Portman Calls for Overhaul of U.S. Tax Code to Support American Jobs

Washington, D.C. – Today, U.S. Senator Rob Portman (R-Ohio), chairman of the Permanent Subcommittee on Investigations (PSI), opened PSI's first hearing this Congress exploring the impact of the U.S. corporate tax code on foreign acquisitions of U.S. businesses and the ability of U.S. businesses to expand by acquisition. During his opening remarks, Portman raised concerns over how the tax code negatively impacts American jobs and called for tax reform to keep good-paying jobs in the United States.

During the hearing's first panel, three U.S. executives will testify that the United States tax code is costing jobs, wages, and economic growth here at home. The first panel consists of three current or former executives of American companies, Jim Koch, Founder and Chairman of Boston Beer Company, David Pyott, former Chairman and CEO of Allergan, and Walter Galvin, former Vice Chairman and CFO of Emerson Electric.

Excerpts of Portman's opening remarks can be found below and full opening remarks can be found here.

"…We are here this morning to focus on an important policy issue—how the U.S. tax code affects the market for corporate control. This topic involves the jargon of corporate finance as we will hear today, but what it really involves is jobs and investment. It negatively impacts our economy today because our tax code is not working. We see headlines every week, practically, about the loss of some American corporate headquarters—more often than not, it is to a country with a more competitive corporate tax rate, that's easy to find when you have the highest rate among all the developed countries, but also countries that have a different international system, a territorial system of taxation.

"Our tax code makes it hard to be an American company, and puts U.S. workers at a disadvantage. At a 39% combined state and federal rate, the United States has the highest corporate rate in the industrialized world, and to add insult to injury our government taxes American businesses for the privileges of taking their overseas profits and reinvesting them here at home, which is something we should be encouraging, not discouraging. And economists tell us, that the burden of corporate taxes falls principally on workers, in the form of lower wages and fewer job opportunities, and again that's really what is at stake here.

…

"It should be very clear that foreign investment in the United States is essential to economic growth—we want more of it. But we want a tax code that doesn't distort ownership decisions by handicapping U.S. businesses—that's not good for our U.S. economy and that's what we have today. What's happening is that the current tax system increasingly drives U.S. businesses into the hands of those best able to reduce their tax liabilities, not necessarily those best equipped to create

jobs and increase wages here at home. That is, of course, bad for American workers and bad for our long-term competitiveness as a country.

“To better understand the trend and inform legislative debate over tax reform, this Subcommittee has decided to take a hard look at this issue. Over the past several months, the Subcommittee has reviewed more than a dozen recent major foreign acquisitions of U.S. companies and mergers in which U.S. firms relocated overseas. Again, this was a bipartisan project; Senator McCaskill’s experienced team at PSI worked with us every step of the way — I’m grateful for that.

“Today’s hearing is the culmination of that hard work. And we’ll hear directly both from U.S. companies that have felt the tax-driven pressures to move offshore and from foreign corporations whose tax advantages have turbocharged their growth by acquisition.

“One such foreign company is Quebec-based Valeant Pharmaceuticals. Over the past four years, Valeant has managed to acquire a slew of U.S. companies worth more than $30 billion.

“The Subcommittee reviewed key deal documents to understand how tax advantages affected Valeant’s three largest acquisitions to date, including the 2013 sale of New York-based eye care firm Bausch & Lomb and the 2015 sale of the North Carolina-based drugmaker Salix. We learned that, in those two transactions alone, Valeant determined that it could shave more than $3 billion off the target companies’ tax bills by integrating them into its Canada-based corporate group. Those tax savings meant that Valeant’s investments in its American targets would have higher returns and pay for themselves more quickly—two key drivers of any acquisition. All three Valeant acquisitions we studied, unfortunately, came with significant job loss in the United States.

“Beyond inbound acquisitions, America is also losing corporate headquarters through mergers in which U.S. businesses relocate overseas. The latest news is the U.S. agricultural business Monsanto’s proposed $45 billion merger with its European counterpart Syngenta; a key part of that proposed deal is a new global corporate headquarters—not in the U.S., but in London.

“To better understand this trend, the Subcommittee chose to review in detail the 2014 merger of Burger King with the Canadian coffee-and-donut chain Tim Hortons—an $11.4 billion agreement that sent Burger King’s corporate headquarters north of the border. Our review showed that Burger King had strong business reasons to team up with Tim Hortons. But the record shows that when deciding where to locate the headquarters of the combined firm, tax considerations ruled out the U.S. At the time, Burger King estimated that pulling Tim Hortons into the worldwide U.S. tax net, rather than relocating to Canada, would destroy up to $5.5 billion in value over just five years—$5.5 billion in an $11 billion deal. Think about that. The company concluded it was necessary to put the headquarters in a country that would allow it to reinvest overseas earnings back in the U.S. and Canada without an additional tax hit. They ultimately chose Tim Hortons’ home base of Canada.

“Both Valeant and Burger King certainly played by the rules. I think that’s an important point to be made. They and their deal partners responded to economic pressures, opportunities, and incentives created by our tax laws.

“If there is a villain in this story, it is the U.S. tax code. And, frankly, it’s Washington, not doing what Washington should be doing to reform it.

“My goal is to use these examples and others we will hear about today to better understand the need to overhaul our broken tax code, and put U.S. businesses and workers on a level playing field.”