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Written Testimony for the U.S. House Committee on Ways and Means
Hearing on Tax Reform
Thursday July 19, 2012

Good morning Chairman Camp, Ranking Member Levin, and Members of the Committee. My name is Susan Ford and I am the Vice President of Tax for Corning Incorporated, a glass technology and manufacturing company located in the upstate town of Corning, New York. Thank you for the opportunity to speak to you today. I am pleased to provide Corning's views on tax reform.

Corning Background

Corning Incorporated is a 161 year old company with its world headquarters in Corning, New York. The company was founded by Amory Houghton, the great-great grandfather of former Congressman Amo Houghton, who was a member of this committee for many years. Corning's stock is publicly traded on the New York Stock exchange and its market cap is approximately $19 Billion. Sales in 2011 were approximately $7.8 Billion and we have about 29,000 employees worldwide with over half of our payroll in the United States. Corning takes a tremendous amount of pride in its heritage as one of America's oldest and most innovative companies. Corning spends about 10% of our global revenues on R&D, and its principal R&D center is in upstate New York. Corning has the world's most advanced optical fiber manufacturing plants in Wilmington and Concord, North Carolina, a specialty glass manufacturing facility in Harrodsburg, Kentucky, and a state of the art automotive and diesel emissions control product manufacturing facilities in a small town in upstate New York, neighboring our headquarters in Corning. Corning operates in 25 other states, including several states represented by Ways and Means Members - California, Kentucky, Massachusetts, New Jersey, Pennsylvania, Tennessee, and Texas. We have manufacturing in 11 of the 26 states in which we have a presence.

Over the last 161 years Corning has delivered innovation that has significantly impacted the way the world communicates, conducts medical research, protects the environment, prepares its food, and is entertained. Corning made the glass envelopes for Thomas Edison's light bulbs, as well as railroad lanterns which could withstand intense heat and cold. In the 1950s, Corning developed CorningWare and Pyrex, which most of you probably still have in your kitchens. Corning was also the world's leading manufacturer of cathode ray television tubes for decades. In the 1970s, Corning invented optical fiber and ceramic honeycomb substrates enabling the catalytic converter. Today, Corning continues to manufacture and sell optical fiber, cable and hardware and equipment for the telecommunications industry, as well as the ceramic substrates for automobile and heavy duty diesel catalytic converters. Additionally we are currently the world's leader in the production of liquid crystal display glass used in LCD televisions and computer screens. Your mobile phone likely features a damage resistant Corning display glass called

Gorilla Glass. And Corning has a growing family of life sciences products used in pharmaceutical and biotechnology research. Corning has been fortunate to receive the President's Medal of Technology four times. Almost all of these technologies were developed and remain owned by Corning Incorporated in the United States.

Corning is also a global company. Approximately 79% of our sales are to foreign customers. Corning operates in industries where customers and competitors are predominantly located outside of the United States. To survive and prosper, Corning must operate there as well. As an example, China is currently the largest growth country in the world. They are the number one optical fiber consumer in the world, the number one auto maker in the world, and becoming the world's largest consumer of LCD televisions.

A closer look at our Display Technologies segment underscores the importance of Corning's global, and particularly our Asian, presence. In the case of Corning's Display business, we sell our specialized LCD glass substrates to manufacturers of active-matrix LCD panels. There are no panel makers located in the United States. They are located in Taiwan, Japan, Korea, and more recently, China. Our LCD glass is formed in large sheets—sheets larger than what might cover a king size bed at a thickness of approximately four times that of a human hair. You can imagine that little good can happen to this glass if it is shipped thousands of miles. In many instances, our melting plants are located plant-side to our customers to avoid this. In the instances where we must ship this glass internationally, the packaging process is itself patented.

Because foreign markets are the larger proportion of the global consumer demand, we must be able to grow not just domestically, but internationally. This is true for Corning and many other U.S. manufacturers working to compete in an intense global market. We need tax policy that is competitive while continuing to incentivize innovation and job creation in the United States. The current tax code's manufacturing and R&D incentives, tax rates, and worldwide system of taxation are complex and no longer globally competitive.

