

TESTIMONY OF APPLE INC.

BEFORE THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

US SENATE

MAY 21, 2013

I. INTRODUCTION

Apple Inc. (“Apple” or the “Company”) appreciates the opportunity to testify before the Permanent Subcommittee on Investigations (“Subcommittee”) in connection with its inquiry into the tax practices of multinational companies.

Apple, a California company, employs tens of thousands of Americans, creates revolutionary products that improve the lives of tens of millions of Americans, and pays billions of dollars annually to the US Treasury in corporate income and payroll taxes. Apple’s shareholders – from individuals and institutions to pension funds and public employee retirement systems – have benefitted from the Company’s success through the appreciation of its stock price and generous dividends. Apple safeguards the capital entrusted to it by its shareholders with prudent management that reflects the Company’s extensive international operations. Apple complies fully with both the laws and spirit of the laws. And Apple pays all its required taxes, both in this country and abroad.

Apple welcomes an objective examination of the US corporate tax system, which has not kept pace with the advent of the digital age and the rapidly changing global economy. The Company supports comprehensive tax reform as a necessary step to promote growth and enable American multinational companies to remain competitive with their foreign counterparts in both domestic and international markets.

The information Apple has provided to the Subcommittee demonstrates several key points about the Company’s operations that are critical to any objective evaluation of its tax practices:

- **Apple has been a powerful engine of job creation in the US.** Apple estimates it has created or supported approximately 600,000 jobs in the US, including nearly 50,000 jobs for Apple employees and approximately 550,000 jobs at other companies in fields such as

engineering, manufacturing, logistics and software development. Approximately 290,000 of these American jobs are related to the new “App Economy” launched by Apple’s App Store. In less than five years, Apple has paid third-party app developers worldwide over \$9 billion in connection with sales of their software to Apple customers.

- **Apple pays an extraordinary amount in US taxes.** Apple is likely the largest corporate income tax payer in the US, having paid nearly \$6 billion in taxes to the US Treasury in FY2012. These payments account for \$1 in every \$40 in corporate income tax the US Treasury collected last year. The Company’s FY2012 total US federal cash effective tax rate was approximately 30.5%.¹ The Company expects to pay over \$7 billion in taxes to the US Treasury in its current fiscal year. In accordance with US law, Apple pays US corporate income taxes on the profits earned from its sales in the US and on the investment income of its Controlled Foreign Corporations (“CFCs”), including the investment earnings of its Irish subsidiary, Apple Operations International (“AOI”).
- **Apple does not use tax gimmicks.** Apple does not move its intellectual property into offshore tax havens and use it to sell products back into the US in order to avoid US tax; it does not use revolving loans from foreign subsidiaries to fund its domestic operations; it does not hold money on a Caribbean island; and it does not have a bank account in the Cayman Islands. Apple has substantial foreign cash because it sells the majority of its products outside the US. International operations accounted for 61% of Apple’s revenue last year and two-thirds of its revenue last quarter. These foreign earnings are taxed in the jurisdiction where they are earned (“foreign, post-tax income”).
- **Apple carefully manages its foreign cash holdings to support its overseas operations in the best interests of its shareholders.** Apple uses its foreign cash for business operations, geographic expansion, acquisitions and capital investments, and to fund other expenses required by its overseas operations, such as the capital-intensive construction of retail stores in Europe and Asia and the purchase of customized tooling equipment. If the Company repatriated these funds, they would be reduced by a 35% US corporate tax rate. Apple serves its shareholders by keeping these funds overseas where they can be deployed efficiently to fund international operations at a lower cost. As Apple’s recent bond issuance demonstrates, the Company can return capital to shareholders using debt at a far lower cost than through repatriation of foreign cash.
- **The dividends distributed among Apple’s international affiliates, including AOI, are not subject to US corporate income tax.** AOI and other Apple subsidiaries in Ireland play an important role in the Company’s international business activities. Established more than thirty years ago, Apple’s base of operations in Ireland now employs nearly 4,000 people engaged in manufacturing, customer service, sales support, supply chain and risk management operations and finance support services. For cash management purposes, these subsidiaries distribute foreign, post-tax income as dividends within

¹ This calculation is a reflection of federal taxes Apple paid against US pretax earnings, not a calculation of Apple’s final tax liability for FY2012.

Apple's corporate structure. Under US tax law, these foreign intercompany payments are not taxable.

