Testimony of
Mr. James Zrust
Vice President of Tax
The Boeing Company
Chicago, Illinois

Before the
Committee on Ways and Means
U.S. House of Representatives

Hearing on
How Business Tax Reform Can Encourage Job Creation

June 2, 2011

Chairman Camp, Ranking Member Levin, and Members of the Committee, thank you for the opportunity to testify on the need for business tax reform. I have worked in corporate tax for over thirty years, and I can say unequivocally that the U.S. corporate income tax system must be reformed to ensure that U. S. companies are not put at a disadvantage when competing in the global market place with our foreign counterparts.

Background on the Boeing Company

First, I would like to provide a brief overview of the Boeing Company. The Boeing Company is the world's largest aerospace company, the largest U.S. manufacturing exporter and leading manufacturer of commercial jetliners and defense, space and security systems. With our corporate headquarters in Chicago, Illinois, Boeing has over 160,000 employees in the US with major operations in 34 states. More than 123,000 employees hold college degrees -- including nearly 32,000 advanced degrees -- in virtually every business and technical field from approximately 2,700 colleges and universities worldwide.

Boeing is organized into two business units: Boeing Commercial Airplanes and Boeing Defense, Space & Security. Supporting these units are Boeing Capital Corporation, a global provider of financing solutions; the Shared Services Group, which provides a broad range of services to Boeing; and Boeing Engineering, Operations & Technology, which helps develop, acquire, apply and protect innovative technologies and processes.

Boeing products and tailored services include commercial and military aircraft, satellites, weapons, electronic and defense systems, launch systems, advanced information and communication systems, and performance-based logistics and training.

Importantly, the Boeing Company contributes more than $1 billion each week into the U.S. economy. In 2010, Boeing paid over $32 billion to more than 22,000 U.S. businesses, supporting an additional 1.2 million supplier-related jobs across the country. In the past year, the Boeing Company contributed over $89 million to U.S. nonprofit organizations. In addition, Boeing employees contributed $51 million to their Employees Community Fund, which is the world's largest employee-operated charitable fund.

Competitiveness- Lower Statutory Tax Rate is Needed

The Boeing Company is proud to have customers located in more than 90 countries. Historically, 70 percent of the commercial airplane business is derived from outside of the United States and we are rapidly growing our defense business outside of the U.S. In fact, developing and emerging markets account for a significant portion of the forecasted growth in the aerospace and defense sector.

Although a significant portion of our customers are outside of the United States, our employees, manufacturing and support operations, research and development activities and intellectual property are predominantly located in the United States. Historically, over 95 percent of our net income is attributable to these domestic activities. Unlike other large multinational companies, almost all of our current worldwide income is subject to U.S. tax, and our effective rate is generally between 31-33 percent. The tax incentives that have the most impact on our effective rate are primarily the research and development tax credit ("R&D credit") and, to a lesser extent, the domestic manufacturing deduction. Last year Boeing spent over $4 billion on research and development, primarily on our two major commercial development programs.

In addition to a significant percentage of our customers being outside of the U.S., many of our competitors are as well. It is well known that our largest commercial competitor is located in Europe, and new competition is rapidly emerging from China, Canada, Brazil, and Russia-all with lower combined federal and local statutory tax rates than the United States.

Everyone here today is well aware that the combined US statutory tax rate is almost 15 percentage points higher than the average combined rate of other

OECD member countries. It is our view that significantly reducing the corporate tax rate will improve U.S. competitiveness. We believe lowering the corporate rate would dramatically reduce tax policy pressure and rhetoric by ensuring that U.S. companies are competitive, and importantly, would not tip the scale in favor of foreign production.

A 2005 study by the Congressional Joint Committee on Taxation concluded that a reduction in the corporate income tax had the greatest impact on increasing long-term economic growth due to increased capital investment and labor productivity.[1] We can no longer deny that capital is mobile. However, a workforce generally is not. Manufacturing in particular is capital intensive, so a higher corporate tax rate results in less investment in not only our facilities but also in our workforce.

