



November 1, 2011

The Honorable Jeb Hensarling, Co-Chair, Joint Select Committee on Deficit Reduction  
The Honorable Patty Murray, Co-Chair, Joint Select Committee on Deficit Reduction

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|-----------------------------|--------------------------------|
| The Honorable Max Baucus    | The Honorable Dave Camp        |
| The Honorable John Kerry    | The Honorable Rob Portman      |
| The Honorable Fred Upton    | The Honorable Xavier Becerra   |
| The Honorable James Clyburn | The Honorable John Kyl         |
| The Honorable Pat Toomey    | The Honorable Chris Van Hollen |

cc:

The Honorable Harry Reid, Majority Leader, U.S. Senate  
The Honorable Mitch McConnell, Minority Leader, U.S. Senate  
The Honorable John Boehner, Speaker, U.S. House of Representatives  
The Honorable Nancy Pelosi, Minority Leader, U.S. House of Representatives

Members of the Joint Select Committee on Deficit Reduction:

We are writing as business organizations representing more than 300,000 businesses and business men and women throughout the United States to urge you to address in your recommendations to Congress serious imbalances created by our nation’s corporate and personal income tax code. These distortions undermine the productivity and competitiveness of the American economy. They provide an artificial and unwarranted subsidy to multinational corporations at the expense of domestic employers, including the Main Street small businesses at the heart of our communities and our economy.

The Joint Select Committee has been charged with issuing a formal recommendation on how to reduce the deficit by at least \$1.5 trillion over the next ten years. An important contributing factor to our nation’s deficit is the dramatic reduction in the share of corporate income tax revenue as a percent of total Treasury receipts. When President Eisenhower came to office, corporate federal income taxes paid for nearly a third of the costs of government; today corporate income taxes account for less than 9 percent of government receipts. When large corporations adopt elaborate strategies to avoid paying their taxes, the result is an exploding deficit, and a shift of the costs of government onto smaller businesses and middle class taxpayers.

We believe four core principles should help guide the Joint Select Committee’s work:

- The corporate tax code should ensure that all companies – large and small – pay a realistic and fair share toward the cost of public infrastructure and government services that underpin our economy.

- The tax code should promote a level playing field between large multinational corporations and smaller, domestic businesses. We need to close loopholes that allow large multinational corporations to avoid their tax obligations by shifting U.S. profits offshore, rather than rewarding firms engaging in this practice with either short or permanent tax holidays on those off-shored profits.
- Corporate tax reform needs to be revenue positive. It makes no sense to freeze the corporate income tax component of federal revenues at historically low levels, much less reduce them further.
- The tax code should reflect longstanding principles of tax progressivity, in which those with higher incomes pay a larger share in taxes than those with lower incomes.

A large and growing number of owners of small and mid-sized businesses are signing on-line petitions endorsing these principles. These petitions may be viewed at [www.businessforsharedprosperity.org](http://www.businessforsharedprosperity.org).

**The current tax code creates an unlevel playing field between large multinational corporations and smaller domestic businesses.**

When small businesses are asked to pay a greater share of their profits in federal income taxes than large corporations, and when up to a fifth of all large profitable U.S. corporations pay no federal income taxes at all in any given year, the competitive market becomes highly distorted. Small businesses are used to competing against larger firms that get price breaks on everything from paper clips to health insurance, but our nation’s tax laws should not exacerbate large firms’ anti-competitive advantage by collecting far fewer tax dollars per dollar of profit from large businesses than small ones.

We reject claims that tax laws are making American multinational corporations uncompetitive. Our nation’s large businesses are prospering with record profits and record levels of cash, despite a devastating economy. In 2009, U.S. corporate income taxes equaled 1.3% of GDP, compared to 2.4% for the average OECD country. Among OECD members, only Iceland then collected less in corporate taxes as a share of its GDP.

As large multinationals are prospering, too many Main Street businesses are struggling to remain open and maintain jobs in the face of rising unemployment and contractions of public sector spending.

Our nation cannot afford “revenue neutral” corporate tax reform that leaves corporate taxes as a share of our economy at historically low levels, much less tax reform that lowers that share even further.

**Tax cuts don’t create jobs.**

As business owners and executives, we know we create jobs in relation to expected demand for our products and services, not because of tax cuts. Our nation faces a jobs crisis worse than any of us have seen in our business lives. Legislative responses that focus primarily on slashing

spending are a grave threat to our future business success because they would further dampen consumer demand.