<u>Impact of Current U.S. Tax Policy, Growing Consensus of Need for Reform</u>

American manufacturers are at a distinct disadvantage to competitors headquartered in other countries. Specifically, foreign manufacturers uniformly face a lower corporate tax rate than U.S. manufacturers, and virtually all operate under territorial systems which encourage investment both abroad and at home. In addition, many foreign manufacturers enjoy more robust R&D incentives than do American companies, and a growing number enjoy other innovation incentives, like "patent boxes." Together, these factors can give foreign manufacturers a significant edge over their American counterparts. This situation is not new, but has become exacerbated in recent years as foreign governments have increasingly turned to tax law to help their companies compete internationally.

As an example, in 2011, Corning's U.S. effective tax rate ("ETR"), including state taxes, was approximately 36% and our average foreign ETR was 17%.[1] In 2012, while both rates are

[1] This ignores one-time special items and considers only consolidated affiliates, Note that this is a non-U.S. GAAP measure and is exclusive of equity earnings (e.g. the earnings of companies that we don't control and are included in our U.S. GAAP measure after tax but treated as pre-tax income in our ETR calculation for U.S. GAAP purposes).

increasing, the disparity between our U.S. and foreign rates grows because of the expiration of the U.S. R&D credit and the look-through exception to Subpart F. Corning's example shows how differences in tax laws and incentives between other countries and the United States can result in U.S. companies having fewer after-tax dollars to invest than our foreign competitors.

We therefore are very heartened by a growing consensus among U.S. policymakers on the need to reform the U.S. tax code. Key Members of the House and Senate, as well as the Obama Administration, have all publicly stated the importance of tax reform to the American economy and competitiveness. Starting last year, the Ways and Means and Senate Finance Committees have held hearings exploring this topic and are continuing to do so, as evidenced by our meeting today. In October 2011, Chairman Camp released his discussion draft on corporate tax reform, which we believe spurred the conversation forward dramatically. Last month, Chairman Baucus provided an outline of his thoughts in a major speech on tax reform, noting that other countries have lowered corporate rates and shifted to territorial systems in order to become more competitive. And the Obama Administration also has recognized that our current tax system is uncompetitive, distorts business decision making and slows economic growth. Having such broad bipartisan agreement on the existence of the fundamental problem is in itself a significant development, and we are therefore very optimistic on the prospects for meaningful tax reform.

Because Chairman Camp's 2011 discussion draft is the most detailed legislative proposal on the table, most of my comments are made with it in mind. Chairman Camp's proposal would provide a top corporate rate of 25%; a 95% deduction for the foreign-source portion of dividends received from controlled foreign corporations ("CFCs"); no additional allocation of U.S. incurred expenses such as interest expense to foreign exempt earnings; a deduction for 95% of gain on disposition of stock in certain active CFCs (with no deduction for losses on such transactions); imposition of a 5.25% tax rate, subject to an election to spread the tax over as long as eight years, on pre-effective date foreign earnings; and provisions for the prevention of base erosion.

We believe Chairman Camp's discussion draft contains several provisions that could increase U.S. competitiveness. A substantial reduction in the statutory tax rate is critical. A statutory rate nearing the average rate of our major trading partners would make significant progress toward leveling the competitive landscape and would be more effective than many current incentives in supporting that purpose. The most obvious appeal of a significant tax rate reduction is that it would help all U.S. companies - U.S-based multinationals, U.S. exporters and U.S. companies which operate strictly domestically. However, the chosen rate has to make an impact. A token reduction coupled with a broadening of the tax base would have limited positive effect and could actually hurt U.S. competitiveness. A significant rate cut accompanied by a review of existing, often inefficient, tax benefits is in order.

Mr. Camp's proposal for a territorial tax system could do as much as a rate reduction to foster U.S. competitiveness. Most of the world's tax systems are territorial, excluding from tax the majority of their taxpayer's foreign earned income - including foreign dividends. The current U.S. system of worldwide taxation is expensive to administer, dissuades multinational companies from headquartering in the U.S., and discourages U.S. companies from repatriating foreign earnings. Moving to a competitive territorial system will address all of these issues. Corning

appreciates the Camp proposal's flat taxation of five percent of foreign earnings in place of an allocated expense disallowance. This approach is predominate in territorial systems and provides simplicity, thus furthering parity with global systems and reducing the cost of taxpayer compliance and government enforcement.

