United States Senate
Committee on Finance

Sen. Chuck Grassley · Iowa
Ranking Member

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M E M O R A N D U M

To: Reporters and Editors
Re: House proposal on U.S. business taxes
Da: Wednesday, Oct. 24, 2007

In 2004, Congress enacted legislation to repeal the Foreign Sales Corporation-Extraterritorial Income tax regime that was ruled a prohibited export subsidy by the World Trade Organization. By itself, repealing that regime would have caused a $50 billion tax increase on U.S. manufacturers over 10 years, so Congress also enacted an across-the-board effective tax rate cut for all manufacturers, big and small. Congress also enacted a series of international tax reforms designed to keep the tax code out of the way for domestic manufacturers competing in global markets. That was after U.S. companies said their foreign competitors were running circles around them because of U.S. international tax rules. The decision to reform the international tax rules was bipartisan. The reforms came out of a Finance Committee working group set up by Senator Baucus in 2002 and passed the full Senate by a vote of 92 to 5. Starting in 2009, the interest allocation reform will lower the chance of double tax that arises under current law from the artificial over-allocation of interest expense to foreign income, even when the debt is incurred to fund domestic investment. The current rules actually penalize domestic manufacturers that compete in global markets by making it more likely they will be double-taxed on their foreign income. A proposed bill from the Ways and Means chairman would delay relief from that penalty until after 2011. Sen. Chuck Grassley, ranking member of the Committee on Finance, and former chairman, made the following comment on this proposal.

"A delay will only hurt U.S. businesses competing in global markets that make domestic investments. This would be true even with a modest corporate tax rate cut, as the Ways and Means chairman has indicated he will propose, because he'd be cutting the tax rate on one hand, and increasing double taxation on the other. I don't see how unwinding this tax relief for U.S.-based companies helps U.S. workers. If we want our companies to compete globally, and employ people domestically, then we shouldn't pull the tax rug out from under them. And it seems intellectually dishonest to do that in a bill that's supposed to help workers who are disadvantaged by international trade."

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