I. BIPARTISAN FRAMEWORK FOR INTERNATIONAL TAX REFORM

A. Ending the lock-out effect

In order to move the U.S. international tax system in a direction that keeps the United States economy globally competitive with their foreign rivals, the co-chairs believe that it is imperative to adopt a dividend exemption regime in conjunction with appropriate base erosion rules.

B. Patent Box Regime

The co-chairs agree that we must take legislative action soon to combat the efforts of other countries to attract highly mobile U.S. corporate income through the implementation of our own innovation box regime that encourages the development and ownership of IP in the United States, along with associated domestic manufacturing. They continue to work to determine appropriate eligibility criteria for covered IP, a nexus standard that incentivizes U.S. research, manufacturing, and production, as well as a mechanism for the domestication of currently offshore IP.

C. Base Erosion

The co-chairs are committed to designing base-erosion proposals that protect the US tax base and address the proliferation of tax havens, while not undermining the ability of American companies to compete abroad. This means creating clear, manageable standards that take into account the fact that losses can cause low effective tax rates in particular years and designing rules that dissuade companies from shifting money to tax haven jurisdictions.

D. Interest Expense Limitations

The co-chairs agree that it is important to design measures that discourage excessive leverage for both domestic companies operating globally and foreign companies operating in the United States to simply reduce their tax bills. They acknowledge concerns raised through the working group process and by experts in the field regarding the administrability of the President's proposed proportionality test and regarding Chairman Camp's proposal, which, similar to current law, arguably doesn't provide sufficient limits in light of international norms and unilateral actions of other countries. As a result, the co-chairs will continue working to determine the appropriate net limitation necessary to allow for legitimate intra-group lending while at the same time stopping disproportionate leveraging to avoid U.S. taxation and gaming of interest expense limits in place.

E. Deemed Repatriation

To account for this untaxed, deferred income in the transition to a new international tax system, both the President's budget proposal as well as Chairman Camp's tax reform proposal would impose a one-time transition toll charge at a rate significantly lower than the statutory corporate rate. Chairman Camp’s draft provides a bifurcated rate structure with a lower tax rate on “non-cash” holdings to account for the fact that many companies have reinvested a significant part of their foreign earnings in hard, brick-and-mortar assets. In addition, both proposals allow the toll charge to be paid ratably over a number of years, provide a tax credit for foreign taxes paid and specify that certain associated one-time revenues will be used for investment in transportation infrastructure.

The co-chairs have agreed to the framework contemplated by Chairman Camp and President Obama. They continue work to design a toll charge with the appropriate discounted rate, foreign tax credit treatment and ratable transition. Additionally, they continue to examine whether a multi-tiered rate structure is appropriate to account for income already permanently reinvested overseas.