think we can sit by and do nothing.

\*Mrs. Noem. You spoke specifically in your testimony about companies being forced to invest poorly overseas, rather -- could you expand on that a little bit, that they are making poor choices because -- not being able to repatriate those funds to the United States. Could you just expand on that a bit?

\*Ms. Hanlon. So it is basically an effect of this locked-out cash. And there is two plausible hypotheses about why it happens. But generally, what we observe is that these

companies invest in foreign companies, and they invest in foreign capital expenditures, rather than the U.S. And it is economically rational for them to do that, because they avoid the 35 percent tax. But it is true that these companies with a lot of cash that make these foreign acquisitions, the market return to those acquisitions are lower than, say, returns --

\*Mrs. Noem. Right, and you don't --

\*Ms. Hanlon. -- for other kinds --

\*Mrs. Noem. -- want to necessarily leave the cash in their pockets and become a target for takeover, as well.

\*Ms. Hanlon. That is right, that is right.

\*Mrs. Noem. Okay. Well, we will move on to the other three. If you could be a little visionary with me and share what you think could happen in the next 5 or 10 years if we do not have any type of international tax reform.

\*Mr. Wiacek. Well, I hesitate to quote Donald Trump, but I think --

\*Mrs. Noem. No, no.

\*Mr. Wiacek. -- continue to lose.

\*Mrs. Noem. We are going to lose?

\*Mr. Wiacek. We will continue to lose.

\*Mrs. Noem. We won't be great again?

\*Mr. Wiacek. I don't think it will be a crisis, I don't think you will have one big event where everybody is taken over, but a kind of slow drumbeat of erosion and --

\*Mrs. Noem. Steady decline.

\*Mr. Wiacek. -- lack of confidence and no jobs for the future and people actually, on survey, worrying that the next generation will not do as well.

\*Mrs. Noem. I think I am out of time, but for -- I appreciate you being here today.

\*Chairman Brady. Thank you.

Mr. Dold for the last question.

\*Mr. Dold. Thank you, Mr. Chairman. And I want to thank you all for taking your time and for your testimony.

I think what is interesting, as we have listened to -- and again, you have three minutes -- so I think what is interesting is kind of this similarity of a lot of the questions, because that is what we are hearing from our constituents.

And then the other thing that I find so interesting is the fact that most of you -- in fact, all of you -- agree that we need to do something with regard to our corporate rate. And I would be one, as a small business owner, that recognize two-thirds of all new jobs are created by small businesses that are not necessarily C corps.

But I also know, representing a district that has 23 Fortune 1000 companies, that these Fortune 1000 companies support thousands of small local businesses. And what they fear? They fear that they are not competitive, and we have all highlighted that. We are not operating in a competitive environment today. We are in a global economy and, frankly, we are going to get our heads handed to us if we don't step up and do something.

And so, whether it is you are able to manipulate, whether it is you are able to pay an effective rate that may be lower, the long and the short of it is would you all agree that we are currently not in a competitive tax environment here, in the United States? Just quickly.

Ms. Hanlon, are we in a competitive tax environment for our companies here in the U.S.?

\*Ms. Hanlon. No.

\*Mr. Dold. Mr. Wiacek?

\*Mr. Wiacek. No.

\*Mr. Dold. Mr. Grinberg?

\*Mr. Grinberg. No.

\*Mr. Dold. Mr. Kleinbard?

\*Mr. Kleinbard. Domestically, no.

\*Mr. Dold. Okay. What I inherently hear from folks, from businesses, is that they are terrified. And I represent a district that has a lot of life sciences companies. They are terrified that foreign competitors are going to use our own tax code as a weapon against us, that they are going to be taken over, they are no longer going to be U.S. based.



And therefore, these good, high-paying careers that are spending an enormous amount of resources, that are donating to charities, that are propping up our communities, are no longer going to be there. They are no longer going to be the decision makers. In fact, they are going to be based overseas.

And so, while I do agree that we have to deal with a comprehensive approach, my fear is that we are not prepared to do so in 2016. And if we are waiting, more and more of these businesses are going to become foreign-owned. More and more of these inversions are going to happen.

And what I have also heard from companies -- and if there is anyone that agrees -- many of them are inverting because they can invest back in the United States easier from a foreign base, if they can, as if they are U.S.-based. Would you agree, Ms. Hanlon, that that is happening?

\*Ms. Hanlon. Yes.

\*Mr. Dold. Mr. Wiacek?

\*Mr. Wiacek. Yes, indeed.