- **Apple's cost sharing agreement with two of its subsidiaries supports high-paying, tax-revenue generating jobs in the US.** Unlike companies that do a substantial share of their research and development in lower cost, foreign jurisdictions, Apple conducts virtually all its R&D in the US. Apple has an agreement with two of its Irish subsidiaries to share the costs and risks of this R&D. The agreement, first established in 1980, is authorized by US law and complies with all US tax regulations. Under the current agreement, the Irish subsidiaries have rights to distribute Apple products in territories outside the Americas in exchange for contributing to jointly-financed R&D efforts in the US. Thus, the agreement supports the funding of the Company's high-paying R&D jobs in the US, promoting domestic job growth and generating significant tax revenue for federal and state governments.
- **AOI performs important business functions that facilitate and enhance Apple's success in international markets; it is not a shell company.** AOI is a holding company that performs centralized cash and investment management of Apple's foreign, post-tax income. AOI permits Apple to mitigate legal and financial risk by providing consolidated, efficient control of its global flow of funds. AOI was incorporated in Ireland when Apple began its longstanding business presence there, and AOI is properly treated as a CFC under US law. The existence of AOI does not reduce Apple's US tax liability.
- **Apple supports comprehensive reform of the US corporate tax system.** The Company supports a dramatic simplification of the corporate tax system that is revenue neutral, eliminates all tax expenditures, lowers tax rates and implements a reasonable tax on foreign earnings that allows free movement of capital back to the US. Apple believes such comprehensive reform would stimulate economic growth. Apple supports this plan even though it would likely result in Apple paying more US corporate tax.

II. APPLE'S STORY

Apple is an American success story. Founded by Steve Jobs and Steve Wozniak nearly four decades ago in a residential garage, Apple has become the world's most valuable high tech company. Its success results from a simple priority: Apple strives to make the best products on Earth through a singular focus on its customers. Apple has introduced new products, new categories – even new markets – that have profoundly improved people's lives around the world. True to its California roots, Apple remains headquartered in Cupertino, and it is now building a

large new campus in that community to accommodate its substantial growth over the past decade.

Apple designs, manufactures and markets a range of personal computers, mobile communication and media devices, and portable digital music players. The Company also provides consumers a variety of related software and services, including access to third-party digital content and applications. Apple sells its products worldwide through retail stores, online stores, its direct sales force, third-party cellular network carriers, wholesalers, retailers and value-added resellers. The hallmarks for which Apple is best known – creativity, innovation and design – drive its development activities, almost all of which take place on Apple’s main campus in Cupertino.

Apple launched the personal computer revolution in 1976 with the Apple I, followed by the highly successful Apple II. In 1984, Apple reignited that revolution when it introduced its first category-defining product, the Macintosh. With innovations such as the graphical user interface and mouse, the Macintosh made computing accessible to consumers and set the standard for all personal computers that followed.

The mid-1990s proved to be difficult years for the Company. Apple struggled to manage declining sales and market share in an increasingly competitive personal computing market. In 1996 and 1997, Apple lost nearly \$2 billion. Many observers predicted Apple would not survive.

Mr. Jobs, who had left Apple in 1985, returned in 1997 with the task of saving the Company. Under his direction, Apple was entirely restructured and focused on innovation. The results are legendary. In 1998, Apple introduced the iMac, a groundbreaking new computer for the consumer market. In 2001, the Company introduced the iPod, another category-defining product that marked Apple’s expansion beyond personal computing into the digital marketplace.

Two years later, Apple launched the iTunes on-line music store, changing forever the way consumers legally acquired digital content. The innovative design and customer-focused engineering evident in these products laid the foundation for the Company's explosive growth over the next decade.

In 2007, Apple introduced the iPhone, which quickly set the standard for smartphones. In 2010, Apple introduced the iPad, which established a new market for tablet computers. The iPhone and the iPad illustrate Apple's emphasis on delivering an unmatched user experience and superior technical performance. These products generated unprecedented commercial success and growth for the Company, and created extraordinary value for its shareholders.

In 2008, following the introduction of the iPhone, Apple launched the App Store, which has fundamentally transformed how customers acquire and use software. Today, Apple customers can choose from among 850,000 applications in the App Store. Customers currently download approximately 800 apps per second. Just days ago, the fifty billionth app was downloaded – about seven downloaded apps for every person on Earth.

Apple's growth has created hundreds of thousands of highly-skilled, high-paying jobs for Americans during one of the most difficult economic periods in US history. While the overall size of the domestic workforce has stagnated during the last ten years, Apple has increased its US workforce more than five-fold, from fewer than 10,000 in 2002 to approximately 50,000 today. The Company has also built and opened 250 retail stores in the US. Apple's R&D budget, almost all of which is spent in the US, has also grown dramatically.

