National Association of Manufacturers
National Foreign Trade Council
Organization for International Investment
U.S. Chamber of Commerce

October 22, 2014

The Honorable Ron Wyden	The Honorable Orrin Hatch
Chairman	Ranking Member
Committee on Finance	Committee on Finance
United States Senate	United States Senate
219 Dirksen Senate Office Building	219 Dirksen Senate Office Building
Washington, D.C. 20510	Washington, D.C. 20510

RE: Opposition to C*orporate Inverters Earnings Stripping Reform Act of 2014 (S. 2786)*

Dear Chairman Wyden and Ranking Member Hatch:

The undersigned organizations—representing thousands of employers in the United States— are concerned by the economic consequences of enacting punitive anti-inversion policies, including the *Corporate Inverters Earnings Stripping Reform Act of 2014 (S. 2786),* which fail to address the underlying problems with the U.S. tax code and make the United States a less competitive location for global companies to invest and grow.

The *Corporate Inverters Earnings Stripping Reform Act of 2014*, introduced by Senators Chuck Schumer (D-NY) and Dick Durbin (D-IL), would further limit interest deductions for companies that fall into an overly broad definition of an inverted company, specifically, when a cross-border merger transaction results in the historical owners of a domestic corporation retaining more than 50 percent (down from 80 percent in current law) of the stock of the foreign parent. The legislation applies an effective date for transactions completed "before, on, or after" March 4, 2003, which creates a broad and retroactive definition of an inverted company. Lastly, S. 2786 requires impacted companies to obtain IRS pre-approval of related-party transactions for ten years.

We believe S. 2786 will have a chilling effect on global investment in the United States and strongly oppose the legislation. First, the ill-defined retroactive nature of the proposal requires historic foreign-based companies to examine past transactions and wade through a decade of Treasury guidance to determine if they would be inadvertently categorized as an inverted company and impacted by the new restrictions. It is common for companies to restructure and purchase other companies to remain competitive in the global marketplace. Companies that consequently fall below the required ownership levels, even temporarily, could be unfairly and permanently penalized.

Next, severe restrictions on companies' ability to deduct interest expense - an ordinary and necessary cost of doing business – make it harder for companies to finance new facilities and expand existing operations in the United States. Lastly, the IRS pre-approval mandate for future related-party transactions would strain an already overburdened agency and likely would operate as a de-facto ban on related-party transactions. All of these provisions create a clear disincentive for global investment and encourages the flow of investment capital to other countries, diminishing job creation and economic growth in the United States.

Ultimately, cross-border mergers in which a U.S.-based company restructures its legal headquarters abroad are a symptom of an arcane U.S. tax system that has not kept up with the demands of today's global economy where 95 percent of the world's consumers live outside the United States and other governments are competing for global investment. Piecemeal legislative reactions to "inversions' that are loaded with unintended consequences and fail to address the noncompetitive nature of the U.S. tax system are not the answer. In contrast, the best way to ensure U.S. competitiveness and encourage job-creating investment from all sources is through a comprehensive overhaul of our tax system.

Our organizations look forward working with you to advance pro-growth, pro-investment, pro-competitiveness tax reform. Thank you for your consideration.

Respectfully,

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