

Business Roundtable

Statement for the Record
U.S. Senate Committee on Finance

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“How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment”

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Business Roundtable, which represents over 220 Chief Executive Officers (CEOs) of the largest American companies from all sectors of the economy, appreciates the importance of this hearing and the interest of this Committee in understanding how U.S. international tax policy affects the strength of the U.S. economy and its ability to increase jobs and wages of American workers.

Business Roundtable CEO members lead companies that operate throughout the United States and globally. Business Roundtable member companies employ 20 million workers, invest \$225 billion annually in research and development, and generate more than \$488 billion in sales for small and medium-sized businesses annually.

As business leaders, we wish to work with Congress and the Administration to help design policies to quickly bring an end to the pandemic and usher in a strong economic recovery. At the same time, we caution lawmakers against pursuing policies that would slow growth and job creation. Those policies include some of the proposed changes to the U.S. international tax system discussed during today’s hearing.

Generating long-term U.S. economic growth and opportunity for more Americans depends, in part, on a competitive U.S. tax rate for companies and tax rules that allow American companies to compete on a level playing field internationally with their foreign-owned challengers. Globally competitive American companies benefit American workers as they increase the ability of American companies and their U.S. suppliers to sell products and services to the entire world. In contrast, if uncompetitive tax policies cause American companies to withdraw from foreign markets, they will also contract at home, leading to reduced employment for American workers and lower wages.

Ensuring American companies can compete on the international stage means more companies are equipped to invest in workers back home. When companies can compete around the world, they can expand at home and create jobs for American workers. We look forward to working with Congress and the

Administration to prioritize policies that enable the strongest recovery possible and sustained economic growth.

1. Pre-Pandemic Economic Growth was Strong – We Can Return to Strong Economic Growth

A strong economy can maximize opportunities for good jobs and growing wages for American workers. The economy was making historic progress and providing gains for all income groups just prior to the pandemic.

- Prior to the pandemic, the 3.5 percent unemployment rate was the lowest rate since 1969 and nearly 3 percentage points below the average for the 15 years from 2003 through 2017.
- There were more job openings than unemployed workers starting in 2018 and continuing through February 2020 – the first time since the job opening statistics began in 2000.
- Low unemployment was driving wage growth – median real wages grew by 4.9 percent from the end of 2017 through the end of 2019, almost double the *total* growth in real wages over the 15 prior years. The Atlanta Federal Reserve Bank found low income workers to be the greatest beneficiary as wage growth in 2018 and 2019 was largest for those in the lowest quartile of the wage distribution.
- Many groups that historically faced economic disadvantages in the labor market benefited from the strong economy in 2018 and 2019.
 - The unemployment rate for African Americans fell to 5.2 percent in 2019, the lowest rate on record since the series began in 1972, and down from the past recession peak of 16.8 percent in 2010.
 - The unemployment rate for Hispanics fell to 4.0 percent in 2019, the lowest rate on record since the series began in 1973, and down from the past recession peak of 13.0 percent in 2009.
 - The unemployment rate for those with less than a high school education fell to 5.0 percent in 2019, the lowest rate on record since the series began in 1992, and down from the past recession peak of 15.8 percent in 2010.
- Low unemployment and higher wages served as a magnet for Americans to re-enter the workforce – the labor participation rate for Americans in their prime working years, ages 25 to 54, was at its highest level in more than a decade.

Low unemployment was driven by businesses. Businesses were adding employees and increasing investment prior to the pandemic.

- Economy wide, business investment was a larger share of real (inflation adjusted) GDP in 2018 and 2019 than at any time in the past two decades.

- Among the large companies represented by the S&P 500, capital expenditures were up 20 percent over the two-year period 2018-2019 compared to the two previous years.
 - Total capital investment by S&P 500 companies was \$1.4 trillion over 2018-2019.
- R&D investment by S&P 500 companies was up 25 percent, to \$707 billion over 2018-2019.

The pandemic has caused the economy to retreat from its historic gains achieved in recent years. Beyond the lives lost, the pandemic has caused devastating job losses and economic hardship, with lower income workers bearing the greatest burden. Business is ready to help rebuild America. A strong recovery is essential now.

2. Globally Engaged American Companies Are Key Contributors to the U.S. Economy¹

In 2018, globally engaged American companies:

- Directly employed 26.6 million workers in the United States and paid their American workers \$2.3 trillion in compensation
- Invested \$722 billion in capital expenditures in the United States
- Performed \$322 billion of R&D in the United States.²

Globally engaged American companies have the vast majority of their operations in the United States.

In 2018, globally engaged American companies:

- Employed two-thirds of their global workforce in the United States and paid 79 percent of their total compensation to American workers
- Invested 79 percent of their global capital expenditures in the United States
- Developed 85 percent of their R&D in the United States.

In addition to these direct effects, globally engaged American companies add substantial support to the U.S. economy through their U.S. supply chains and the boost to U.S. consumer spending from the incomes of their employees and those of their supply chains.

