Silicon Valley TAX DIRECTORS GROUP

... for the implementation of sound, long-term tax policies that promote the global competitiveness of the U.S. high technology industry.

The Silicon Valley Tax Directors Group is composed of representatives from leading high-technology companies with corporate offices predominantly located in the area between San Francisco and San Jose, California (widely known as the "Silicon Valley"). The group was formed in 1981.

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SVTDG Issue Statements

Global tax competition is real

The United States is part of a competitive global economy. Over the past 30 years, our position has changed and today the United States faces strong global competitors from both mature and emerging economies, where more than 95% of the world's consumers live. At a time of heightened global competition, U.S. tax policy now often serves as a deterrent in the ability of American companies to succeed in markets both at home and abroad. A high statutory tax rate, the taxation of foreign earnings, and the complexity of U.S. international rules combine to create a high cost and complex tax environment for U.S.-based companies. In a world where global tax and economic competition is real, the Silicon Valley Tax Directors Group believes our tax code needs significant reforms to be competitive when it comes to creating jobs and retaining and attracting new capital investment.

Deferral is critical for keeping competitive

In addition to having the second highest corporate tax rate in the world, the United States taxes the global operations of U.S. companies in a way that is out of sync with the competitive tax policies of all other major world economies. As long as the U.S. has a worldwide tax system, the ability to defer U.S. taxation until foreign profits are repatriated is essential for the United States to remain competitive. When foreign profits are repatriated, usually as dividends, a U.S. multinational receives a credit for taxes already paid to foreign territories on those earnings and subtracts that amount from the U.S. tax due. Without the current deferral regime, U.S.-based companies subject to a 35% corporate tax rate would be at an even greater competitive disadvantage relative to foreign competitors located

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in countries with lower tax rates and territorial tax systems that permit a full or substantial tax exemption for the repatriation of foreign earnings. The Silicon Valley Tax Directors Group opposes any weakening of deferral, including proposals such as the repeal of "check-the-box" and taxing "excess profits."

Corporate tax reform

Aiming to enhance the international competitiveness of American companies, the 1986 Tax Reform Act reduced the U.S. corporate tax rate from one of the highest in the world to one of the lowest. But other nations in the past 25 years have followed and surpassed the United States in pursuing tax policies that promote economic growth and capital investment within their borders. In 2010, the combined federal and state corporate tax rate in the United States was 39.2%, while the average combined national and local rate of the other 33 OECD countries was 25.1 percent. The Obama Administration and Congress currently are discussing ways to reduce the U.S. corporate tax rate without adding to the federal deficit; i.e., in a revenue-neutral manner. The Silicon Valley Tax Directors Group supports corporate tax reform that would achieve a significant reduction in corporate tax rates as a way to encourage businesses both at home and abroad to invest in the United States.

R&D credit

The uncertainty and complexity of the R&D credit is perfect example of how the United States has fallen behind in terms of providing tax policies that help American companies compete globally. In 2010, the credit expired temporarily for the fourteenth time in its history, and it was retroactively reinstated more than eleven months later on December 17, 2011. The most recent extension was only through the end of 2011, so companies again are in a situation where decisions on whether to invest in the U.S. to create intellectual property have to be made without regard to the potential tax credit. The impact of this uncertainty is increased by the fact that the United States has fallen behind other nations in providing incentives for innovation and the creation of intellectual property. The U.S. currently ranks 24th out of the 38 OECD nations in terms of R&D tax rate incentives. As a result, current policies undermine the prospects for American workers by encouraging the migration of research and development activities to other countries with more predictable, more favorable tax treatment. The Silicon Valley Tax Directors Group believes the United States needs a permanent and enhanced R&D tax credit that promotes investment in U.S.-based creation of intellectual property and that it should not be considered for elimination as a "pay for" in the context of corporate tax reform.

Innovation box needed to encourage intellectual property development in the U.S.

American companies are competing in a global marketplace where other nations are taking concrete steps to promote both the creation of intellectual property (IP) and the subsequent business development of investments in innovation. A growing number of countries have adopted the concept of a "patent box," a tax regime that sharply reduces the rate of corporate tax on income derived from qualifying IP. Also known as "innovation box" regimes, examples include the Netherlands' application of a reduced rate of five percent to income derived from qualifying IP and Belgium and Luxembourg's exemption of 80 percent of patent income from corporate tax. The UK government has announced its intention to adopt a patent box regime effective in 2013. The introduction of innovation boxes around the world makes holding patents and certain other IP in countries with innovation boxes more attractive. In addition to

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a permanent R&D tax credit, the Silicon Valley Tax Directors Group believes the United States should act to provide an innovation box as a means of encouraging IP development in the United States and growth in related high tech employment opportunities.

Repatriation

The United States is the only major world economy that taxes the foreign profits of its companies when income earned abroad is brought back home, or "repatriated." Most foreign companies can repatriate their foreign earnings with either a full or substantial exemption from tax in their home countries under territorial tax systems, and can reinvest those earnings in product development and job creation while paying little or no additional tax. While deferral provides some relief against double taxation, U.S. companies are subject to the second highest corporate rates in the world when funds are repatriated. As a result, U.S. tax policies create an incentive for American companies to leave their cash earned abroad outside the United States. Currently, there is over $1 trillion earned by American businesses subject to this "lock-out" effect. The Silicon Valley Tax Directors Group supports doing away with the current U.S. worldwide tax system and implementing a territorial tax system like those in most other industrialized nations.
In the meantime, the Silicon Valley Tax Directors Group believes Congress should pass legislation to offer an immediate reduction of taxation on income earned overseas by American businesses to allow that money to be brought home and invested in the United States.

Increasing U.S. Investment

U.S. multinationals make investment location decisions based on expected future after-tax returns on the investment. As such,

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reducing the U.S. rate of corporate income tax on repatriated (historical) foreign income may not provide sufficient incentive to invest in new U.S. infrastructure and research and development if the future U.S. tax rate is not competitive. To make the United States competitive with the rest of the world, the Silicon Valley Tax Directors Group believes it is very important to reform the corporate tax code with a comprehensive approach. Reducing income tax on repatriated earnings, combined with a significantly reduced corporate income tax and innovation box, is the type of reform necessary to redirect investment back to the United States.

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