



**Letter to Congress, August, 2003 supporting
international tax reform**

To:
The Honorable Bill Thomas
Chairman, Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington DC, 20515

The Honorable Charles Grassley
Chairman, Committee on Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Charles Rangel
1106 Longworth House Office Building
Washington DC, 20515

The Honorable Max Baucus
219 Dirksen Senate Office Building
Washington, D.C. 20510

Regarding: International Tax Reform

Dear Sirs:

We are writing to express our support for efforts to address the FSC/ETI issue in a manner that boosts U.S. international competitiveness while also avoiding the imposition of an effective tax increase on businesses currently benefiting from FSC/ETI.

The Silicon Valley Tax Directors Group (SVTDG) supports efforts to enact international tax simplification provisions as part of any FSC/ETI replacement bill. We would encourage efforts to address important areas such as: repeal of the subpart F trading provisions; allocation of interest expense on a worldwide basis; reduction of foreign tax credit baskets; extension of the foreign tax credit carryforward period; and repeal of the alternative minimum tax foreign tax credit limitation. These provisions would lower the current U.S. tax on foreign earnings from the sale of goods and services outside the United States.

At the same time, we are concerned that a repeal of the exclusion for extraterritorial income (ETI) would increase the U.S. corporate tax rate for U.S. manufacturers. Taxpayers that benefit from the ETI exclusion are companies that manufacture or develop products in the United States and export their products overseas. For many U.S. manufacturers, the geographic location of research and development also corresponds with the location of manufacturing. An increased tax rate for U.S. manufacturers reduces their competitiveness, and could cause multinationals that currently manufacture in

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the United States to migrate activities to offshore locations. Although ETI is no longer sustainable following the WTO decisions, the underlying purpose of ETI remains – the maintenance of at least some level of U.S. competitive balance of tax policy relative to our foreign competitors.

For this reason, we would encourage consideration of specific provisions providing a reduced rate of tax on manufacturing in the United States. In addition, we would urge that Congress ensure that transition provisions are provided to ease the pain from ETI repeal. In overturning three decades of established U.S. tax policy, appropriate transition mechanisms are in order.

In addition, we believe extension and enhancement of the research credit is an essential component of any legislation intended to ensure U.S. international competitiveness. While we strongly support the permanent extension of the research credit, we welcome the inclusion of a temporary credit extension proposal in the bill introduced July 25 by Chairman Thomas, and support in particular the proposal to provide a new simplified credit alternative.

Finally, we believe that any international tax legislation should include language incorporating the provisions of legislation introduced by Rep. Phil English (R-Pa) and Sen. John Ensign (R-Nev). The "Homeland Investment Act" (H.R. 767) and the "Invest in the USA Act" (S. 596) effectively would allow companies, for a one-year period, to bring cash back to the U.S. subject to a 5.25 percent toll tax on dividends in excess of normal distributions from foreign subsidiaries.

The SVTDG believes international tax reform goals can be reconciled with other tax policy viewpoints. Reconciliation within Congress, and the U.S. high-tech multinational community, is possible if international tax legislation is founded on the following:

- Reduced rate of tax on U.S. manufacturing profits;
- Subpart F repeal for trading income and foreign tax credit simplification measures;
- R&D credit extension and enhancements; and
- Enactment of the "Homeland Investment" provisions to encourage investment of foreign earnings in the United States.

We appreciate your consideration of these issues, and look forward to supporting your efforts to pass international tax legislation that promotes U.S. competitiveness.

CC:

Members of the House Committee on Ways and Means

Members of the Senate Committee on Finance