COUNCIL HIGHLIGHTS

NATIONAL FOREIGN TRADE COUNCIL

"SERVING AMERICA'S GLOBAL BUSINESSES SINCE 1914"

Council Highlights is a bi-monthly summary of news and events of the National Foreign Trade Council exclusively for its members.

April 2016
Vol 17, Issue 02

View From the NFTC Chair

By Alan Wm. Wolff, NFTC Chairman

In contemplating writing this View from the National Foreign Trade Council (NFTC) Chair, I sought a current linkage between three elements: the current Presidential election campaigns, the most important trade agreement of this generation, the Trans Pacific Partnership (TPP) and the concept of "elevated public discourse" … and found none.

The closest that I could come to at least two of the three elements, was in a talk given by former U.S. Assistant Secretary of State Kurt Campbell delivered at Chatham House three years ago. What he said in relevant part was:

The United States government is in the early stages of a substantial national project: reorienting significant elements of its foreign policy towards the Asia-Pacific region . . .. [This] is premised on the recognition that the lion's share of the political and economic history of the 21st century will be written in the Asia-Pacific region. To benefit from this shift in global geopolitical dynamism and sustainably grow its economy, the United States is building extensive diplomatic, economic, development, people-to-people and security ties with the region. . . . To the doubters of its fortitude, it is worth remembering that the United States has long had a bipartisan consensus on the importance of the Asia-Pacific region to its foreign policy and national interests. [There is] a vast and dynamic increase in US focus and depth of engagement in the region.

(Continued on page 3)

A Word From the President

By Bill Reinsch, NFTC President

One of the things we have learned in the current Presidential campaign is that there are a lot of angry people out there. As it turns out, most of them are white and male, and a lot of them are old. In other words, they're me. So, I confess. I'm one of the angry old white guys. I'm angry that my country is being taken away from me by people who don't understand what America is all about. The difference is that I'm not angry about the same things they are.

Taxes too high? Please. Do you want roads and bridges that don't collapse? Good schools? Reliable weather reports? Food that is safe? A military to protect you? These things all cost money, and it comes from taxes. Does the government waste money? Of course, but it's a lot less than what we all waste buying things we don't need.

EPA? The regulators are doing exactly what they're supposed to do – taking care of our country for future generations so our children and grandchildren can have clean air and clear water and live in an environment that hasn't been ruined by climate change. Will it cost some jobs and money in the short run? Of course. But it will create more jobs and better lives in the future.

(Continued on page 2)

1625 K Street, NW, Suite 200
Washington DC, 20006-1604
Phone: (202) 887-0278 | Fax: (202) 452-8160

A Word From the President

(Continued from page 1)

Obamacare? Not an issue I've spent a lot of time on, but my instinct is that insuring people who don't have insurance is a good thing – for them and for our economy. I'm old enough to remember when Medicare was enacted and the debate it caused about "socialized medicine." None of the apocalyptic bad things predicted then have happened. In ten years Obamacare will be the same – something the country acknowledges was the right thing to do, however controversial it was at the time.

Government regulation? If we learned anything from the financial crisis just a few years ago, it is that markets, like the people that run them, are imperfect, and that people can commit economic crimes as easily as they commit other crimes. Deregulating in some cases has stimulated growth and productivity; in other cases it has opened the door to fraud and a broad array of financial crimes. It would be nice if we knew in advance how each regulatory change would turn out, but we don't. The one thing we do know is that not paying attention is guaranteed to lead to trouble.

Trade agreements? It doesn't take rocket science to figure out that trade creates winners and losers. The problem is that the losers identify themselves very quickly, while the winners take time to develop, and the people who lose their jobs due to trade are not usually the same ones that get the new jobs that trade creates. This is a political problem as much as an economic problem. The solution does not lie in trade policy. It lies in better education, adjustment and innovation policies. Blocking a trade agreement is fighting the last war, not the next one.

So, if I'm not angry about those things, what am I angry about?

Inequality. We're getting worse, not better, as our top one percent controls more and more of our national wealth; our middle class remains stagnant; and the poor stay poor. To know that others are worse is small consolation. Talking about this is derided as "class warfare," but that's what we're going to have if we don't address the problem.

