April 6, 2016

The Honorable Jacob J. Lew
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Lew,

On behalf of the undersigned organizations we write to urge you to address the inversion issue by working with Congress to pass tax reform. In addition, we urge you to reject implementing Treasury's newly proposed regulations or those put forward by Senator Bernie Sanders (I-Vt.).

These regulations will do nothing to address the underlying competitiveness problem and will only add to an already complex tax system. New regulations will likely only make it more difficult for already disadvantaged American companies to conduct business abroad.

As you have said repeatedly, the only real solution to inversions is through Congress enacting business tax reform. The simple fact is American businesses are inverting or being acquired by foreign competitors at an alarming rate because of our complex and outdated tax code.

As it relates to inversions, we believe any tax reform proposal must address two issues.

First, the U.S must reform its code by eliminating the existing worldwide system and replacing it with a territorial system, which is what the majority of the developed world uses.

As you know, our worldwide tax code subjects foreign source income earned by American businesses to the corporate income tax, even though this income has already been taxed in the country where it was earned.

Some have criticized Pfizer's recent inversion move by arguing the company owes $35 billion in taxes, but this is income that the company only has to pay because the archaic U.S. tax code subjects business to double taxation on profits earned overseas.

This double taxation does not exist for companies headquartered in any of the 28 of 34 OECD countries with tax systems that exempt between 95 to 100 percent of foreign source income, including Canada, France, Germany, Japan, and the U.K.

Second, the U.S must lower its corporate income tax rate to an internationally competitive rate. With a combined state-federal rate of 39.1 percent, the U.S. has the highest rate in the developed world.

We have not made any substantial change to our tax rate since passage of the Tax Reform Act of 1986. In the meantime, the average rate in the developed world has dropped from more than 47 percent to just 25 percent.

We hasten to add that corporate income taxes affect more than just corporations. Study after study has concluded that up to 75 percent of the cost of this tax is passed onto labor and so reducing this tax rate will also increase middle class wages.

The bottom line is that inversions are occurring because our tax rate is higher and our code more complex than all of our competitors. The way to solve this competitiveness problem is tax reform, not new regulations.

Sincerely,

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