

U.S. INTERNATIONAL TAX POLICIES THAT GENERATE EXPORTS AND JOBS

SIA supports a Pro-Export, Pro-Innovation Tax Policy

To remain competitive in world markets, SIA recommends that:

- With the exception of increasing enforcement against abuse, **changes to the complex international tax code should only occur in the context of an overhaul of our international tax system** to make it more competitive with our trading partners;
- Congress pass a **permanent and enhanced R&D tax credit to promote innovation.**

Weakening deferral will make the U.S. less competitive

President Obama's international tax proposals will weaken the long-standing policy to defer the taxation of U.S. companies' overseas earnings, undermining the competitiveness of U.S. companies.

To understand the impact of weakening deferral, consider that eliminating deferral would add a \$2.1 billion annual tax burden for the U.S. semiconductor industry. Intense global competition prevents passing these costs to customers through increased prices. These costs have the potential to wipe out \$50 billion of the industry's market capitalization, an 18% reduction that would drive a decline in eventual capital gains taxes of \$10 billion. Alternatively the industry could look for cost savings, potentially eliminating 27,500 high-paying jobs and decreasing personal and payroll tax by \$1.1 billion.

The hypothesized net tax revenues that flow from weakening deferral are illusory. **Weakening deferral costs U.S. jobs and destroys market capitalization with related declines in tax revenues.**

Semiconductor firms have an additional concern. To remain competitive, semiconductor companies continually integrate greater functionality in their products as seen in the evolution of the cell phone, from yesterday's brick-sized boxes that made calls to today's slim models that also handle photos, email, the internet, and music. Companies supplement internal R&D programs by acquiring other businesses that have expertise in the new area. A foreign semiconductor company from a country with a more favorable tax treatment of overseas income will be able to outbid for smaller innovative companies because the after-tax income of the target company will be more valuable in the hands of the foreign firm. The net result is that the President's proposal will have the unintended consequence of **promoting foreign acquisition of small innovative businesses rather than U.S. acquisitions of those companies.**

KEY FACTS

- Semiconductors are America's second largest exporter.
- U.S. corporate tax rates are the second highest amongst OECD countries, second only to Japan, with the U.S. combined average rate of 39% vs. the average OECD rate at 27%.
- Five of 30 OECD nations have a worldwide system of taxation including deferral; while 25 only tax domestic income and exempt overseas income.

What others are saying:

"The President's proposals highlight an important point — our corporate international tax system needs reforming. ... but further study is needed to assess the impact of this plan on U.S. businesses. I want to make certain that our tax policies are fair and support the global competitiveness of U.S. businesses."

Senate Finance Committee Chairman Max Baucus (D-MT)
Statement on President's international tax proposals
May 4, 2009

"Eliminating deferral is a bad idea, as the evidence shows. As of 2008, three countries still used some sort of worldwide system: Japan, Great Britain and the United States. This year, Japan and Great Britain announced plans to shift to a territorial system. At precisely this moment, then, the Obama administration is proposing a dramatic step in exactly the opposite direction."

Sen. Orrin G. Hatch (R-UT)
Washington Times Op-Ed
May 17, 2009

"They need to distinguish between deferral and avoidance."

Chairman Richard Neal (D-MA)
Chair of House Ways and
Means Committee's tax subcommittee
Reuters interview. May 14, 2009

"But many experts believe his proposals would actually destroy U.S. jobs. ... Obama would have been better advised to cut the top rate and pay for it by simultaneously ending many preferences.... But this sort of proposal would have been harder to sell. Obama sacrificed substance for grandstanding."

Robert J. Samuelson
Washington Post Op-Ed
May 11, 2009

"Under certain conditions, ending deferral could affect as many as 2.2 million jobs, or nearly one of every 60 American workers."

Robert J. Shapiro and Aparna Mathur
"The Economic Benefits of Provisions
Allowing U.S. Multinational Companies to Defer
U.S. Corporate Tax on their Foreign Earnings
And the Costs to the U.S. Economy of Repealing Deferral"
July 2009

The U.S. Semiconductor Industry is in the U.S.

- 85 % of the global semiconductor market, and 80 % of U.S. industry sales, are outside the U.S.
- Three-quarters of U.S. semiconductor industry R&D spending, 77 % of U.S.-owned production capacity, 51 % of U.S. industry world-wide employment, and 74 % of the compensation and benefits paid by the U.S. industry are in the United States.
- Employment outside the U.S. includes applications engineers designing products for local markets, local sales and marketing staff, some wafer fabrication to establish a local footprint, and assembly/test operations. These overseas operations promote U.S. exports and create the U.S. jobs noted above.

What is deferral?

Much as individual shareholders are not taxed on the earning of companies until the company pays the individual a dividend or the individual sells the stock, a U.S. parent company' tax is "deferred" until its overseas subsidiaries pay dividends back to the parent company.