A Business Roundtable study found these benefits to be substantial: each direct U.S. job in a globally engaged American company on average supported 2.3

¹ We define globally engaged American companies as U.S. companies with a direct investment in a foreign affiliate, defined as multinational enterprises by the Bureau of Economic Analysis.

² The most recent year for which data are available is 2018. See, Bureau of Economic Analysis, Activities of U.S. Multinational Enterprises, 2018.

additional U.S. jobs in businesses that don't have global operations.³ Altogether, globally engaged American companies directly and indirectly supported 48 percent of private sector employment and contributed 57 percent of private sector GDP in 2013.

As American companies expand globally, they support jobs at home. Approximately 90 percent of the sales by the foreign subsidiaries of American companies are sold to foreign customers.

Global operations open up export markets for goods and services produced by American workers. In 2018, \$834 billion of goods were exported from the United States by globally engaged American companies and by other U.S. businesses to the foreign affiliates of globally engaged American companies.

In 2017, the most recent year for which data are available, over 90 percent of U.S. exports of selected business services were by globally engaged American companies or to their foreign subsidiaries from other U.S. businesses. Significant U.S. business services exports include charges for the use of intellectual property, financial services, professional and management consulting services, research and development services, and telecommunications, computer, and information services.⁴

Research has shown that when U.S. companies expand abroad, they generally also expand at home because their foreign activities complement their U.S. activities, rather than substitute for them. Increased foreign employment within the company generally leads the company to increase its U.S. employment, investment, R&D, and exports.⁵

When globally engaged American companies succeed in foreign markets, they expand at home. As Treasury Secretary Yellen has noted with respect to demand for U.S. products from other countries, "This demand for American products creates U.S. jobs that pay better. Studies have shown that women, in particular, could earn as much as 20 percent more in these export-based jobs."⁶

³ Economic Impacts of Globally Engaged U.S. Companies: Employment, Labor Income, and GDP (May 2016), available at: http://businessroundtable.org/sites/default/files/Economic_Impacts_of_Globally_Engaged_US_Companies_FINAL_for_Distribution_0.pdf.

⁴ Jennifer Bruner and Alexis Grimm, A Profile of U.S. Exporters and Importers of Services, 2017, Bureau of Economic Analysis, December 2019.

⁵ Studies include Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., "Domestic effects of the foreign activities of U.S. multinationals," American Economic Journal: Economic Policy, February 2009; Gary C. Hufbauer, Theodore H. Moran, and Lindsay Oldenski, Outward Foreign Direct Investment and US Exports, Jobs, and R&D: Implications for US Policy, 2013. For a summary, see Theodore H. Moran and Lindsay Oldenski, How Offshoring and Global Supply Chains Enhance the US Economy, 2016.

⁶ Remarks by Secretary of the Treasury Janet L. Yellen on International Priorities to The Chicago Council on Global Affairs, April 5, 2021.

3. A Level Playing Field for American Companies Benefits American Workers

Given the important role of globally engaged American companies in the U.S. economy, U.S. tax policy should seek to provide a level playing field for American companies relative to their foreign-headquartered competitors. A level playing field is determined by how U.S. companies are taxed on their U.S. income and how they are taxed on their earnings in foreign markets.

The corporate tax rate, the income base against which it is applied, and the way in which the U.S. taxes income earned in foreign markets all affect the incentive to invest and create jobs in the United States. A more attractive U.S. tax environment gives both U.S. and foreign-headquartered companies an incentive to invest more capital – equipment, technology, and other facilities – in the United States. Economists agree that increased investment increases wages by making workers more productive.

It is because of this widely accepted cause and effect relationship that a significant share of the burden of the corporate income tax falls on workers. For example, the Congressional Budget Office and the Joint Committee on Taxation each assume that 25 percent of the corporate tax burden is borne by workers in the form of lower wages. The Treasury Department assumes that 18 percent of the corporate tax burden is borne by workers. A range of economic studies estimate that workers bear a greater share of the corporate tax burden than assumed by these government offices.⁷

Even the relatively small share of the corporate tax burden that the Treasury Department assumes is borne by labor reduces the progressivity of the corporate income tax. In 2016, Treasury estimated that families with income below \$379,000 in 2017 incurred more than half of the total burden of the corporate income tax, with higher income families bearing the remainder.⁸ Treasury's estimates also show that those with less than \$37,500 of income faced a greater tax burden from the corporate income tax than from the individual income tax in 2017.

A corporate income tax increase would be broadly borne by all Americans, including those with far less than \$400,000 of income. Wages and economic growth are enhanced by providing a competitive corporate income tax.

⁷ For example, Stephen Entin's survey of the literature concludes that "labor bears between 50 percent and 100 percent of the burden of the corporate income tax, with 70 percent or higher the most likely outcome." See, Stephen Entin, Labor Bears Much of the Cost of the Corporate Tax, Tax Foundation, October 2017.

⁸ See U.S. Treasury Office of Tax Analysis, Distribution of Tax Burden, Current Law, 2017 (March 2016), available at <https://home.treasury.gov/system/files/131/Distribution-of-Tax-Burden-Current-Law-2017.pdf>.

