Testimony of
Diane Dossin
Chief Tax Officer
Ford Motor Company

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Hearing on Tax Reform and the U.S. Manufacturing Sector

Good morning Chairman Camp, Ranking Member Levin, and members of the Committee. My name is Diane Dossin. I am the Chief Tax Officer of Ford Motor Company, a manufacturer of cars and trucks headquartered in Dearborn, Michigan. Thank you for holding a hearing on the topic of corporate tax reform and its potential impact on manufacturing—one of the most important sectors of the American economy.

Manufacturing remains a key driver of the U.S. economy. Manufacturers provide high quality jobs and continue to innovate, invest, and grow in the United States. Compared to other sectors of the economy, manufacturing has a higher rate of growth in productivity, supports more economic activity per dollar of production, and is more engaged in global trade and export growth.[1] If the United States is to continue to be the world's economic leader, it must remain a leader in manufacturing.

Ford has manufactured cars and trucks in this country for over 100 years and employs more than 66,000 Americans at 25 U.S. manufacturing plants, as well as research labs, design centers, and other facilities. Ford's global annual revenues exceed $135 billion. Every year in the U.S., Ford spends more than $30 billion on raw materials and components that go into vehicles, $1.5 billion on capital equipment to produce vehicles, and another $3 billion on research and development to develop next-generation products and technology. Ford is a driver of the U.S. economy in every sense of the word.

But in the middle of the last decade, Ford's role as an American manufacturing and economic leader was threatened. We were unprofitable and hemorrhaging cash—our very future was in doubt. Ford stepped up in that moment.

We committed to a plan that aggressively restructured the business to operate profitably, matched capacity to meet true demand, and accelerated the development of vehicles that exceeded our customers' expectations for quality, fuel efficiency, safety, and smart technology.

We rationalized our brands to bring a laser focus to Ford and Lincoln.

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[1] The Manufacturing Institute, *The Facts About Manufacturing*, 8th Edition; Dep't of Commerce, *The Competitiveness and Innovation Capacity of the United States* (2012); President's Council of Advisors on Science and Technology, *Ensuring American Leadership in Advanced Manufacturing* (2011)

We leveraged our global assets, innovation, technology, and scale to deliver world-class products efficiently for every market.

Working with our UAW partners, we revised labor contracts, funded retiree health care, and made discretionary contributions to pension plans to help close the competitive gap. As a result, Ford is now making small cars profitably in the United States.

Working with our dealer partners, we restructured the dealer network to enhance the sales and service experience for our customers.

We funded our transformational plan by taking on an immense loan secured by all of our assets, including the trademark Blue Oval. We continued to strengthen our balance sheet, and between the end of 2009 and 2011, we repaid more than $20 billion of that debt. Today we are back to an investment grade credit rating and have full rights to all of our collateral.

We did all of this against the backdrop of the severe economic conditions of late 2008 and 2009 and outside of bankruptcy.

Ford is now profitable, especially in the United States. Our 2011 operating earnings were more than $8.5 billion. We are now recording tax expense on our earnings at a rate near the U.S. statutory rate of 35%. From a cash standpoint, for the next few years, Ford will continue to offset its U.S. taxable income with losses sustained and tax credits earned in the last decade. However, the day is fast approaching when Ford will make substantial cash payments to meet its corporate income tax obligations in the United States—at the world's highest statutory rate. This tax burden will directly reduce the cash that is available to support investment in new product and job creation in the U.S. and to compete with foreign-based manufacturers who conduct key functions in their home countries (with the benefit of lower tax rates).

In short, we have restructured every element of the business that we can, but our tax expense remains internationally uncompetitive. To continue to compete on the world stage, we need a lower corporate tax rate at home that is much closer to those of other developed nations. And to achieve that, we need your help.

Corporate Income Tax Rate Reduction

It is well chronicled that the U.S. now has the highest corporate income tax rate in the developed world. We are grateful that Republican and Democratic leadership—both here in Congress and in the Administration—have recognized that the U.S. corporate tax rate is too high. We are especially pleased at the level of engagement of both Chairman Camp and Ranking Member Levin, as well as many other members of the Committee. Chairman Camp's Discussion Draft and The President's Framework for Business Tax Reform have suggested tax rates of 25% and 28%, respectively. We are hopeful that the time for reducing and reforming America's uncompetitive corporate tax code has arrived.

In pursuit of that objective, Ford has joined the RATE Coalition, a group of 28 companies and organizations supporting 30 million American jobs and dedicated to advancing the cause of a lower corporate tax rate. Lowering the corporate tax rate is the most efficient and simplest way to relieve the outsized tax burden on U.S. companies – and particularly on manufacturing companies with hard assets and operations in this country. A lower rate will also decrease the incentive to move U.S. jobs and investment abroad and will increase the incentive to move foreign investment and jobs into the U.S.

Corporate Tax Base Broadening Considerations

Ford understands that, in the current fiscal climate, achieving a lower corporate income tax rate is probably only possible if the tax base is broadened. We also understand that base broadening does not come without attendant costs—costs that must be weighed against the relative value of a lower rate. In considering base broadening alternatives, Ford urges consideration of the full impact of the ultimate tax reform package on the U.S. economy. The final product should have a net positive effect on the goals of increased competitiveness, economic growth, and job creation in manufacturing here at home.

