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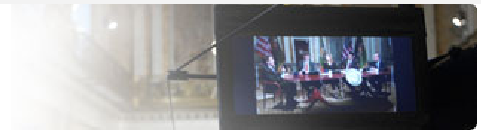

Lew Op-Ed: Europe’s Bite Out of Apple Shows the Need for U.S. Tax Reform

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WASHINGTON – In an op-ed to be published in the Tuesday print edition of the Wall Street Journal, Treasury Secretary Jacob J. Lew writes about how the European Commission’s State aid investigations may present a new opportunity for Congress to act on business tax reform and infrastructure investment. In the piece, published online today, Secretary Lew writes about the widespread agreement that our tax code needs to be fixed and the urgent need to invest in our infrastructure to foster America’s future economic growth. He notes that the President's framework for business tax reform, first released in 2012, would create an environment in which business conditions drive decision-making. He expresses his hope that the high level of attention following the Commission’s actions will help to lay the foundation for the new Congress to take action in the early days of a new Administration.

Read the article online here.

The full text of the piece follows:

Europe’s Bite Out of Apple Shows the Need for U.S. Tax Reform
By: Jacob J. Lew

In February I wrote to European Commission President Jean-Claude Juncker and raised concerns about the commission’s state-aid investigations involving the tax practices of U.S. multinational companies. As I described in the letter, the commission’s novel approach to its investigations seeks to impose unfair retroactive penalties, is contrary to well established legal principles, calls into question the tax rules of individual countries, and threatens to undermine the overall business climate in Europe.

Most important for U.S. taxpayers, the European Commission’s actions also threaten to erode America’s corporate tax base. U.S. companies could claim foreign tax credits against their U.S. tax bill for any tax-related payments to European Union member states.

The commission’s latest action in this area—a $14.5 billion retroactive tax bill to Apple—has been broadly condemned by members of Congress, business leaders and tax professionals. It also has highlighted the urgent need for comprehensive business tax reform. To be clear, the U.S. Treasury agrees with the commission that there is a serious problem with tax avoidance around the world. American corporations alone are avoiding paying U.S. taxes by holding more than $2 trillion in deferred overseas income.

In recent years we have made considerable progress toward combating corporate tax avoidance by working with our international partners through what is known as the Base Erosion and Profit Shifting (BEPS) project, agreed to by the Group of 20 and the 35 member Organization for Economic Cooperation and Development. But the fundamental problem remains: America’s broken business tax system. The Apple decision, and the bipartisan reaction to it, may present a new opportunity to make reform a reality. That opportunity should not be lost.

There is widespread agreement that our business tax system needs to be fixed. To that end, I have repeatedly urged Congress to act on President Obama’s proposed plan for business tax reform and infrastructure investment. Our current tax code is riddled with loopholes that allow corporations to artificially lower their tax bills by shifting income from higher-tax countries to low- or no-tax jurisdictions. The combination of the relatively high U.S. corporate rate, our complicated system for taxing multinational businesses, and our aging infrastructure has encouraged and facilitated the erosion of our tax base and made America a less attractive place to do business.

The president’s framework for business tax reform, first released in 2012 and updated this year, would create an environment in which business considerations drive decision-making. It would modernize our business tax system and enhance our economic competitiveness by lowering the maximum corporate income-tax rate. It would eliminate dozens of outdated tax preferences and take steps to prevent corporate inversions. It would also limit the ability of companies to use excessive interest deductions to lower their tax bills artificially.

Moreover, the president’s plan directly addresses the problem of U.S. multinational corporations parking income overseas to avoid U.S. taxes. The plan would make this practice impossible by imposing a minimum tax on foreign income. After paying such a tax, companies could repatriate all of their overseas income without additional costs.

Although revenue-neutral in the long run, the president’s plan would generate substantial one-time revenues largely by taxing the over $2 trillion that U.S. corporations are currently holding overseas. The administration has proposed using part of this revenue to fund an urgent and long-neglected national need—the transportation and infrastructure investments required to foster and protect America’s future economic growth. Without substantial investments in our roads, highways, bridges, and transit systems, Americans will continue to waste millions of hours in traffic each year, our productivity will suffer, and our competitiveness will decline.

Additional revenue would allow the U.S. to go beyond funding the basic maintenance of existing infrastructure. Instead, we would fuel economic growth and keep the U.S. economy competitive through bolstering infrastructure in a long-term, sustainable and responsible way. This approach would support the creation of new jobs, help small businesses, and make transportation faster, safer and less expensive.

The administration has made substantial progress over the past several years in making our tax code fairer and growing the economy, and there is a growing bipartisan consensus about the need to reform our business tax system. The European Commission’s state-aid investigations have further highlighted the issue and created additional urgency.

For the remaining months of this administration, we will continue to make the case for business tax reform and infrastructure investment. I hope that the high level of attention following the European Commission’s actions will help to lay the foundation for the new Congress to take action in the early days of a new administration. By coupling a new framework for business tax reform with continuing collaborative efforts to strengthen international standards, we can effectively address the problem of corporate tax avoidance. A more efficient business tax system would reap significant economic benefits at home and abroad.

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