U.S. Corporate Tax Rate

The current U.S. tax rate is not low. In 2020, the U.S. combined federal and state corporate tax rate of 25.8 percent was higher than the 23.4 percent average corporate tax rate of other OECD countries by more than 2 percentage points.⁹ The U.S. rate was 12th highest of the 37 OECD countries, placing the United States well above the median of advanced economies.

Any increase in the U.S. rate would reduce the attractiveness of the United States for investment. A 28 percent federal corporate tax rate, as proposed by President Biden, would give the United States a combined federal and state corporate tax rate of 32.3 percent – once again the highest in the OECD.¹⁰ It would saddle the United States with the least favorable tax regime in the developed world for new investment.

In Treasury Secretary Yellen’s confirmation hearing, she stated that the 28 percent corporate rate proposed by President Biden is “the midpoint of the pre-2017 level and the rate imposed after the tax act” and “would be substantially below the level that had been in place for decades.”¹¹ But based on Joint Committee on Taxation analysis of the 2017 act, had the act only reduced the corporate tax rate to 28 percent, corporations would have paid more in tax than they did prior to 2017 due to other business and international tax increases on corporations.¹²

The President’s proposed increase in the corporate tax rate in combination with the expanded tax base on corporate income put in place by the 2017 act would make many U.S. companies less competitive than prior to the 2017 act.

For over a decade, the Senate Finance Committee sought to lower the U.S. corporate tax rate to enhance the attractiveness of the United States for companies to invest and expand their operations in order to maintain and create well-paying jobs. A higher rate would counter these goals. At a time when we are seeking to restore jobs as quickly as possible, a higher corporate tax rate on the horizon could curtail the return to full employment.

⁹ The combined U.S. federal and state corporate income tax rate is computed by the OECD to include the 21 percent federal corporate tax rate and an average state income tax rate of 6.03 percent. After accounting for the deductibility of state income taxes, this results in a combined corporate tax rate of 25.8 percent.

¹⁰ The 32.3 percent combined rate is the sum of the 28 percent federal rate and the average state income tax rate of 6.03 percent (4.3 percent after accounting for deductibility against federal tax).

¹¹ See, Responses by Dr. Yellen, Finance Committee Questions for The Record, United States Senate Committee on Finance, Hearing on the nomination of Dr. Janet Yellen, January 21, 2021.

¹² Joint Committee on Taxation, Estimated Budget Effects of the Conference Agreement for H.R. 1 (JCX-67-17), December 22, 2017.

U.S. Taxation of Earnings in Foreign Markets

When globally engaged American companies can compete on a level playing field with their foreign-owned counterparts, the American worker wins. Success in foreign markets allows American companies to expand at home.

The United States is currently the only advanced economy that taxes the active foreign business income of its companies under a global minimum tax. While the OECD and the Inclusive Framework countries are discussing an approach for broader adoption of minimum taxes by other countries, the current U.S. minimum tax – the tax on global intangible low-taxed income (“GILTI”) – is acknowledged by the OECD Secretariat to be in many ways already more restrictive than the OECD’s blueprint proposal.¹³

An even stricter U.S. GILTI as proposed by President Biden, which would more than double its effective rate of tax, would severely handicap the ability of American companies to compete successfully against their foreign-headquartered counterparts.

The Administration has said that it wants to stop a “race to the bottom.” A unilateral approach by the United States – to impose a higher minimum tax on its companies while waiting for the rest of the world to follow – will not succeed. The rest of the world failed to follow when the United States kept its high corporate tax rate for over three decades: instead they purposefully set out to provide a more competitive tax system to attract global investment and jobs for their workforce. Nor did the rest of the world follow when the United States kept to its system of worldwide taxation: instead they adopted territorial tax systems that better allowed their multinational companies to compete in foreign markets and provide good jobs at home.

Prior to 2017, many U.S. companies were approached by M&A dealmakers to consider combining with a foreign headquartered company and reincorporating in the foreign company’s country. This would provide the U.S. company a more attractive tax system for its non-U.S. earnings and greater future growth opportunities. Those deals came to a halt after the 2017 act because the United States had established a more level playing field. Companies that had once left the United States began to return.¹⁴

¹³ Relative to GILTI, the OECD’s blueprint has a lower effective tax rate, a broader substance-based carveout for tangible assets and payroll, and carryforward of losses and excess taxes. Further, GILTI allows only 80 percent of foreign taxes to be creditable and reduces the credit for foreign taxes through an expense allocation rule. See, OECD/G20 Base Erosion and Profit Shifting Project, Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint, Inclusive Framework on BEPS (December 2020), p. 19.

¹⁴ Richard Rubin and Jared S. Hopkins, Tax Cuts Help Keep US Companies Home, Wall Street Journal, August 2, 2019.

A return to a noncompetitive international tax system risks again reducing the ability of globally engaged American companies and their American workers to succeed in global markets. Thank you for the opportunity to submit a statement for the record for this hearing. Business Roundtable appreciates the opportunity to continue working with Congress and the Administration to ensure a competitive tax system.