The automotive industry is a key component of the overall U.S. manufacturing sector. It is supported by a large and lengthy supply chain and is a large consumer of goods and services from many other economic sectors including raw materials, construction, machinery, computers, and health care. In an April 2010 study, the Center for Automotive Research estimated that each automaker job supports nine other jobs in the supply chain, automobile dealer network, and broader economy and that the U.S. auto industry collectively supports nearly 8 million U.S. jobs. Automakers alone pay $200 billion of annual wages for jobs that are among the best in their communities.

Therefore, it is not surprising that Ford, as an American manufacturer, employer, and innovator, benefits from several provisions in today's tax code that were enacted in support of this sector of the U.S. economy:

> **Research Credit**. The four pillars of Ford's brand strategy are Quality, Green, Safe, and Smart—four vehicle characteristics that are highly valued by today's customers and supportive of national policies around fuel economy, sustainability, and safety. To advance in these core areas, Ford continually innovates, at a cost of more than $3 billion per year in the U.S. The U.S. tax credit for research and experimentation supports locating technologically innovative activities in this country. Many other countries have incentives for research and experimentation activities in addition to their lower statutory rates. The U.S. should not put itself at a competitive disadvantage in this critical area by heading too far in the opposite direction.
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> **Depreciation.** Investment recovery provisions are important to Ford because of the continuous need to invest in plant machinery, equipment, and tooling. Ford expects to add over $6 billion in capital investment in the U.S. through 2015—investment that will have considerable spillover benefits. Reasonable cost recovery periods, at least consistent with expected economic wear or obsolescence, are critical to support these investments.
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> **Domestic Manufacturing Deduction**. Congress recognized the special advantages manufacturing provides to the U.S. economy when in 2004 it enacted the Internal Revenue Code §199 domestic production activities deduction. In the years since 2004, the relative importance of manufacturing to the U.S. economy has only increased. Because of cumulative losses, Ford has benefitted minimally from §199 to date, but our forward-looking business plans assume that our U.S. operations will receive substantial benefits going forward.

We are hopeful that a lower rate in a reformed U.S. corporate tax code could be a net positive for an American manufacturer like Ford to permit continued strong investment in this country.

Prevention of Tax Base Erosion

Ford operates globally and builds vehicles where its customers live. The U.S. is Ford's most important market and, in recent years, Ford has earned a large part of its income in the U.S. Outside the U.S., Ford generally operates in relatively high tax countries. Ford does not have substantial foreign earnings and cash that have been taxed at very low foreign tax rates and that, therefore, could only be repatriated to the U.S. at a high U.S. tax cost.

We know there has been a lot of debate about the best way to tax foreign earnings so that the U.S. remains competitive in the global economy. Ford does not have a particular position on the exact design and believes that any of several variations of worldwide, territorial or formulary apportionment systems could be workable. We see most countries' systems as hybrids. Systems generally understood to be worldwide often have territorial elements, like deferral mechanisms, while many of those considered to be territorial have worldwide elements, like subpart F-type provisions. We note that the reforms being discussed in Washington today are effectively hybrids.

Ford believes it is appropriate for corporate tax reform to provide for some minimum level of U.S. tax when corporations shift income to tax haven countries. This would be particularly true if the U.S. were to adopt a more territorial system. Option B of Chairman Camp's Discussion Draft would seem to provide a workable model for a minimum level of U.S. tax, under which the U.S. would currently tax income earned by a controlled foreign corporation if such income is subject to an effective foreign tax rate of less than 10% – although using a threshold rate as low as 10 percent could be unnecessarily generous. We note that Option B may be more fair and effective if it included a sliding scale for U.S. inclusion similar to that employed in Option A of the Chairman's Discussion Draft. Global competitiveness concerns that could arise because only U.S.-based multinational corporations would be subject to Option B might be alleviated by a lower U.S. statutory rate and by the likelihood that other nations would follow the U.S. lead and enact similar provisions of their own.

Option C would seem to provide an effective incentive to develop and own intangible assets in the U.S. Accordingly, Option C could help address global competitiveness concerns regarding U.S. research and development. Lawmakers need not necessarily choose a single approach to combat tax base erosion. Provisions could be used in various combinations to achieve desired goals.

Transition Considerations

The issue of how we transition to a reformed tax code is important to Ford. In particular, we are interested in how the transition rules will apply to foreign earnings and profits deficits, foreign tax credit carryovers, foreign taxes paid but not yet claimed on U.S. tax returns, and overall domestic losses.

Conclusion

Ford was born in America. For over a century, the United States has been Ford's home and its most important market. Ford wants to remain very profitable in the U.S. and to pay income tax at a fair and reasonable tax rate similar to the rates now levied by many other developed nations.

The stakes for corporate tax reform are very high and the consequences of failure are serious. We know it will not be easy and appreciate all the more your willingness to tackle such an important undertaking. We at Ford stand ready to help you in your work in any way we can.

On behalf of Ford, I thank you for the opportunity to testify before you today and look forward to answering your questions.