Testimony of Mr. Walter J. Galvin
Before the Committee on Ways & Means
U.S. House of Representatives

Hearing on
How Business Tax Reform Can Encourage Job Creation

June 2, 2011

Good morning Chairman Camp, Ranking Member Levin and Members of the Committee.

I am Walter Galvin, Vice Chairman and former Chief Financial Officer of Emerson, a $25 billion global manufacturing company based in St. Louis with operations in more than 150 countries and over 130,000 employees.

Emerson is a large U.S. taxpayer. Last year we paid U.S. income taxes of approximately $500 million, with an effective tax rate on U.S. profits of 36 percent.

In the words of former Secretary of State Dean Rusk, "One-third of the world is asleep at any given time and the other two-thirds is up to something." Indeed, much of the world is up to something—they're reworking their tax codes to boost international competitiveness. We need to wake up and join them if we want the U.S. to stay competitive.

There are three specific challenges that have placed Emerson, and American jobs, at a substantial disadvantage. The first is our worldwide system of taxation. The second is the high U.S. corporate tax rate. And the third is the lopsided incentive in our tax code encouraging foreign companies to take on huge amounts of debt in the United States.

1. Reliance on a Worldwide Tax System

The first disadvantage is that most of our foreign-based competitors don't pay a significant second tax on non-U.S. earnings repatriated to their home countries. The U.S., on the other hand, taxes the <u>worldwide</u> profits of American companies at the high 35 percent rate minus credits for any foreign taxes paid.

I know the Committee recently held hearings on this issue, so I will just point out some practical consequences that for Emerson are very real.

In 2006, Emerson sought to buy APC, a Rhode Island-based company that produces high-tech electronic equipment. Over 50 percent of APC's earnings came from outside the United States. We competed against Schneider Electric, a French company, to buy APC. Emerson offered $5 billion, but Schneider ultimately acquired the company by offering $6 billion. Why was Schneider willing to offer more? Quite simply, APC's profits were worth more to Schneider because, as part of a French company, APC's dividends sent to France would be taxed at under 2 percent.

Another impact of the worldwide system is the perverse incentive to keep the profits we make in our international operations offshore.

Last year, Emerson bought a company in the U.K. called Chloride for about $1.5 billion with cash we had earned abroad and kept abroad. We considered other options for that cash, such as bringing it to the U.S., but the U.S. tax code would charge us an extra 10 to 15 cents in taxes on every dollar. Where is our return higher? A dollar invested in the U.K. or 85 cents in the United States?

2. **High U.S. Statutory Corporate Income Tax Rates**

Second, we as a country have been tinkering with credits and deductions that, while well-intentioned, have done little more than encourage complex tax planning. Eliminating the bulk of deductions and credits in exchange for a lower corporate rate will keep U.S companies competitive and create jobs.

3. **Lopsided Incentive to Debt-Load in the U.S.**

Third, I'd like to address the lopsided incentive to debt-load in the United States. In recent years, countries around the world have tightened tax rules regulating a company's ability to load up on debt, take huge interest deductions, and lower their tax liabilities. These strict regulations prevent multinational corporations, for example, from using excessively leveraged financing to acquire other companies.

If Emerson wants to acquire a company in India or China, we must generally come to the table with cash—not debt. If one of their companies, or any international company, wants to purchase an American company, U.S. tax law encourages them to finance that acquisition with debt. Foreign corporations typically load debt in the U.S. and enjoy the interest expense deduction, thereby minimizing U.S. taxes paid to the federal government.

America's high corporate rate, worldwide system, and lopsided incentive to debt-load contributed to the 2008 acquisition of Anheuser-Busch by Belgium-based InBev, in Emerson's home city of St. Louis. At the time of acquisition, Anheuser-Busch paid over $900 million in taxes. InBev loaded up on debt to acquire Anheuser-Busch and is now enjoying huge tax deductions. Based on my experience, I suspect InBev won't pay much in income taxes to the federal government on the U.S. profits it earns from Anheuser-Busch for at least a decade.

4. **Framework for Reform**

The prospect of tax reform is an opportunity to level the playing field with our international competitors, but I urge this Committee to keep two things in mind.

First, U.S. tax policy should be equitable so as not to distort business decisions. Equitable tax policy treats all business income equally, notwithstanding the industry, how a company is structured, or whether it is headquartered in the U.S. or offshore.

Second, tax reform should be revenue neutral. Our fragile economy would likely react negatively to a large money-grab through higher corporate taxes.

In closing, we can't create jobs at home if we punish those who headquarter here rather than overseas. There is no reason why American companies should not be able to compete and win anywhere in the world. But we need a level playing field.

Thank you.

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