Apple is committed to increasing its foundation and operations in the US. The Company is building a new three million square-foot campus in Cupertino that will house 12,000 Apple employees. The Company has broken ground on a new one million square-foot campus in

Austin, Texas. In 2010, Apple built one of the country's largest data centers in North Carolina, and it is in the process of constructing two additional data centers in Oregon and Nevada.

Reflecting Apple's strong commitment to the environment, these new facilities incorporate green architecture and an emphasis on renewable energy. The North Carolina data center, for example, is powered entirely by renewable energy sources and contains a solar farm and fuel cells on-site, both of which are the largest non-utility owned installations of their kind. The Company will also begin manufacturing one of its Mac lines in the US this year, creating high-quality American manufacturing jobs for a product previously assembled primarily overseas.

Apple's investments over the past decade have resulted in the creation of entirely new products, product categories and industries. The Company estimates that it has created or supported approximately 600,000 jobs for American workers. These US jobs are found in both small and large businesses, and include people who create components for Apple products, deliver those products to Apple's customers and develop apps for sale on the App Store. Apple estimates that approximately 290,000 jobs are related to the "App Economy" created by the App Store.²

Apple's commercial success and effective management of cash reserves have yielded significant returns to the Company's shareholders, including individual investors, widely-held mutual funds, US pension funds and public employee retirement systems. Based on the latest available public filings, at least twelve public and private pension funds in the US held Apple stock as their top equity investment, including funds for public employees in Michigan, Ohio and

² Apple Inc., *Apple - Job Creation*, available at <http://www.apple.com/about/job-creation/>.

Kentucky.³ At least twenty-nine such funds identified Apple as a top five holding. All told, these entities own approximately \$14.6 billion worth of Apple stock, which entitles them to annual dividend payouts totaling approximately \$396 million.⁴ At approximately 3% of the S&P 500, Apple is one of the most-widely held equities in the mutual fund industry.

III. APPLE'S CORPORATE STRUCTURE AND TAX PRACTICES

As a result of its success over the past decade, Apple has likely become the country's largest corporate income taxpayer. In FY2012, Apple made income tax payments to the US Treasury totaling nearly \$6 billion – or \$16 million per day – and had a US federal cash effective tax rate of approximately 30.5%. Expressed differently, Apple paid \$1 out of every \$40 of corporate income taxes collected by the US Treasury last year. The Company expects its US income tax bill to increase to more than \$7 billion this year.

Income taxes do not represent Apple's entire contribution to the federal and state treasuries. In FY2012, the Company paid approximately \$327 million in the employer's share of payroll taxes for its US-based employees and \$830 million in income taxes to state governments. Apple also pays a host of other state and local taxes arising from its property holdings and operations in the US. In addition, Apple paid or collected and remitted over \$1.3 billion of US state sales and use taxes.

³ These pension funds include the Michigan Department of Treasury, the State Teachers' Retirement System of Ohio and the Kentucky Teachers' Retirement System. The State of Wisconsin Investment Board, the Ohio Public Employees Retirement System and the Arizona State Retirement System each identifies Apple stock as its second largest holding. At a share price of \$450 and annual dividend of \$12.20 per share, these six funds' combined holdings amount to more than \$2.3 billion and entitle them to annual dividend payouts of approximately \$62 million.

⁴ Assuming a share price of \$450 and an annual dividend of \$12.20 per share.

While Apple’s success in the US market has continued, the global popularity of its products has soared. The Company’s international revenue has outpaced US sales in recent years and substantially contributed to its rapid growth. Last year, approximately 61% of Apple’s revenue was derived from its international operations. International revenue accounted for about two-thirds of Apple’s revenue last quarter. Revenues from international operations are taxed in accordance with the laws of the countries where they are earned.

As a result of its international success, Apple has accumulated significant amounts of cash outside the US. As described in greater detail below, Apple carefully manages this foreign, post-tax income to support its foreign operations through a corporate structure that protects and promotes the interests of its shareholders. Current US corporate income tax law severely discourages the use of these funds in the US by imposing a 35% tax on repatriation.