Recently, a commercial aircraft customer located in the Middle East approached Boeing with a concern regarding the lack of US companies willing to bid on a contract in that region. The general sentiment is that price bids received from companies based in Asia, Europe and Australia are consistently lower than those made by US aerospace companies due to our tax system and high corporate rate. This is not the outcome we should want. We believe that a concerted effort to enact a corporate rate reduction to ensure that the US remains competitive and an attractive place to do business in the global marketplace needs to be made now.

The statutory tax rate can impact where a company makes new capital investments. The U.S. corporate tax rate is inherently built into the price of our products. We are committed to bricks and mortar here in the U.S. and are proud to be the largest U.S. manufacturing exporter. However, in order to continue to grow, we need a level playing field with our competitors. Lower combined corporate tax rates in the countries where our competitors are located make the price of their products less expensive for the global customers for which we compete. Our Chairman and CEO, Jim McNerney, recently noted that Boeing consistently wins contracts globally through innovation, which has always kept us ahead of our competitors. However, as the rest of the world attempts to gain market share and compete with us, a significantly lower corporate tax rate will become crucial to our continued success.

Revenue Concerns

---

[1] (JCX-4-05)

We appreciate the current deficit position and are not asking Congress to ignore the cost associated with a meaningful rate reduction. Like many of the bipartisan proposals outlined recently, we agree that tax expenditures should be on the table if a meaningful rate reduction is considered. It is our position that we could support eliminating tax expenditures in order to obtain a meaningful lower corporate tax rate. Making U.S. businesses more competitive by reducing the rate could, from our perspective, address some of the long-term fiscal issues we face today.[2]

Complexity

Turning towards the issue of complexity, I often tell my team that complexity breeds opportunity. This is not an ideal situation for either the government or the taxpayer. The complexity of our present tax system leads to considerable uncertainty with regard to issue resolutions and is burdensome in terms of the cost of compliance. For example, President Obama's Economic Recovery Advisory Board estimated the total compliance costs for U.S. companies at $40 billion annually, or more than 12 percent of the revenues collected.[3]

Each year we spend millions of dollars to comply with the complexities of the US tax system. This entails detailed analysis of the over 500 book/tax accounting differences in our federal income tax return. In addition, the determination of the R&D credit, the Domestic Manufacturing Deduction and the U.S. taxation of foreign activities involve incredible degrees of complexity. Our compliance obligations not only include the filing of our federal tax return but also the continuous audit by the Internal Revenue Service ("IRS"). The IRS has over 30 IRS agents assigned to our case and maintains permanent offices in three of our locations. Our most recent case to be resolved covered the years 1998-2003, and it was only concluded in December of last year. One of the major issues during the 1998-2003 audit cycle was the R&D credit which was fully disallowed at the initial audit stage. Only after more than a year of meetings were we able to settle the issue at the Appeals level. This inefficiency brought on by the complexities of the current tax system was costly and unnecessary for both Boeing and the government.

[2] Johansoon, Heady, Arnold, Brys, and Varita, "Tax and Economic Growth", OECD Economics working paper No. 620., July 11, 2008.
[3] PERAB, "The Report on Tax Reform Options: Simplification, Compliance, and Corporate Taxation", August 2010.

Compliance is built into Boeing's business culture. While compliance is and should be a crucial element to all businesses, a less complicated system will inherently increase transparency and result in improved productivity.

Conclusion

Over the course of several decades, U.S. competitors, both new and old, have lowered their corporate tax rate, but the U.S. corporate tax rate has remained virtually unchanged. In today's global economy, now is the time to act to ensure that the U.S. is a place where companies want to do business from as well as in. We believe a substantially lower rate and a less complex system would make U.S. companies like Boeing more competitive with the rest of the world.