December 10, 2012

The Honorable Fname Lname
--- Office Building
Washington, DC -----

Dear Member of Congress:

As discussions related to the so-called fiscal cliff continue, The New England Council is confident that the region's delegation will work very hard to achieve the right balance in restoring the nation's fiscal health. One of the greatest challenges to full economic recovery is the current uncertainty regarding tax and spending decisions – the work by Congress over the next month can go a long way toward assuaging business concerns and encouraging job creation. As Congress considers various options for dealing with the nation's fiscal condition, The New England Council would like to highlight those tax provisions that offer the greatest benefit for the region's economic recovery and expansion.

One important tax provision would renew the research and experimentation tax credit, or as it is more widely known, the "R&D tax credit." Over the last three decades, this credit has provided a range of businesses the ability to recover a portion of the financial investments they have made to create new or better products. It is this type of investment benefit that fosters high-salaried and high-skilled employment both in New England and across the nation. When the R&D credit was first enacted in 1981, the United States was the world's leader in R&D investment. However, in a report released earlier this year, the Information Technology and Innovation Foundation (ITIF) estimated that the rank of the U.S. in terms of tax credit generosity was 27th out of 42 nations – right between Singapore and Slovenia. It is our hope that Congress develops a permanent resolution to this issue, one that will allow our nation to increase its standing as a leader for R&D investment. Doing so will reap vast rewards, creating thousands of new jobs and billions of dollars in economic activity.

Another vital tax provision is the active financing exception. For companies that are headquartered in the United States but earning certain types of banking or finance income in other countries, the active financing exception helps equalize tax treatment cross-nationally. The active financing exception is limited, and is generally meant to prevent situations where investment income that is earned by a U.S. company in another nation, and in connection with an active banking or insurance business, falls subject to immediate double taxation: taxed at one rate in the foreign country and another rate in the U.S. Indeed, this approach helps ensure that qualified income from active banking and insurance businesses earned overseas is not subject to U.S. tax until the funds are repatriated to the United States. The active financing exception is consistent with the U.S. taxation of other active businesses such as manufacturing and other services industries. Over the past 50 years, Congress has recognized that certain types of active investment income earned in other countries should not be taxed in the United States until it is repatriated. In 1997, after an 11-year hiatus, Congress re-evaluated and restored the active financing exception, and has extended it six times since then, recognizing it as an important component in ensuring that banking and insurance companies headquartered in the U.S. – and particularly in New England – can compete globally and grow jobs domestically and internationally.

The New England Council also supports extending two bonus depreciation allowance provisions that encourage businesses to invest capital and expand operations. Under current law, Section 179 of the Internal Revenue Code enables business owners to deduct the full cost of fixed assets acquired and placed into service including business equipment, computers, vehicles, furniture, and fixtures. The deduction can be claimed for acquisitions of both new and used assets. Similarly, this year's 50% bonus depreciation provision enables business owners to deduct half the cost of a fixed asset acquired and placed into service. Extending these provisions could go a long way towards helping businesses invest in the tangible equipment they need in order to continue growing and creating jobs.

Finally, among the various tax provisions set to expire at the end of the year are the rates for capital gains and qualified dividends. The current capital gains and dividend tax rates are both set at 15 percent. However, should they expire the capital gains tax rate will increase to 20 percent, while the maximum qualified dividend tax rate will mirror ordinary tax rates and could reach 43.4 percent. Favorable tax rates for both capital gains and qualified dividends encourage investment in companies large and small. With that investment, overall confidence increases, jobs are created, and the economy will be poised for growth. Conversely, increasing those taxes could make investors skittish about putting more money into the marketplace, which in turn could see a reversal of economic gains that have been achieved over the last few years. Businesses, both in New England and across the nation, strive for the ability to have a reliable and consistent tax code that will help them chart a course for growth. This is particularly true as our business community continues to seek access to markets not just here in America, but the world over: oftentimes in areas that provide added incentives to domestic companies that compete with our own. Maintaining a low capital gains and dividend tax rate will provide U.S. businesses access to the resources they need to stay competitive and create job opportunities throughout our region.

The Council recognizes that difficult choices confront Congress at this juncture and truly appreciates the efforts of the New England delegation in working to find a productive way forward. Thank you for taking the time to consider those short and long-term economic benefits of these tax provisions which the Council believes will encourage job creation and economic growth across our region. Please don't hesitate to call if you have questions or we can provide further information.

Sincerely,

Michele M. Jalbert
Executive Director – Policy & Strategy