Immigration. Our nation is built on immigrants. Almost everybody has ancestors that came from somewhere else, and it took no small amount of courage for them to do that – to leave their homeland, their friends and family, and come to a place where they knew no one, did not speak the language, and had no money – in their determination to create better lives not so much for themselves as for their children and the generations that would follow. Immigrants have always been the source of our greatest strengths – our boundless optimism and endless ability to reinvent ourselves. Yet now we face the shameful problem of our own people wanting to shut the door now that they're inside. That not only demeans us as a people; it hurts us economically because immigrants more than compensate for our birth rate hovering around the replacement rate. If we want to become a nation of old people, as is happening throughout Europe and in Japan, then all we have to do is keep the immigrants out.

Big government. Note to Tea Party: this is the 21st century, not the 18th. The challenges are much greater, and many of them are not susceptible to solution by individuals. Globalization has a lot to teach us about trade and economics, but more than anything else, it's about one simple idea: we're all in this together. Climate change, epidemics, regional wars, terrorism, human rights abuses, exploitation of women and children cannot all be solved by the private sector or by the United States on its own, however "exceptional" we might be. These are problems of the global commons that can only be solved by all of us – or at least most of us – working together. President Obama understands that; many Americans do not, including many of our presidential candidates.

A Word From the President

(Continued from page 2)

Bad manners. Many people decry the "mood" in Washington – the lack of civility between the two parties. There are reasons for that, and plenty of blame to go around. However, we could usefully spend more time practicing plain old good manners. It's rude to yell at people, to demean them, to make fun of them or belittle their beliefs and opinions. This is not the way adults are expected to behave. If some of our presidential candidates were six years old, they would be put in the corner for a timeout. Unfortunately, our system does not give us an opportunity to do that except by voting for the adults and thereby banishing the children permanently. I hope we will do that this November.

So that's why I'm angry, and if there are more people like me out there, perhaps we can get our country moving in the direction it should.

Finally, since this is my last piece for this publication, I simply want to thank all of you for your support over the years. I leave the NFTC having accomplished what I set out to do, and I believe the organization is stronger for it, although that is ultimately for others to judge. I do not intend to disappear, and I hope to continue to see you in the next chapter of my life, whatever it is.

"A Word From the President" is written by NFTC President Bill Reinsch. If you have questions or comments, please forward them to breinsch@nftc.org.

NFTC Announces New President: Ambassador Rufus Yerxa

The NFTC Board of Directors announced that Ambassador Rufus Yerxa will serve as the organization's new president effective May 9. Current NFTC President Bill Reinsch, who has led the organization for the past 15 years, will serve until then.

"With more than three decades of experience – from Capitol Hill to the Office of the U.S. Trade Representative to the WTO – Ambassador Yerxa is uniquely qualified and is an excellent choice to lead the NFTC into its second century," said Reinsch. "I have had the opportunity to work with Ambassador Yerxa and know that he will serve our members by being a strong advocate for an open, rules-based global trading system."

"As a fellow former diplomat and trade negotiator, I am especially proud to have the opportunity to welcome Ambassador Yerxa aboard as the new president of the NFTC," said Ambassador Alan Wolff, Chairman of the NFTC. "At this pivotal moment, with trade and investment driving discussion not only here in Washington, but across the country and around the world, trade advocacy has never been more important, and I look forward to working with Ambassador Yerxa to continue the NFTC's legacy of leadership."

Ambassador Yerxa served as a Deputy United States Trade Representative in both Republican and Democratic administrations, and served for many years as Deputy Director General of the World Trade Organization. He is currently an independent consultant and a visiting professor at the Middlebury Institute of International Studies at Monterey.

For Ambassador Yerxa's bio, visit:
https://s3.amazonaws.com/emma-assets/ncqab/19785d099e4979b9758de3b9a43c5ecc/Rufus_Yerxa_Bio.pdf

View From the NFTC Chair

(Continued from page 1)

He concluded:

> *[A] growing number of voices . . .have begun to question the US commitment to maintaining a disciplined focus on building diplomatic, economic, people-to-people and security ties with the Asia-Pacific region. With each new . . . crisis in another region come the perennial questions about waning American attention to the Asia-Pacific and whether the 'pivot' or 'rebalance' is ephemeral in nature. These concerns are misplaced. . . . .*

Well, I hope and believe that he turns out to be right. Right now the evidence is slim. It is not the few U.S. navy ships probing waters that another country increasingly considers territorial nor a few U.S. troops in Darwin that are likely be judged in the future as the centerpiece of America's Asia policy of this time, but putting into place the Trans Pacific Partnership.