Moving to a territorial system does present transition challenges, such as how income earned abroad prior to the adoption of the territorial system should be treated after adoption. Some policy makers advocate "bringing everything current" by taxing all pre-adoption foreign earnings immediately. We believe that Mr. Camp's proposal to reduce the rate on such "deemed" repatriation via an eighty-five percent dividends received deduction begins to address the potential hardship that could result from an immediate and potentially large U.S. taxable inclusion that might face companies like Corning who must manufacture abroad. However, the trade-off for the lower rate is that ***all*** foreign earnings would be deemed repatriated without a reduction for losses in separate entities or for earnings that are not represented by cash (i.e. those invested abroad in hard assets and therefore cannot be repatriated). This can be a comparatively harsh result for a capital intensive company like Corning that must put its manufacturing facilities in the same country as its customers. Further study may be warranted to consider the appropriate use of foreign losses, the treatment of trapped earnings, the use of U.S. net operating losses and foreign tax credit carryovers, and the terms for payment of the resulting tax.

Chairman Camp's proposal also includes possible "base erosion" protections. As a starting point, it is important to recognize that the greater the reduction in the U.S. corporate tax rate, the less companies will be compelled to migrate income producing activity or assets. We appreciate, however, the need to carefully consider the possibility that any new system could be abused and to discuss possible protections against abusive erosion of the U.S. tax base. Of the three preventive measures proposed by Mr. Camp, Option C appears to best alleviate the competitive pressure that compels many U.S. technology companies to move research activities and intellectual property offshore. As patent laws around the world become more sophisticated and their enforceability improves, the historic benefits of U.S. technology ownership no longer serve as sufficient compensation for a higher U.S. tax burden on the related income. Mr. Camp's Option C, which levies a fifteen percent tax on foreign income generated by U.S.-owned intangibles, will help U.S. companies with U.S.-created and owned intellectual property to compete with those that create and own such property abroad. In this area too, any broadening of the tax base accompanying a tax rate reduction on foreign earned income from intellectual property must be measured for total effect. We are aware of concerns raised by software makers and others regarding the potential negative impact Option C could have on their business models. Corning looks forward to working with all interested parties to ensure that any such provision supports the competitiveness of all U.S.-based companies.

Another aspect of tax reform that must be considered relates to provisions intended to incentivize the creation of technology in the United States. We believe such provisions should be broadened and made more efficient in order to make them more effective in improving the competitiveness of U.S. technology and manufacturing companies.

It is hard to disagree with incentivizing the conduct of American research and development, but a comparison of the U.S. R&D credit to those that exist in some other countries shows that the

U.S. incentive is complex and uncompetitive. As an example, consider Corning's recent experience with the U.S. R&D credit compared to the French R&D incentive. Ninety-five percent of Corning's R&D expenditures fund activities conducted in the United States. Much of the balance of our R&D occurs in France. Last year Corning's U.S. R&D credit as a percentage of its total U.S. R&D expenditure was approximately 1.2%. By contrast, in France it was approximately 30%. Further, calculation of the U.S. R&D credit is so complex that it often requires the hiring of a consulting firm with sophisticated software. If the R&D credit is to be effective, it must undergo significant reform.

Another tax benefit offered to U.S. manufacturers is the Domestic Manufacturing Deduction. This incentive does reduce the tax impact of the high regular tax rate in the United States, but is also extremely complex and is not available to manufacturers that have suffered U.S. operating losses. We would expect that many smaller manufacturers also would have difficulty obtaining a benefit from it due to its complexity and/or operating losses attributable to the most recent recession. Like the R&D credit, the Domestic Manufacturing Deduction could benefit from reform in order to become a more effective investment incentive.

Summary

In summary, we believe tax reform is a necessary action for the competitiveness and economic health of the United States. For U.S.-headquartered companies competing at home or abroad, the current system is cumbersome and inefficient. Many developed nations have modified their tax policies to facilitate competition and encourage domestic investment. The United States should not allow its major trading partners to gain an advantage through tax policy modernization. Moving to a competitive territorial system with a competitive tax rate will result in benefits both to the United States and its manufacturers.

Thank you again for the opportunity to participate today. Corning commends the Committee for its work on tax reform to date and urges it to continue the effort. We stand ready to work with you to reform the tax code in a manner that is positive for American companies and the American economy.