To support its global business, Apple relies on a network of foreign subsidiaries incorporated in countries around the world to perform a variety of functions, from manufacturing to sales and support. Several subsidiaries are incorporated in Ireland, where Apple began operations in 1980. The Irish subsidiaries, which are involved in manufacturing, distribution, technical support, sales support and finance support services, include the following: Apple Operations International (“AOI”), Apple Operations (“AO”), Apple Operations Europe (“AOE”), Apple Sales International (“ASI”) and Apple Distribution International (“ADI”). Apple’s Irish subsidiaries employ nearly 4,000 people⁵ and pay taxes there as required by Ireland. Apple recently broke ground on an expansion of its campus in Cork.

To meet the needs of Apple’s expanding overseas operations, the Company’s Irish subsidiaries have distributed active foreign, post-tax income as dividend payments within

⁵ The number of employees fluctuates with seasonal demands and new product launches.

Apple's foreign corporate structure. These dividends represent profit that was previously taxed in accordance with the laws of the local jurisdiction in which it was earned. Under US tax law, these dividends are not taxable. However, in accordance with US Subpart F income rules, Apple Inc. pays taxes to the US Treasury on investment income generated by the assets held by the Irish subsidiaries, including interest earned on their cash.

Apple wants to make clear to the Subcommittee that the Company does not use its Irish subsidiaries or any other entities to engage in the following tax practices that were the focus of the Subcommittee's September 20, 2012 hearing, entitled Offshore Profit Shifting and the US Tax Code. Specifically, Apple does not move its intellectual property into offshore tax havens and use it to sell products back into the US to avoid US tax, nor does it use revolving loans from CFCs to fund its domestic operations. Apple does not hold money on a Caribbean island, does not have a bank account in the Cayman Islands, and does not move any taxable revenue from sales to US customers to other jurisdictions in order to avoid US taxation. Nonetheless, Apple realizes the Subcommittee staff has expressed an interest in its corporate structure and some of its tax-related practices. The Company appreciates the opportunity to address each of the Subcommittee staff's apparent concerns below.

A. Cost Sharing Agreement Among Apple Inc., ASI and AOE

Pursuant to US Treasury regulations, Apple Inc. properly uses a cost sharing agreement with two of its Irish subsidiaries to share the R&D costs of co-developing its innovative products for a global market. Cost sharing agreements allow parties to combine financial resources, and therefore jointly bear risk, to invest in R&D in exchange for a share of the rights to any resulting intellectual property for their respective markets. Apple's cost sharing agreement was first put in

place in 1980, when Apple had revenue of \$117 million and the invention of the iPhone was decades into the future.

Companies commonly use cost sharing agreements for non-tax business purposes. These agreements were sanctioned by the US Congress in 1986 and are expressly authorized by US Treasury regulations.⁶ Those rules acknowledge that R&D cost sharing agreements are common between unrelated parties. Accordingly, the regulations explicitly permit related parties, such as wholly-owned subsidiaries, to make use of such arrangements to grant licenses to share the rights to intellectual property that is co-developed under those agreements. By sharing the costs and benefits of R&D activities among domestic and international companies, these agreements allow US multinational companies like Apple to fund high-paying R&D jobs in this country.

Apple's cost sharing agreement is regularly audited by the IRS and complies fully with all applicable Treasury regulations. This agreement allows the Company to co-develop and share the risk of developing new products with its foreign subsidiaries. Under the agreement's terms, ASI and AOE, which are two of Apple's Irish operating companies, partially fund R&D costs incurred by Apple Inc. The share of R&D costs funded by the Irish subsidiaries is based on the relative share of revenue they earn outside the Americas from the intellectual property covered by the agreement. For example, in FY2012, approximately 61% of Apple's revenue was earned internationally, and ASI and AOE funded more than half of Apple's

⁶ H.R. Rep. 99-841, II-638 (1986); Treas. Reg. sec. 1.482-7. Final regulations addressing cost sharing arrangements were first issued in 1968. *See* 1968 Treas. Reg. sec. 1.482-2(d)(4), 33 Fed. Reg. 5848 (4/16/68). The US Treasury and IRS revised the cost sharing agreement provisions in final regulations in 1995 and 2011. *See* TD 8632, 60 Fed. Reg. 65553 (12/20/95); T.D. 95568 (12/16/2011, amend T.D. 9569 (12/19/2011)).

R&D costs. Apple Inc. does not deduct on its US tax return the R&D costs funded by ASI and AOE.

Apple's initial cost sharing agreement was executed in December 1980, when the Company selected Ireland as its principal base of operations for distributing products and servicing customers in western Europe. The cost sharing agreement afforded Apple the means to share the costs and risks of that market expansion with its Irish subsidiaries. In return, the Irish subsidiaries received a license to Apple Inc.'s intellectual property and the right to share in any profits that might result.