\*Mr. Grinberg. We are no longer a good jurisdiction to domicile a global business, and that is a problem.

\*Mr. Dold. Mr. Kleinbard?

\*Mr. Kleinbard. You have the power to change that with a snap of your fingers. Yes, it is true that when you invert you can get your hands on the offshore cash, but that is because there is a -- because you need to repair section 956 of the code. You have the control over that.

\*Mr. Dold. And I welcome your advice and counsel, because that is exactly what we need to do. We need to make sure that American businesses are allowed to be able to compete and win. And if we don't step up and act and act now, we are going to find more of these businesses that are going to have decisions taken away from them, and those decisions will be made overseas, and we will be uncompetitive, making our communities less competitive. And again, opportunities for job growth decline.

Mr. Chairman, my time has expired, but certainly appreciate the opportunity. And I want to thank our witnesses for being here.

\*Chairman Brady. Well, thank you, sir. Mr. Young has returned.

You are recognized.

\*Mr. Young. Thank you, Chairman, for this hearing. I thank our witnesses for being here today.

Indiana has a robust life sciences industry. My hope is that it continues to play a very important role in our state's economy, future jobs, and jobs that pay well.

Professor Hanlon, there is widespread agreement that our corporate tax system is in urgent need of reform. Hence our hearing today. The combination of high corporate tax rate and worldwide tax base hinders the competitiveness of U.S. global innovative businesses in the United States as a place to invest. As a result, foreign-parented businesses have a more efficient platform for business growth, acquisitions, and shareholder value than U.S.-parented businesses. We see this playing out in M&A, particularly in the life sciences sector, where intense competition is highly sensitive to these tax rate differentials.

Don't you agree that any tax reform should adopt policies that solve these competitiveness issues, rather than making them worse?

\*Ms. Hanlon. Yes.

\*Mr. Young. Okay. As a follow-up, Professor, one of the key objectives of international reform is to solve the so-called lockout problem with respect to foreign earnings. All the recent proposals, of course, would do this by making repatriation no longer a taxable event, and adding measures to prevent erosion of the U.S. corporate tax base. While these are common features of recent proposals, the details matter when it comes to their impact on competitiveness.

Don't you agree that replacing deferral with what amounts to an uncompetitive worldwide tax system for intangible income would exacerbate, rather than solve the serious competitiveness issues faced by American innovative global businesses?

\*Ms. Hanlon. Absolutely, yes.

\*Mr. Young. Any other thoughts on the issue from members of the panel?

\*Mr. Grinberg. Again, one has to think seriously about, in a global economy with a global market for corporate control, thinking about -- I think the Congress should consider whether or not we want to use corporate residence as a basis for, you know, a really, truly fundamental tax reform. Because you are exactly right that, you know, if you impose a minimum tax which only applies to U.S.-headquartered companies, then there is an incentive to avoid that regime.

\*Mr. Young. Mr. Wiacek?

\*Mr. Wiacek. I am just about done. I mean before you came back there was the comment that we have all been saying the same thing in many different ways, and I think that is right. We need a lower rate, and we need to fix the system, and it is hard to do.

\*Mr. Young. I would add that this is something we, as Members of Congress, need to continue to be repetitive about, to hammer home the importance of making these sorts of changes so essential sectors, like our life sciences sector, receive the relief they need so they can continue to grow. I yield back.

\*Chairman Brady. You know, I am convinced that America is beginning to hear the giant sucking sound of American companies and jobs and investment overseas. Part of that is generated by our global competitors who are shrewdly understanding how our tax code works and are moving aggressively, but the root cause is our tax code.

And I am convinced the first step we can take toward overall pro-growth tax reform is to permanently lower the tax gates to allow our U.S. companies to bring their profits back home to invest in our communities, in our jobs, in research and development, in growth. Because no one has yet convinced me an American dollar stranded overseas is better than an American dollar brought back home to invest in -- for any purpose whatsoever. So I am convinced the first step we should take is in that area.

We are determined to create overall pro-growth tax reform. But I am convinced we have to act now. And I am charging our committee and Chairman Boustany and the Tax Policy Subcommittee to bring that solution forward so we can start to put this on the field and move these balls.

Your -- witnesses today were tremendously helpful to setting the environment we are competing in. Thank you for being here. And pleased be advised Members may submit written questions to be submitted later in writing, and those questions and your answers will be made part of the formal hearing record.

And with that, the committee stands adjourned.

[Whereupon, at 12:23 p.m., the committee was adjourned.]

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