



March 1, 2004

Dear Congressman:

On behalf of the 2,300 corporate members of the Electronic Industries Alliance (EIA), we would like to thank you for your continuing focus on improving the U.S. economy and creating new jobs and for your efforts to address the FSC/ETI issue, develop an appropriate transition strategy and include necessary domestic and international tax reform provisions. This is clearly a pressing issue for many of our member companies and, as you know, the European Union will begin imposing tariffs on many U.S. exports today.

We appreciate your leadership in working to craft an equitable agreement for all U.S. manufacturers. EIA supports a **domestic manufacturing credit** and a **fair transition period** that allows ETI beneficiaries the maximum length of time to adapt to this significant change. We welcome the fact that the proposed legislation recognizes the importance of all U.S. jobs and does not penalize multinational corporations for doing business around the globe. We are also pleased by the work the Ways & Means Committee is undertaking on legislation aimed at much-needed **international tax reform**.

There are several specific measures that we believe could have the greatest impact on confidence and recovery in the technology sector and within the broader business community. These proposals include: 1) an enhanced and permanent research and development (R&D) tax credit, 2) temporary tax relief for overseas cash repatriation, 3) broadband tax incentives and 4) a 20-year carryforward period for foreign tax credits in effect Jan. 1, 2003.

Since its enactment in 1981, the **R&D tax credit** has proved to be a powerful and effective incentive to increase research and development spending. Congress has endorsed the credit by extending it 10 times since its enactment, but the lack of a permanent credit causes uncertainty and could result in decisions by some to locate future projects offshore, where R&D policies are more generous and stable. The resulting loss of U.S. technology advancements, jobs and innovation would be a blow to our economy. EIA supports legislation introduced this session by Senators Orrin Hatch and Max Baucus (S. 664) and Representatives Nancy Johnson, Robert Matsui, Dave Camp and Benjamin Cardin (H.R. 463) that calls for a permanent credit, increased AIRC rates and an alternative simplified credit. The impending expiration of the R&D tax credit this June is of increasing concern to our members, and we urge you include a permanent credit in your legislation.

Another item that we believe would trigger increased and diverse business investment in the U.S. is **tax relief on the repatriation of cash held overseas**. It is estimated that a one-year, 85% reduction in corporate tax on foreign earnings could lead to a \$300 billion inflow into the U.S. Current law provides strong incentives for multinationals to keep earnings from foreign operations offshore, but this immediate and significant infusion of cash would be used by many companies to invest in the U.S. economy through debt reduction, increased capital spending and research and development. We support the repatriation language included in the Homeland Investment Act, introduced by Senator John Ensign (S. 596) and Representative Phil English (H.R. 767).

A third priority for our member companies is a **tax incentive to support the expanded deployment of broadband** technologies and networks, an area in which the U.S. does not currently hold a position of leadership. Legislation by Senators Conrad Burns and Max Baucus (S. 160) and Senator John Rockefeller (S. 905) and Representatives Phil English and Robert Matsui (H.R. 768 and 769), would encourage broadband providers to extend and upgrade their networks and allow all Americans to participate in the economic opportunities made available through high-speed Internet access. According to the International Telecommunications Union, the U.S. is now ranks 11th worldwide in broadband penetration, giving other nations an increasing competitive advantage. The U.S. developed the Internet and virtually every high-tech and telecom innovation of the past several decades, and we cannot afford to lose our leadership position by allowing other countries to move ahead of us with next-generation broadband deployment.

Finally, we urge you to include an increase in the carryforward period from the current five years to 20 years for foreign tax credits on record as of Jan.1, 2003. As you know, the intent of the foreign tax credit provision is to prevent double taxation on income taxed in a foreign jurisdiction. For many companies, the current economic situation has resulted in unused foreign tax credits that will expire, resulting in unfair double taxation. To encourage foreign trade and financing, the **foreign tax credit carryforward** period should be 20 years, the same as the net operating loss carryforward period.

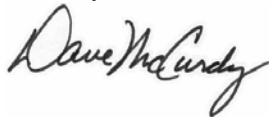
In addition to these stimulative recommendations, we would also bring to your attention three proposals that raise serious concerns. The first is a requirement that CEOs sign corporate income tax returns, which sounds harmless but would involve an unnecessary drain of resources. Most corporations employ high-level executive tax experts who are responsible for their tax returns. In addition, the changes made under last year's Sarbanes-Oxley Act require CEOs to sign financial disclosure statements that already contain aggregate tax information. Mandating CEO signatures on income tax returns as well would unnecessarily require CEOs to spend vast amounts of time poring over thousands of pages of tax documents and briefings by the senior executive-level tax experts who currently sign the returns, rather than focusing on running the company.

Our second concern is a push to repeal IRC Section 911, which allows U.S. citizens living and working abroad to exclude up to \$80,000 in foreign earnings from gross income. The repeal of this provision would be contrary to the intent of economic growth efforts and could result in the shift of countless high-level jobs held by U.S. citizens working abroad to foreign in-country workers.

Finally, we are concerned about the potential tightening of IRC Section 163(j) – also known as earnings stripping rules – which would limit tax deductions that U.S. subsidiaries of foreign corporations could take on loans from related and unrelated parties. Legislation that seeks to eliminate the debt-to-equity “safe harbor” threshold or to lower the expensing limit of interest paid on debt would impose a significant tax on these U.S. subsidiaries and would severely hinder their domestic investment.

EIA is a partnership of high-tech and electronics associations that represent about 80% of the \$430 billion U.S. electronics industry. As you continue to work towards compromise legislation, we respectfully request that you consider our proposals to provide strong, near-term incentives for the technology industry to invest in employees, capital equipment and research. We believe U.S. tax policy should recognize the critical contribution of innovation and investment. We look forward to working with you on this important issue.

Sincerely,



Dave McCurdy
President

cc: Speaker of the House Dennis Hastert
House Majority Leader Tom DeLay
House Minority Leader Nancy Pelosi
House Majority Whip Roy Blunt
House Minority Whip Steny Hoyer
Members of the House Committee on Ways & Means