When Apple struggled financially and lost market share in the 1990s despite investments in new products and services, the Irish subsidiaries also lost money. The Irish subsidiaries had to fund a portion of Apple's R&D efforts, yet they were not realizing offsetting gains from the sale of Apple products in their markets. The Company almost ran out of cash and was on the verge of bankruptcy.

Eventually, Apple's R&D investments paid off. The R&D funded by Apple Inc., ASI and AOE fueled worldwide commercial success and growth. After paying their share of R&D expenses and bearing losses during some very lean years in the 1990s, Apple's Irish subsidiaries are now profiting from the cost sharing arrangement established three decades ago. This balance of risk and reward is precisely what was contemplated by the US Treasury regulations governing cost sharing agreements.

From a tax policy standpoint, cost sharing agreements play an important role in encouraging companies like Apple to keep R&D efforts – and the high-paying, income tax generating jobs associated with them – in the US. As an American multinational company, Apple is proud of its efforts to create American jobs. Its cost sharing arrangement enables the

Company to use revenues earned overseas to fund R&D in the US. Some commentators have urged eliminating these types of cost sharing agreements, but doing so would harm American workers and the broader US economy. If cost sharing agreements were no longer available, many US multinational companies would likely move high-paying American R&D jobs overseas.

B. Apple Operations International

AOI is a holding company that directly or indirectly holds shares in certain Apple foreign operating subsidiaries, including ASI and AOE. A holding company is a widely recognized corporate form under the laws of the US and foreign countries. Some of America's most successful companies, such as Procter & Gamble and Johnson & Johnson, operate as holding companies. AOI functions, as holding companies do, to exercise control over foreign operating subsidiaries on behalf of, and under the direction of, AOI's parent company, Apple Inc. AOI's proper observance of corporate formalities is consistent with this status, as is the appointment of US-based directors who are Apple Inc. employees. These employees act both as AOI directors and stewards for Apple Inc.'s ultimate 100% ownership interest in AOI.

AOI consolidates and manages a substantial portion of Apple's foreign, post-tax income through intercompany dividends. This consolidation creates economies of scale that allow AOI to obtain better rates of return with money management firms. The consolidation of funds into as few bank accounts as possible improves operational controls over cash held within and among other foreign subsidiaries. AOI allows Apple to efficiently redeploy funds to meet the needs of Apple's international operations. Using this structure, Apple's Irish subsidiaries have invested billions of dollars to fund customized tooling equipment used to manufacture Apple products.

The Irish subsidiary structure has also allowed the Company to transfer funds efficiently to construct retail stores in Europe and elsewhere.

AOI uses US-based investment advisors and banks to manage its financial assets. This reflects a prudent business decision regarding the benefits AOI can derive from these service providers. AOI's cash and investments are held in US banks and centrally managed to promote efficiency and offer the opportunity to earn higher returns, which are subject to US income tax. These assets are held in US dollars to mitigate the economic and accounting effects of foreign currency fluctuations. There are severe limitations, however, on Apple's use of these non-repatriated earnings. For example, Apple cannot use these funds to pay US employees, make capital investments in the US, repurchase shares or pay dividends.

AOI invests in US securities for many of the same reasons as other foreign companies: AOI deems these investments most suitable to accomplish its cash management goals of capital preservation and protection against currency fluctuations. US tax law does not interpret these investment-related activities as an indication of deemed repatriation or national corporate residency. Such an interpretation could have a negative impact on US advisors and banks. Foreign companies, for example, might decline to use US-based financial services firms out of concern that such activities would expose them to US taxation. For the same reason, foreign companies might decline to purchase US Government debt, raising the government's borrowing costs.

As Congress affirmed when it codified the economic substance doctrine in the Patient Protection and Affordable Care Act, taxpayers are free to use a domestic or foreign entity for purposes of conducting their foreign affairs.⁷ AOI is incorporated in Ireland; thus, under US law,

⁷ See General Explanation of Tax Legislation Enacted in the 111th Congress, JCS-2-11, 379 (March 2011).

it is not tax resident in the US. AOI is also not tax resident in Ireland because it does not meet the fact-specific residency requirements of Irish law. This does not mean that AOI's income has not been subject to tax. AOI's dividend receipts consist of foreign, post-tax income, i.e., funds that have already been subject to tax in accordance with the laws of the countries where they were earned. AOI's investment income earned on its cash holdings is taxable to Apple Inc., because AOI is a CFC that is wholly owned by Apple Inc.⁸

It should be emphasized that AOI does not reduce Apple's tax bill in the US. If AOI did not exist, the funds it receives from other foreign subsidiaries through dividends would simply remain in the custody of those subsidiaries and would not be subject to US corporate income tax. However, without AOI, Apple would lose the considerable risk management and administrative benefits it provides for the Company's international operations.

