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Statement of Senator Chuck Grassley
Senate Finance Committee Hearing
“The Foundation of International Tax Reform: Worldwide, Territorial, and Something in
Between”
June 26, 2008

We are here today to talk about how the United States taxes the foreign income of U.S. businesses under the current tax system and possible alternatives for reform. This hearing should help set the stage for the debate on international tax reform. International tax reform is long overdue. I made this very statement about five years ago when this Committee held a series of hearings on international corporate tax reform. With the current economic slowdown, I think it is even more important than ever to explore what Congress should do – or not do – to make U.S. businesses more competitive globally. The current economic environment should be a wake-up to pay attention to how the tax rules impact U.S. businesses and their ability to thrive in this global marketplace.

I agree with the premise that U.S. multinationals should pay their fair share of U.S. taxes. It is a fact of life that we must fund our government, and taxing business entities is one of the ways we do that. Our goal, however, should be to minimize as much as possible the tax system’s interference with rational business behavior. We need to carefully examine and balance approaches that would raise the necessary revenue, but we should be mindful that we not poison the well with anti-competitive tax policy.

Our current system is based on a framework enacted during President Kennedy’s administration. Since then, we’ve seen an era of expanding global markets, falling trade barriers, and technological innovations that have served to melt away traditional notions of national borders.

Our tax code has not kept pace with these changes. Our tax policy should enable U.S. companies to operate in the global marketplace without the artificial boundaries set in place by the tax code.

Globalization of the marketplace creates its own unique set of issues and complexities. Companies have responded by updating their systems and business models. Our tax code should address this reality, too.

One would hope that a country known for great innovation would be able to craft a tax code that encourages economic development, collects the necessary revenue, and fosters the growth of U.S. jobs.

There has been a longstanding debate about whether our international tax system should be fundamentally changed. Some say that the transfer pricing regime used by virtually every major country is broken and a call for taxing all foreign income on a current basis.

Without a significant corporate tax rate reduction, eliminating deferral would have the effect of exporting our high tax rates and putting U.S. multinationals at a competitive disadvantage in the global marketplace. Furthermore, the piecemeal cutbacks on deferral for active foreign income that we have seen here in the Senate would do nothing but complicate the tax code and create opportunities for tax planning around those cutbacks.

Others argue for completely exempting active foreign income under a territorial system, as many of our trading partners do. However, this proposal is not without its issues. Concerns about the tax treatment of royalties and transfer pricing would need to be addressed head on in exploring this as an option.

So, we have a few real choices: to build protectionist walls or develop a tax system that fosters growth and innovation. I am on record as criticizing legislation that would eliminate or whittle away the current deferral of active foreign earnings. Beyond that, however, I don't profess to have pre-conceived notions as to which direction our tax rules should go. We seem to all agree that something should be done and I believe we should be open-minded about what reform should look like.