



**Letter to Thomas, August 26, 2003 supporting  
Homeland Investment**

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

Dear Chairman Thomas:

The Silicon Valley Tax Directors Group (SVTDG) wishes to express its support and appreciation for your inclusion of the Homeland Investment Act (H.R. 767) in your international tax reform legislation.

We also want to express our reasons for encouraging a pre-foreign tax credit rate of 5.25 percent as opposed to 7 percent. The 5.25 percent rate in H.R. 767 provides an average federal tax rate of 3.4 percent after foreign tax credits(1), which is very close to the average federal income tax rate at which companies have shown the willingness to repatriate foreign earnings – 3.7 percent. Thus, the 5.25 percent rate we believe maximizes the amount repatriated for the benefit of the U.S. economy.

Repatriation of foreign earnings will be a major financial burden for companies, even under the rules provided in H.R. 767. When companies repatriate, they must compare the additional cost to better after-tax alternatives abroad. The federal tax on repatriations is not the only tax cost the company must bear. Companies must often pay foreign withholding taxes on the repatriation (5 percent is common) and U.S. state income taxes. Thus, a tax on repatriations, even at a low federal income tax rate, will often result in a one-year financial impact that is very high (often in excess of current earnings).

Under prior estimates by the Joint Committee on Taxation, an increase in the toll charge from 5.25 percent to 7 percent would reduce qualifying distributions by 30 percent. We believe that estimate may be too low, but assuming it is 30 percent, that would reduce the amount estimated to be repatriated during the first year by about \$90-120 billion(2), and reduce the 1 percent projected increase in GDP(3) by about 30 percent.

It is in the interest of the U.S. economy for the final legislation to maximize repatriation and we appreciate the opportunity to provide you with our views.

1. Rate determined by Joint Committee on Taxation.
2. JP Morgan has conservatively estimated HR 767 would result in repatriations of \$300 billion. Bank of America estimates that it would result in \$400 billion of repatriations.
3. JP Morgan has projected a GDP increase from HR 767 of 0.5 percent in 2003 and 0.5 percent in 2004.

CC: Treasury Assistant Secretary for Tax Policy Pamela F. Olson

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