China has its One Belt-One Road initiative and an Asian Infrastructure Bank, among other Chinese institutions that are funneling billions of RMB into the region. We have a virtual trade agreement -- TPP. It is virtual not because the negotiations have not been concluded (that occurred on November 4th 2015 in Atlanta) and not because it was not signed by all twelve parties (that happened on February 4th in Auckland), but because Congress has not begun formal consideration of the Agreement, without which, it will remain virtual. Our Presidential candidates refer to it only in the negative, ranging from "cannot support it as is" to treating it with pure derision --"the Deal is insanity." (I will leave to the reader the pairing of the candidate to the position).

The deal in fact gives strong support to a series of vital American interests:

- TPP supports further liberalization of Japan and holds the best promise for its renewed economic growth. important both to U.S economic and geopolitical interests.

- TPP promotes important reforms in Vietnam and Malaysia and builds our relationships with those two countries.

- TPP puts into place the first regional rules to require greater fairness when state-owned enterprises compete in commercial markets.

- TPP provides the first set of rules promoting the growth of the new global digital economy.

- TPP establishes a baseline for future trade agreements – not only for other countries seeking or actively contemplating entry into TPP -- Korea, Thailand, the Philippines, Indonesia, Taiwan and Colombia – but also for U.S. negotiations with the 28 member European Union.

And there is the horrible alternative to consider: U.S. failure to ratify TPP will create discrimination against American goods and services in every country that does enter into a preferential trade agreement in which the U.S. does not participate, and these are legion both in negotiation and planning. Opponents of TPP should recognize that without Congressional approval of TPP, the effects on U.S. trade and employment will be very seriously negative, and the effect on America's global leadership will be nothing short of catastrophic. For decades to come, the idea of another country taking the risk to rely on the United States to make and keep bargains will be unthinkable.

The Administration and Congress should make every effort to successfully address remaining concerns and achieve approval of TPP as soon as possible. It is vitally important that they do so.

Ambassador Alan Wm. Wolff is a Senior Counsel of the International Trade Practice at Dentons US LLP and is the Chairman of the NFTC Board of Directors.

Sanctions: A Case for Reform

*By Richard Sawaya, Vice President, USA*Engage, rsawaya@nftc.org*

Woodrow Wilson is often cited as the father of economic sanctions: *"A nation boycotted is a nation that is in sight of surrender. Apply this economic, peaceful, silent, deadly remedy and there will be no need for force. It is a terrible remedy. It does not cost a life outside the nation boycotted, but it brings pressure upon the nation that, in my judgment, no modern nation could resist."* But Wilson insisted economic warfare had to be multilateral: *"No employment of any form of economic boycott or exclusion, except as the power of economic penalty by exclusion from the markets of the world may be vested in the League of Nations as a means of discipline and control."*

Most countries that employ sanctions do so mindful of Wilson's standard. Sanctions are enacted pursuant to United Nations resolutions and by means of executive authority. Such sanctions can be withdrawn as changes to foreign policy warrant.

Ironically, the U.S. is not only the most aggressive proponent of sanctions; the U.S. also sanctions unilaterally and Congress almost invariably legislates mandatory sanctions, rather than leaving sanctions design and terms of application to executive decision.

The recently adopted United Nations sanctions on North Korea satisfy Wilson's criterion, just as it fits the definition of a thoroughly rogue state.. As with other sanctioned countries, Congress has legislated mandatory sanctions on North Korea.

The numerous existing U.S. sanctions regimes are not simply unilateral or multilateral. The U.S. dominance of the global financial system, the movement towards more financial sanctions, and the application of unilateral U.S. sanctions extraterritorially to non-U.S. entities have combined to create *de facto* "involuntary multilateral" sanctions regimes, resulting in a hot mess for global trade.

A review of current sanctions targeting Cuba, Burma, Russia, and Iran reveals an array of unintended consequences and collateral damage.

