Impact of the U.S. Tax Code on the Market for Corporate Control and Jobs
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Senator Claire McCaskill

Opening Statement

Thank you, Chairman Portman.

First, let me say what a great honor it is to sit on this dais for the first time as Ranking Member of the Permanent Subcommittee on Investigations (PSI), the same body Harry Truman made famous in his crusade against war profiteering. I hope and expect that you and I can uphold PSI's long history of bipartisanship in a way that is worthy of President Truman's legacy.

I am also pleased to see a long-time Missouri business here today – Emerson Electric Company, now celebrating 125 years in St. Louis. Mr. Galvin, we are happy to have you here to offer your thoughts on this important issue.

Today I think we are in agreement that the current U.S. tax system is broken and needs reform. Our corporate tax rate is among the highest in the industrialized world. Our worldwide tax system is out of sync with the territorial models our economic peers have implemented. We lag behind other countries in the Organisation for Economic Co-operation and Development (OECD) in the value of the research credits we provide, and we risk losing out as our European allies move forward with new plans to incentivize the flow of intellectual property to their borders.

We see the effects of these problems every day. We see more and more profits and intellectual property shifted out of the United States to low-tax jurisdictions overseas. We see

U.S. companies stashing $2.1 trillion in earnings overseas to avoid the tax rate they would face upon repatriation. And we see increasing numbers of U.S. companies heading for the exits, whether through an inversion or by otherwise relocating overseas.

At the same time, we are witnessing a huge upswing in cross-border mergers and acquisitions activity—$1.3 trillion in deals in 2014 alone, with foreign takeovers of U.S. companies accounting for $275 billion of that total. This is double the value of takeovers in 2013, and every expectation is that the boom will continue throughout 2015. This increasing trend merits an examination about the causes of this merger impact, and the larger impact on jobs, tax revenue and innovation.

Some argue that absent the advantages the U.S. tax code provides to foreign multinational corporations, many of the U.S. companies acquired in these takeovers could have remained in American hands. In this view, the combination of a high U.S. corporate tax rate and a worldwide taxation system makes U.S. acquirers uncompetitive, while foreign acquirers can employ aggressive tax planning strategies that boost the value of U.S. assets and allow them to make higher offers.

The reality may not be so simple. We know from previous hearings before this Subcommittee that many U.S. multinational corporations are adept at avoiding repatriation of their overseas earnings and are just as active as their foreign counterparts in shifting income and IP out of the United States. As a result, effective corporate tax rates for some U.S. multinationals can fall below the low statutory rates in other countries. In 2013, for example, the Government Accountability Office (GAO) reported that the 2010 effective worldwide U.S. corporate tax rate for profitable companies was only 12.6 percent. Similarly, a study from the

University of Michigan found that the effective tax rates of the 100 largest U.S. multinationals from 2001 to 2010 were actually lower than the rates for the 100 largest multinationals in the European Union.

The solutions offered to address the competitiveness gap between U.S. multinationals and foreign multinationals also may not be so clear cut. Tax experts estimate that because of profit shifting techniques by foreign multinationals, U.S. companies will remain at a disadvantage so long as the U.S. statutory corporate rate is above 15%—which is significantly below the rates in previous bipartisan tax reform proposals. The move to a territorial system also carries the risk of providing greater incentives for companies to shift profits overseas, and a territorial model without stringent rules to prevent abuse and ensure transparency could cost U.S. taxpayers $130 billion over ten years. Many other countries are employing an "innovation box" through which business income derived from intellectual property development is taxed at a preferential rate. This is a very promising approach, but there are challenges in determining which IP rights we should protect and the types of R&D activity we should incentivize.

As we move forward in this discussion, I want us to keep a few points in mind. First, I believe that U.S. competitiveness ultimately depends on continued investment in public goods like our world-class research universities, our highly-skilled workforce, our strong rule of law, and infrastructure that is needed to support business activity in the 21st century. As a result, we should guard against any tax reform measures that threaten to erode the U.S. tax base and undermine these advantages. This effort will require implementing anti-abuse provisions to ensure a shift to a territorial system does not provide even greater incentives for multinationals to move profits overseas.

Second, tax reform — particularly revenue-neutral tax reform — will necessarily involve gains for some parties and losses for others. As we discuss the challenges U.S. multinationals face, we should not lose sight of the challenges faced by domestic U.S businesses — the companies that account for four out of five American jobs. These businesses already operate at a tax disadvantage relative to their multinational competitors, and they should not lose out on tax credits that support domestic manufacturing and research and development to compensate for lowering taxes on foreign income.

Finally, we should resist the urge to demonize foreign companies operating inside the United States. Foreign direct investment brings $3 trillion to the U.S. economy. For every non-U.S. company that grows through rapid acquisition and severe cuts to research and development and employment, countless others invest in their communities and provide much-needed manufacturing jobs. Robust foreign direct investment in the United States is not just a consequence of globalized competition — it is a tremendous advantage for our economy. Our challenge is to ensure that when U.S. companies choose to grow their business through domestic acquisition our tax code does not tip the scales in favor of foreign acquirers.

My hope for the hearing today is that our witnesses can help us understand the role the U.S. code plays in competition between U.S. acquirers and foreign acquirers. I also hope we can gain insight into how the code influences corporate decision-making, and how we can address the problems in the existing tax system while still ensuring the United States continues to build the infrastructure and maintain the tax base necessary to be a leader in innovation, research and development, and business opportunities.

I thank the witnesses for being here today and I look forward to their testimony.