C. Deferred Tax Liability

Some observers have suggested that Apple's recording of a US deferred tax liability for portions of its foreign, post-tax income reflects the Company's current plan for cash repatriation. This is incorrect. Apple reports this liability in accordance with a US accounting standard

⁸ Like AOI, ASI is incorporated in Ireland, is not tax resident in the US, and does not meet the requirements for tax residency in Ireland. ASI is an operating company with employees who manage the procurement and supply chain for Apple products sold abroad by ADI. Accordingly, ASI files an Irish corporate tax return and pays taxes in Ireland. ASI's investment income is taxed in the US on Apple Inc.'s tax return as Subpart F income. The fact that ASI is not tax resident in Ireland does not reduce Apple Inc.'s US tax liability.

known as APB 23. This recording of a US deferred tax liability provides no indication of the Company's intentions to repatriate foreign, post-tax income. Indeed, Apple has no current plans to repatriate these funds.

IV. APPLE'S CAPITAL RETURN PROGRAM

On April 23, 2013, Apple announced it would substantially increase the return of capital to shareholders. Under this program, Apple expects to return \$100 billion to its shareholders in less than three years through a combination of share repurchases and dividends. Apple will expend \$60 billion in the share repurchase program, making it the largest single share repurchase authorization in history. Apple's increased quarterly dividend of \$3.05 per share makes the Company among the largest dividend payers in the world, with annual payments to shareholders of about \$11 billion. Apple expects to fund the capital return program from existing US cash, future cash generated in the US and domestic borrowing.

Some observers have questioned Apple's decision to fund part of its return of capital by issuing \$17 billion in debt rather than repatriating some offshore funds. Apple respectfully suggests that any objective analysis will conclude that the Company's choice to issue debt, rather than repatriate foreign earnings, was in its shareholders' best interests. Indeed, the Company's largest investors and financial analysts urged Apple to engage in borrowing to add leverage to its capital structure.

If Apple had used its overseas cash to fund this return of capital, the funds would have been diminished by the very high corporate US tax rate of 35% (less applicable foreign credits). By contrast, given today's historically low interest rates, issuing debt at a cost of less than 2% is much more advantageous for the Company's shareholders. Because Apple was able to borrow at a cost lower than the cost of its equity, issuing debt lowered Apple's overall cost of capital.

Additionally, issuing debt served the interests of Apple's shareholders because the debt's interest rate is lower than the dividend yield on the Company's equity. Thus, for every debt-financed repurchase of a share of stock, the Company pays less in debt interest than it would have paid in a dividend to the holder of that share. The prudence of this decision has been ratified by the very positive response to Apple's announcement from the investors in its bond offering.

V. APPLE SUPPORTS COMPREHENSIVE CORPORATE TAX REFORM

Apple agrees with those in Congress who believe the current US corporate tax system must be reformed to reflect both the digital age and the globalization of commerce. The Company believes the current system, which applies industrial era concepts to a digital economy, actually undermines US competitiveness.

Apple has always believed in the simple, not the complex. This is evident in the Company's products and the way it conducts itself. In this spirit, Apple has recommended to the Obama Administration and several members of Congress – and suggests to the Subcommittee today – to pass legislation that dramatically simplifies the US corporate tax system. This comprehensive reform should:

- Be revenue neutral;
- Eliminate all corporate tax expenditures;
- Lower corporate income tax rates; and
- Implement a reasonable tax on foreign earnings that allows free movement of capital back to the US.

Apple recognizes these and other improvements in the US corporate tax system may increase the Company's taxes. Apple is not opposed to such a result if it occurs in the context of an overall improvement in efficiency, flexibility and competitiveness. Apple believes the changes it

proposes will stimulate the creation of American jobs, increase domestic investment and promote economic growth.

While some Subcommittee members may have differing views on these tax policy matters, Apple hopes the Subcommittee will see that these recommendations aim to create meaningful change and go well beyond what most US companies propose. As both a pioneer and participant in the American innovation economy, Apple looks forward to working with the Subcommittee on its efforts to encourage comprehensive reform of the US corporate tax system. Apple appreciates the opportunity to appear before the Subcommittee to contribute constructively to this important debate.