As business people, we believe strongly in free enterprise and the role of a strong private sector in our economy and our nation. But we also know we depend on government investment in an array of services that none of us could fund individually. When government provides modern and dependable infrastructure, an effective judicial system, educates our workforce and invests in basic research that undergirds life-changing discoveries from pharmaceuticals to computers and the internet, it creates a platform for business innovation, job creation and success.

And yet in the current environment, we see many of our big business colleagues calling for massive corporate and individual tax cuts as a solution to our economic challenges. Corporations that have aggressively used transfer pricing and other methods to escape taxation on their profits earned from transactions in the U.S. now seek a tax holiday to bring these funds back to the U.S., even though the Joint Committee on Taxation has estimated this would cost the U.S. Treasury \$41-79 billion. We know this was tried before and it not only failed miserably to create the promised jobs, but many of the corporations that benefited the most actually laid off hundreds of thousands of workers. We oppose a repatriation tax holiday that will benefit less than 1% of America's businesses at the expense of the rest of us.

We also know many corporations and some members of Congress are calling for a permanent tax holiday on "foreign" earnings – including U.S. profits shifted overseas in order to avoid taxes – in the form of a territorial tax system. While some say that shift is needed to bring the U.S. closer in line with the tax regimes of major trading partners, we also know that many European nations are also struggling with tax leakage to tax havens and are reconsidering whether a territorial system is a viable tax system. Moreover, there are important other differences in our tax system – such as value-added taxes, for example – that already put us (as noted above) second to last among OECD countries in terms of corporate taxes as a share of GDP.

Instead of short-term and or permanent tax holidays, we support closing tax loopholes that encourage and reward profit stripping through aggressive transfer pricing and other accounting acrobatics. There are many ways to close these loopholes, including adoption of the Stop Tax Haven Abuse Act, *which would raise \$1 trillion over the 10-year budget window*, or reforming the corporate tax code by ending deferral, while continuing to grant 100% credit for taxes paid to foreign governments.

### **We support tax rate progressivity.**

The tax code should reflect longstanding principles of tax progressivity, in which those with higher incomes pay a larger share in taxes than those with lower incomes. We oppose reform that would reduce the top individual tax rates and reject the rationale that this would help small business. In reality, most small business owners are not in the top brackets. Less than 3 percent of tax filers with *any business income* have over \$200,000 (individuals) or \$250,000 (couples) a year in taxable income and many of those are not small business owners, much less small business owners with employees.

Over the last decade, America's wealthiest taxpayers, including the executives of large corporations and banks, have gotten *more than \$1 trillion in tax breaks*. Rather than cutting taxes on upper-income taxpayers, Congress should end tax cuts and invest additional revenue in rebuilding our crumbling infrastructure and in other ways that create jobs for our customers and demand for our businesses.

**We therefore call upon the Joint Select Committee to:**

- Oppose changes in the corporate tax code which reward companies that shift investments, jobs and profits offshore in order to reduce their U.S. tax obligations. Companies that want to fly the American flag outside their corporate headquarters should pay their fair share in taxes to support our nation and create jobs to support our economy.
- Endorse the Stop Tax Haven Abuse Act as a \$1 trillion revenue raiser that would also level the playing field between the taxes paid by large and small businesses. This Act would not raise tax rates on anyone, but would ensure that all businesses are complying with the intent of the tax code to raise revenue in an equitable manner for the support of the nation's government.
- Support efforts to make personal income tax rates more progressive, not less. We support eliminating the Bush tax cuts for those in the top tax brackets. And, like a sizable majority of Americans, we support the call for a surtax on millionaires. We recommend using these additional funds for direct job creation, infrastructure and research investments that will support our communities, our customers and our competitiveness in a global economy in which no country can expect to succeed with failing infrastructure and lagging innovation.

When powerful large U.S. corporations avoid their fair share of taxes, they undermine U.S. competitiveness, contribute to the national debt and shift more of the tax burden to domestic businesses, especially small businesses that create most of the new jobs. A transparent corporate tax system, one that assures all companies – large and small – pay for the infrastructure and services upon which our businesses, our customers, our workforce and our communities depend, would help restore the economic vitality and American job creation we all seek.

Sincerely,

American Sustainable Business Council

Business for Shared Prosperity

Main Street Alliance