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Financial Executives International's Committee on Private Company Policy
Statement for the Record
House Ways & Means Committee
Hearing on International Tax Reform
February 24, 2016

Financial Executives International (FEI) appreciates the opportunity to submit a statement for the official hearing record on international tax reform. FEI represents more than 10,000 Chief Financial Officers, Vice Presidents of Finance, Corporate Treasurers, Controllers and other senior financial executives from 74 chapters across the United States. Nearly 60% of our members work for private companies, and FEI's Committee on Private Company Policy (CPC-P) focuses on these members' policy concerns.

Pass-Through Entities

In 2011, pass-through entities, including sole proprietorships, partnerships, LLCs, and S-corporations, accounted for 94% of all businesses, 64% of total net business income, 55% of all private sector employment, and paid more than $1.6 trillion in wages and salaries[i]. In 2010, private companies generated 53% of fixed non-residential investment, and are, on average, 4 times more responsive to investment opportunities than public companies [ii]. In 2012, pass-through entities contributed nearly $840 billion in business AGI to individual returns [iii].

Territorial Tax System Access

Increasingly, large and medium-sized pass-throughs are net exporters, i.e. they have real business activity offshore. International tax reform legislation should create a territorial system that puts U.S. companies on an even footing with their foreign competition, removes disincentives for capital mobility and earnings repatriation, and brings U.S. rates in line with other developed countries.

Territorial tax proposals should not be limited to C-Corporations. Congress should grant pass-throughs access to any new territorial tax regime if they are willing to pay tolling charges on retained foreign earnings.

Pass-throughs have very complex international structures because they do not get 902 indirect credits even though they have exposure to Subpart F income. Some have CFCs for offshore deferral, but most use a combination of check the box and hybrid entities to manage tax exposure. A territorial system could reduce the need for this complexity.

Under a territorial system, pass-throughs could establish specified accumulated adjustment accounts (AAA) for offshore earnings and the entity could make distributions comprised of proportionate shares of foreign and domestic earnings as disclosed in the K-1.

Private Companies Need Comprehensive Tax Reform

While FEI supports efforts to address international tax issues for U.S. companies, we urge Congress to enact comprehensive tax reform that provides fair treatment of pass-through entities so that they may compete on a level playing field. If tax reform is to have a meaningful impact on business investment, productivity growth and job creation, privately-held businesses cannot be left out of the equation. FEI recommends that any efforts to reform the U.S. Tax Code should include the following:

Tax rate equivalency: Because corporate-only tax reform would put privately-held and family-owned businesses which operate as pass-throughs at a competitive disadvantage, any reform legislation should include provisions that permit the bifurcation of business and other income on an individual's tax return, and the application of a business rate equivalent to the highest corporate rate.

S-Corp gains recognition period: Make permanent the reduced recognition period for built-in gains for S corporations.

Estate Tax: Repeal is the best solution to protect all family-owned businesses from the serious transition challenges posed by estate taxes

For Additional Information please contact:

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[i] Kyle Pomerleau, "An Overview of Pass-through Businesses in the United States", Tax Foundation, January 2015.
[ii] John Asker et al., "Corporate Investment and Stock Market Listing: A Puzzle?", NBER, October 4, 2014.
[iii] Joseph Rosenberg, "Flow-Through Business Income as a share of AGI", *Tax Facts*, Urban Institute, Sept. 29, 2014.