The Honorable Orrin Hatch
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510 July 12, 2017

Dear Chairman Hatch:

The NFTC appreciates the commitment of Chairman Hatch, and the Senate Finance Committee to comprehensive tax reform. We commend the Committee for engaging stakeholders and for requesting input into the tax reform process.

The NFTC, organized in 1914, is an association of some 250 U.S. business enterprises engaged in all aspects of international trade and investment. Our membership covers the full spectrum of industrial, commercial, financial, and service activities, and we seek to foster an environment in which worldwide American companies can be dynamic and effective competitors in the international business arena

The NFTC respectfully urges you, the Committee and your Senate colleagues to advance legislation that substantially lowers the U.S. corporate income tax rate and adopts a territorial system that is in line with our trading partners and does not discriminate against any particular industry or type of income before the end of this year. Now is the time for tax reform and if meaningful progress is not made before year end, we fear that this opportunity may slip away.

The case for tax reform is unassailable. The arguments for tax reform are numerous and have bipartisan backing. Tax reform is needed to encourage investment, economic growth and job creation in the U.S. and to stop the dangerous trends that have made U.S. companies uncompetitive in the global arena. For example, in 1960 nearly all of the largest global companies were American companies, with 17 of the 20 largest companies headquartered in the U.S. In 1985, only 13 of the 20 largest companies were American companies, and as of 2010, only six of the 20 largest companies in the world were American. This represents a decrease of 55% since 1960. Since 1985, Brazil, China, India Russia and Eastern Europe moved from essentially non-market economies to fast growth developing countries whose markets have opened to global companies from the United States, Europe, Japan, China, Korea, and India. This very competitive marketplace is wide open.

Tax reform will not be easy and, in fact, there are some areas where NFTC members are not totally aligned. We recognize that some tough choices may be required. However, NFTC and its members are committed to working with you and the rest of Congress in a productive manner in order to achieve a pro-growth and competitive tax code. We look forward to an open and transparent process that allows for our full participation.

In the spirit of that cooperation and engagement, we offer the following comments on some specific aspects of tax reform and we urge action now.

1. **We Support Neutrality**. NFTC believes that one of the goals of tax reform should be to promote neutral treatment among industries, types of income, and taxpayers, i.e. it should avoid policies favoring one industry or type of income over another or discriminate against one taxpayer versus another engaged in the same or similar activities.

2. **We Support "Positive" Base Erosion Solutions that encourage U.S. investment rather than create complex anti-abuse rules related to non-U.S. activity.** Anti-base erosion provisions should not target a particular industry or type of income, should be limited to U.S. base eroding transactions, and should be consistent with provisions used in other territorial systems around the world. The best base erosion provision is a low corporate rate that encourages economic activity to be based in the U.S. NFTC does not support the blanket imposition of a minimum tax on foreign income to address base erosion concerns. NFTC also has concerns about creating new subpart F categories of income based solely on the fact that such income exceeds some arbitrary rate of return. Anti-base erosion provisions such as these are out of line with the territorial systems of our major competitors and will make U.S. companies less competitive.

3. **We Support the Recognition that Debt and Equity are Different Economically**. NFTC has concerns about proposals that eliminate the deduction for interest expense or that arbitrarily provide an across the board reduction in interest deductibility or that targets U.S. affiliates of foreign companies for interest disallowance.

4. **We Support Deemed Repatriation of Liquid Untaxed non-US Earnings**. NFTC is generally supportive of a deemed repatriation of accumulated foreign subsidiary earnings as part of a transition to a competitive territorial system provided that the rate of tax on the deemed repatriation is significantly lower than the current rate (i.e. single digits) and that taxpayers are permitted the use of existing foreign tax credits and foreign tax credit carryovers. NFTC also strongly supports the split rate approach taken in HR1 that recognizes the liquidity concerns that can arise from a deemed repatriation and therefore provides an even lower rate for earnings that were reinvested in non-liquid assets.

Conclusion

We continue to strongly support Chairman Hatch's commitment to pass comprehensive tax reform. The Chairman has recognized how today's uncompetitive tax code is already leading to the loss of U.S. companies.

Thank you for the opportunity to submit these comments. The NFTC looks forward to working with you, your staffs, and all Members of the Committee to ensure that U.S. comprehensive tax reform facilitates and enhances U.S. jobs, and the competitiveness of the U.S. economy and of globally engaged American companies.

Sincerely,

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