U.S. sanctions on Cuba are purely unilateral. Their ostensible goal – regime change – has never come close to realization. They only keep U.S. companies from commerce with Cuba and play into the Castro regime's hands by providing a ready-made excuse for its own economic policy failings. The decision by the Obama administration to normalize diplomatic relations with Cuba is now a settled fact. Yet the administration cannot normalize trade relations with Cuba because the statutes enacted by Congress remain in force. Favorable public opinion and multi-sectoral advocacy by U.S. business notwithstanding, it will take sustained, grass-roots based advocacy to move Congress to "catch up" to the hemispheric reality and normalize economic relations so that U.S. business can enter the Cuban market and compete unencumbered by an embargo that has no remaining utility.

For years, Burma was the target of multilateral sanctions by the U.S. and other major democratic nations. Their goal was not regime change *per se* but rather institutional changes that would bring the rule of law and democratic governance to the country. Several years ago, the military government of Burma began an extraordinary transformation in the governance of the country. In response, European countries and Japan repealed their sanctions. The U.S. retained a unilateral sanctions regime, suspending some sanctions and maintaining prohibitions on dealings with Burmese entities as specified by the Treasury Department's Specially Designated Nationals (SDN) list. Predictably, the barriers to entry for U.S. investors remain magnitudes greater than for European and Asian competitors.

(Continued on page 6)

Sanctions: A Case for Reform

(Continued from page 5)

Last November, Burma conducted democratic elections generally regarded as free and fair. Aung San Suu Kyi's NLD party swept to victory. A new government is being formed. The Obama administration must soon make an annual determination whether to renew the U.S. sanctions under authority of IEEPA, stipulating that Burma is a threat to U.S. national security. Congress appears loath to see change in the sanctions status quo, and some sanctions on Burma are enshrined in statute. U.S. investors continue to face formidable obstacles to competing for business in a country of geopolitical and resource importance in Southeast Asia.

U.S. sanctions on Russia in response to Russian conduct in Ukraine are preponderantly executive, not statutory – "targeted, scalable, and reversible" – and are also multilateral in that they are closely coordinated with similar EU sanctions. Their common objective is to move the Kremlin to implement a negotiated agreement with the government of Ukraine, "Minsk Two," that would restore the territorial integrity of Ukraine (ex Crimea).

Most analysis finds sanctions have caused a small percentage of the economic harm that has beset the Russian economy. On the other hand, Germany and several other EU countries have experienced real economic losses resulting from the sanctions, as have U.S. businesses. In any case, Russia has not fulfilled the conditions of Minsk II, and Putin's popularity has not diminished.

It is unclear whether the EU will renew sanctions on Russia later this year. Congress to date has not codified the U.S. sanctions. If the EU revokes sanctions, will Congress double down with mandated U.S. unilateral sanctions?

In the case of Iran, the nuclear deal is done. Detractors and supporters alike credit the agreement as the result of the draconian sanctions – Iran was effectively disconnected from the global financial system and its crude oil exports substantially limited – imposed multilaterally pursuant to U.N. resolutions, Congressional statutes and executive orders.

Under the terms of the JCPOA, all nuclear-related sanctions have been lifted. In the case of the U.S. sanctions regime, this means some but not all secondary sanctions mandated by statute. Analogous EU executive sanctions are for the most part repealed.

Remaining sanctions on Iran – primary and secondary – are effectively "re-unilateralized" under U.S. Treasury management. U.S.-based companies are as a matter of U.S. policy disadvantaged vis a vis their global competitors when it comes to prospective trade and investment with Iran. Their competitors, however, must still take care not to violate remaining U.S. secondary sanctions on Iran that continue to be implemented by means of Treasury's SDN list. And because Iran remains completely off-limits to the U.S. financial system, financial institutions in EU, Japan and South Korea have been reportedly reluctant to re-establish relations with Iranian counterparts.

U.S. Iran policy figures in this election year, and renewal/expansion of the Iran Sanctions Act, set to expire at year's end, may soon occupy Congress

Viewed comparatively, the sanctions regimes under discussion demonstrate the following:

(Continued on page 7)

Sanctions: A Case for Reform

(Continued from page 6)

- Financial sanctions spur adaptation. North Korea watchers point out that the Peoples Republic regime has found ways and means to conduct trade and move money completely outside of the global financial system, and that in any case, China's behavior will determine whether the UN sanctions have any utility. U.S. sanctions are now fixed, regardless. The Revolutionary Guard's (IRGC) penetration of the Iranian economy has been enabled by the sanctions placed on Iran.

