COMMITTEE ON
WAYS AND MEANS
CHAIRMAN DAVE CAMP

REFORMING THE TAX CODE TO GET AMERICA WORKING AGAIN

Creating More Investment and Jobs in America By Modernizing Our Outdated International Tax Code and Adopting a Territorial Tax System

House Republicans support comprehensive tax reform to get Americans working again and our economy back on track. Independent economists estimate that, when coupled with reduced federal spending, comprehensive tax reform could lead to the creation of 1 million jobs in the first year alone.

A key component of the House Republican tax reform plan is shifting from a "worldwide" system of taxation – which double taxes American companies when they attempt to compete with foreign companies in overseas markets – to a more competitive, pro-job creation "territorial" tax system that puts our companies on a level playing field with foreign competitors.

In its effort to reform our highly technical and complex international tax laws, the Ways and Means Committee has held many public hearings involving these policies. Building on the testimony received, the Committee is now releasing a discussion draft of a territorial tax plan to garner more specific input from employers, workers, tax practitioners and other tax experts.

Below is information on our current international tax laws and the discussion draft, which seeks to make America more competitive while addressing concerns that some have raised about the impact of a territorial system on the U.S. tax base.

Our International Tax Laws Are Outdated & Drive Jobs Overseas

- **America will soon have the highest corporate tax rates in the industrialized world**: Only Japan has a higher corporate tax rate than America, which has a combined federal-state rate of 39.2 percent – and Japan has already indicated its intent to lower its rate.
- **Our "worldwide" system of taxation is a remnant from the Cold War**: While it has been 25 years since we reformed the tax code, it has been almost 50 years since we undertook a bottom-up review of our international tax laws. In other words, our international tax rules were written when the United States accounted for 50 percent of the global economy and had no serious competition from others, a far cry from today's fiercely competitive global economy.
- **American employers face double taxation compared to their foreign competitors**: As a result of our "worldwide" system of taxation, when U.S.-based companies try to bring profits back home, they must pay U.S. taxes on top of the tax they already pay in the foreign market in which they are operating.
- **U.S. tax laws encourage investing in a foreign country instead of bringing profits back home**: Because U.S.-based employers face additional taxes if they bring their overseas earnings back to invest in the United States, it is cheaper for these companies to reinvest profits overseas instead of creating jobs here.

America Is Sitting On The Sidelines While Foreign Competitors Surge Ahead

- **America is losing ground:** In 1960, U.S.-headquartered companies comprised 17 of the world's largest 20 companies – that's 85 percent. By 2010, just six – or a mere 30 percent – U.S.-headquartered companies ranked among the top 20.
- **Our foreign competitors are actively reforming their tax laws**: Other countries are actively reforming their international tax codes – giving employers lower rates and moving towards a territorial tax system. Countries like the United Kingdom, Canada, and Germany, have recently lowered their tax rates to spur job creation and economic growth. Yet, America is sitting on the sidelines doing nothing. We cannot sit back and watch our jobs go overseas because our tax code provides such perverse incentives.

Ways and Means Discussion Draft

Instead of shipping jobs and profits overseas, a reformed tax code should encourage worldwide American companies to invest, grow and hire here in America. Key components of the Ways and Means discussion draft include:

- Reducing the corporate tax rate to 25 percent – bringing it in line with the average of countries in the Organization of Economic Cooperation and Development (OECD)
  - The Committee continues to examine base broadening measures that will replace the revenue foregone by reducing the corporate tax rate, so these measures are reserved in the discussion draft for future release.

- Shifting from a worldwide system of taxation to a territorial-based system that:
  - Exempts 95 percent of overseas earnings from U.S. taxation when profits are brought back to the United States from a foreign subsidiary.
  - Includes anti-abuse rules to ensure companies cannot set up "tax shelters" to avoid paying their fair share of U.S. taxes.
  - Frees up existing overseas earnings to be reinvested in America after they are taxed at a low rate in line with current repatriation proposals.
  - Makes worldwide American companies more competitive with little or no impact on the federal deficit.