Business Roundtable℠

Proposed International Tax Increases Would Harm U.S. Economy

The Administration proposes to fundamentally rewrite the basic rules of international taxation that have been in existence for nearly 100 years in a manner that would severely disadvantage American companies and make U.S. workers less secure. The proposals would increase taxes by over $100 billion on American companies over 10 years.

Since the establishment of the corporate income tax, American companies have been allowed to defer paying U.S. tax on foreign subsidiary earnings until those earnings are paid to the U.S. parent. These rules allow U.S. companies to compete in overseas markets on a level playing field with foreign-headquartered companies. Yet, the Administration's proposals would create new rules that are intended to raise the cost of foreign operations and risk the loss of U.S. jobs.

The proposals include policies to:

- **<u>Limit the ability to claim current deductions for U.S. interest expense</u>:** The proposal would disallow a current deduction for a portion of U.S.-incurred interest expense when a company does not remit all foreign earnings to the U.S. parent. Disallowed deductions would be suspended into the future and in some cases would be lost entirely. The proposal would raise the cost of borrowing to finance U.S. domestic plants and facilities for worldwide American companies, thereby discouraging these job-creating activities. The Joint Committee on Taxation estimated last year that this proposal would increase taxes on American companies by $43 billion over 10 years.

- **<u>Limit the ability to claim foreign tax credits</u>:** Under present law, the foreign tax credit is based on the actual foreign tax paid on foreign earnings subject to current U.S. tax. The proposal would reduce the foreign tax credit to an average rate of foreign tax paid on total foreign earnings, including foreign earnings not subject to current U.S. tax. As a result, the proposal would create a new double tax on foreign earnings that are remitted from high-tax countries to the United States. The Joint Committee on Taxation estimated last year that this proposal would increase taxes on American companies by $53 billion over 10 years.

- **<u>Repeal deferral for "excess" profits earned abroad</u>:** The proposal would tax worldwide American companies on certain "excess" profits earned by a foreign subsidiary in a low tax jurisdiction when intangible property had previously been transferred to the subsidiary. The proposal would discourage U.S. companies from undertaking R&D and developing intangible assets in the United States since income earned from the transfer of these assets could be subject to immediate U.S. taxation. The Joint Committee on Taxation estimated last year that this proposal would increase taxes on American companies by $14 billion over 10 years.

At the very time our major foreign competitors are moving forward with tax plans to enhance the international competitiveness of their companies and workers, the Administration's proposals would move in the opposite direction, undermining the ability of American companies and their workers to compete with a massive tax hike. Congress should examine international tax policy only as part of comprehensive tax reform with a goal of providing worldwide American companies and American workers the same ability to compete internationally as the tax systems of our trading partners provide for their companies and their workers.

Let's maintain the foundation for sustained economic growth and job creation.
Business tax policy must promote U.S. international competition.

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