- Sanctions do not achieve their desired ends. The Castros may witness the inauguration of the 11th U.S. President since assuming power in Havana. The frozen conflict in Ukraine remains frozen. Iran's non-nuclear regional conduct, targeted by the remaining U.S. sanctions, shows no signs of desired change.

- U.S. companies and their stakeholders invariably pay the price. Structurally, sanctions are an unfunded mandate on U.S. companies, both in terms of direct compliance costs and lost market opportunities. Iran for example is the region's second largest economy, classified by the World Bank as an "upper middle-income country," diversified, and with an educated and youthful population attracted to the American "brand."

Because sanctions are politically attractive to both Republicans and Democrats, and because the U.S. is a constitutional republic not a parliamentary democracy, sanctions enacted into law by definition have long shelf lives, beyond any limited justification as a temporary tactic in a diplomatic strategy. By what measure can Burma be identified as a threat to U.S. national security? Will U.S. sanctions on Russia have any withdrawn if the EU terminates sanctions absent Russian compliance with Minsk II?

None of the above is likely to change. So what can be done to materially improve the process for U.S. business and the conduct of U.S. foreign policy so far as sanctions are concerned? What is politically feasible?

The growth of the "sanctions complex" within the U.S. government, abetted by the financialization of sanctions and the war on terror, has resulted in a robust intelligence capability. Government has the means to calculate costs and benefits of any given sanctions program up for consideration and game out what the adaptive responses of the sanctions targets are likely to be.

Rather than mandate any sanctions regime *per se*, Congress should exercise its role in conducting foreign policy by requiring the executive branch to perform due diligence as to whether and what kind of sanctions can achieve the intended goal.

If sanctions are deemed to be appropriate, the President could also be required to seek their voluntary multilateralization, as has been the case with Russia and Iran.

The pressures upon global trade, the moves to construct alternatives to the U.S. dominated financial system, and the multi-polar complexity of international affairs argue for a sober, reality-based use of "sanctions intelligence" going forward. The role of Congress should be not unlike its oversight role over the other intelligence functions of the executive branch. Sanctions may have the remedial power that Woodrow Wilson envisioned – but only when they are a tactic in a strategy that is genuinely multilateral.

GIF Welcomes New Deputy Director

The Global Innovation Forum (GIF) at the NFTC announces the appointment of Kaveri Marathe to the position of Deputy Director. In her role, Marathe will work closely with GIF's Executive Director Jake Colvin to connect startup, development and university leaders with corporations and public policymakers to understand the opportunities and challenges associated with engaging in the global marketplace in the digital age.

"We are very pleased to welcome Kaveri aboard. She brings a wealth of knowledge and experience to the Global Innovation Forum and she will help scale up our efforts to create a unique network of stakeholders in global trade and innovation," said Colvin.

Marathe holds a B.A. in Journalism and Art History from New York University and a M.S. in Foreign Service from Georgetown University. She started her career in journalism working in New York City for publications including Travel+Leisure Magazine and Manhattan community newspaper WestView. In 2011, she moved to Washington, DC to begin her Master's degree and, during that time, she served as a fellow with both the U.S. Department of Commerce and UNESCO in Paris. She most recently worked for Xyntéo, a sustainability consultancy firm based in Oslo, Norway.

Visa Waiver Program Restrictions

By Jordan Gerstler-Holton, Program Director, jgerstlerholton@nftc.org

On December 18, 2015, President Obama signed the Consolidated Appropriations Act, an enormous government-spending bill, into law. The act included reforms to the Visa Waiver Program (VWP), which allows visa-free travel to the US nationals of 38 countries. The changes effectively bar visa waiver eligibility for those who have traveled to Iran, Sudan, Iraq, and Syria since March 2011, as well as dual nationals of these countries. On February 18, similar restrictions were extended to Libya, Somalia, and Yemen, though the extension does not affect dual nationals.
NFTC met with State Department officials to discuss how these changes could complicate travel to the United States. The following points were made:

- Non-U.S. executives from Visa Waiver Program (VWP) countries who visited the designated countries anytime since March 2011 should apply for a visa to visit the United States.
- Since valid Electronic System for Travel Authorization (ESTA) registration may be revoked for travel to any of the designated countries, employers should apply for a U.S. visa in order to avoid travel delays. Travelers who have their ESTAs revoked will be informed via email.
- Barring exceptional cases, employees should anticipate a processing time of 72 hours when applying for a U.S. visa. They should also expect a "normal" validity visa issued to citizens of their country (sometimes up to 5 or 10 years).
- Non-U.S. executives currently holding valid U.S. visas need not take any new or additional steps as a result of the new U.S. visa rules, even if they have traveled to one of the designated countries. They need not apply for a new U.S. visa or resubmit any information to the U.S. government before traveling to the U.S. on future business trips.

The bottom line? If you are not a U.S. citizen, have traveled to any of the designated countries within the last five years, and intend travel to the U.S., obtain a visa at your nearest U.S. embassy or consulate. Barring exceptional circumstances, 10-year multiple-entry visas are reportedly being granted within a few days from the time of application. Still, it is advised to apply well in advance of anticipated travel in order to avoid potential delays.

Tax Reform Update

By Catherine Schultz, Vice President for Tax Policy, cschultz@nftc.org

House

The House Ways and Means Committee has established a task force on tax reform. The Tax Reform Task Force was announced by Republican leaders earlier this year as one of the focus areas for the development of a pro-growth agenda to present to the nation as part of the Republican agenda for the future. The Task Reform Task Force is open to all House Republican members, not just members of the Ways and Means Committee. The first meeting of the Task Force included 20 non-Ways and Means members. Chairman Brady described a dual effort this year to produce a House Republican blueprint detailing a vision for comprehensive pro-growth tax reform, while separately working to draft and try to advance an international tax reform proposal. The Tax Policy Subcommittee, Chaired by Rep. Boustany has been tasked with drafting an international tax reform proposal this spring, the release time was originally expected to be the end of March, but that date could slip. Subcommittee Chairman Boustany has said that he does not expect any tax reform legislation to be adopted in 2016, but the Committee is laying the groundwork for the future. The new Chief Tax Counsel of the House Ways and Means Committee is Barbara Angus. Barbara has extensive experience in international taxation. Earlier in her career she was as staff member on the Joint Committee of Taxation, and was the International Tax Counsel at the U.S. Treasury Department. Barbara was recently at E&Y working on international tax and transfer pricing issues, where she was heavily involved in the OECD BEPS project. The hiring of Barbara Angus shows the importance of international tax reform to the Ways and Means Committee.

The Mission Statement of the Tax Reform Task Force closely resembles all of the goals of tax reform that the Ways and Means Committee has been working on for the past 5 years.

Mission Statement: Create jobs, grow the economy, and raise wages by reducing rates, removing special interest carve-outs, and making our broken tax code simpler and fairer.

Principles:

Make the tax code simpler, fairer, and flatter.

- Reduce the number of pages in the tax code and reduce the length of tax returns and IRS instructions.
- Ensure similar tax bills for taxpayers with similar incomes.

Close loopholes, eliminate special-interest carve-outs, and limit the deductions, exclusions and credits that riddle the tax code today.

- Reduce the number of hours Americans spend on tax filing and compliance.
- Reduce the resources that are devoted to tax planning and tax avoidance.

Ensure businesses, both large and small, have a competitive tax system.

- Provide a fair and competitive tax rate for job-creating businesses.
- Facilitate the growth of employers, regardless of size or form.

End the tax code's encouragement of the shift of jobs overseas.

- Help American companies compete and win in the global economy.
- Reduce the tax penalty for bringing overseas earnings home to invest in America.

(Continued on page 10)

Tax Reform Update

By Catherine Schultz, Vice President for Tax Policy, cschultz@nftc.org

(Continued from page 9)

Remodel the tax code so it is built for economic growth.

- Increase private sector employment, wages, and personal consumption.
- Increase investment in business capital and gross domestic product.

Do not allow the tax system to be used to bail out Washington's spending problem.

- Do not increase the tax burden on any income group.
- Rely on controlling Washington spending, rather than higher tax burdens, to reduce the national debt.

Policy Reforms:

- Lower tax rates for families, small businesses, and corporations.
- Eliminate special-interest carve-outs.
- Reduce complexity in the tax code.
- Reduce the double taxation of savings and investment.
- Reduce the tax bias against headquartering businesses and locating jobs in America.

Outcomes:

- Greater investment and employment, increased economic activity, and a larger economy.
- A stable and predictable tax code under which families and employers are best able to plan for the future.
- Business decisions that are driven by economic potential, not by tax considerations.
- Reinvestment of the growth generated by tax reform into further pro-growth reforms.

Senate

The Senate Finance Committee staff has been working on a corporate integration proposal for the past several months. Senate Finance Committee Chairman Hatch recently said that he expected the proposal to be released sometime in May, and that the Committee is currently working with the Joint Committee on Taxation to determine the revenue implications of the various parts of the proposal.

The U.S. tax system currently includes two levels of taxes on corporation profits. Corporations are taxed on the profits they earn and those profits are taxed again when they are paid out to shareholders as a dividend. Corporate integration would eliminate this two-tiered taxation and effectively only tax the income once at the shareholder level. The integration proposal now being considered by the Senate Finance Committee is a dividends paid deduction.

Under this proposal, investors pay a single level of tax on distributed income at ordinary rates.

(Continued on page 12)

Tax Reform Update

By Catherine Schultz, Vice President for Tax Policy, cschultz@nftc.org

(Continued from page 10)

There are many benefits and problems with moving to a dividends paid deduction.

1. Some of the benefits of moving to an integrated corporate tax system:
2. It encourages foreign investment in the U.S. Depending on the extent to which a dividends paid deduction is available for dividends paid to foreign shareholders, it could increase incentive for more foreign direct investment in the U.S.
3. It could reduce the incentives the current system provides to invest through debt rather than equity.
4. It will return profits to shareholders. The current system discourages companies from paying large dividends to shareholders.
5. The dividends paid deduction could lower a company's effective tax rate to the extent dividends are paid and it would likely increase earnings per share. This would benefit the stock prices of U.S. companies relative to their foreign competitors. The deduction also directly reduces the cash taxes paid by companies, so should also increase cash flow and funds available for investment.

There are also problems that must be resolved before the U.S. can move to an integrated corporate tax system:

1. There is a shifting of the corporate tax burden to the individual shareholder. This could be a tough sell politically.
2. Tax-exempt shareholders such as pension funds, tax-exempt organizations and foreign shareholders could be detrimentally treated under a dividends paid deduction system. Allowing them to benefit from a 100 percent dividends paid deduction would mean that corporate earnings paid to tax-exempts would not be taxed at all. Denying them equal benefits from a dividends paid deduction would make it difficult to politically enact the new system. The treatment of tax-exempts is one of the most difficult challenges of moving to a corporate integration system.
3. Because a dividends paid deduction would effectively reduce the corporate rate only to the extent dividends were paid to shareholders, it would reduce the incentives for corporations to use cash for other investments
4. The corporate integration system does not eliminate the incentive for corporations to keep earnings in low tax jurisdictions, rather than repatriating them to the U.S.

Where Do We Go From Here?

The Ways and Means Committee and the Senate Finance Committee will both release tax reform proposals this spring. There will be ample opportunities for companies to weigh in on those proposals, particularly the new proposal on corporate integration. This year will be another year of hearings and discussions, but as Tax Policy Subcommittee Chairman Boustany said, it is unlikely that there will be tax reform in 2016.

This issue of Council Highlights brought to you by:

National Foreign Trade Council
E-mail: nftcinformation@nftc.org
www.nftc.org

Washington DC Office
1625 K Street, NW, Suite 200
Washington, DC 20006
Phone: 202-887-0278
Fax: 202-452-8160

New York Office
60 East 42nd Street, Suite 1136
New York, NY 10165
Phone: 212-399-7128
Fax: 212-399-7144

NATIONAL FOREIGN TRADE COUNCIL

"SERVING AMERICA'S GLOBAL BUSINESSES SINCE 1914"

The National Foreign Trade Council is a leading business organization advocating an open, rules-based global trading system. Founded in 1914 by a broad-based group of American companies, the NFTC now serves hundreds of member companies through its offices in Washington and New York.

For membership opportunities, please contact us at nftcinformation@nftc.org or 202-887-0278.