



Securities Industry Association

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June 8, 2004

The Honorable Bill Thomas
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Thomas:

The Securities Industry Association¹ (SIA) supports H.R. 4520, the American Jobs Creation Act scheduled for mark-up in the Committee on Ways and Means on Thursday, June 10, 2004. We are hopeful this measure will soon be approved by the U.S. House of Representatives, bringing us one step closer to ending the trade sanctions imposed by the European Union as a result of WTO decisions against the FSC and ETI regimes while enacting much needed modernizations of our international tax rules.

The growing interdependence of world financial markets has highlighted the need to rationalize U.S. tax rules that undermine the ability of American financial services industries to compete in the international arena. Creating a more competitive environment for firms is a critical element in helping to create jobs throughout our economy. SIA's member-firms provide access to global capital markets for U.S. businesses and help U.S. manufacturers obtain competitive financing to export their products to markets around the world. However, our ability to achieve these important objectives is undermined by a tax system that is in dire need of the types of reforms contained in H.R. 4520.

More specifically, the changes to the foreign tax credit regime included in your bill will help to ensure companies are not double-taxed (and sometimes triple-taxed) on the income earned from doing business in foreign countries. The credit has two general problems. First, companies have credits they simply cannot use because credits are isolated in separate "baskets" that prevent foreign taxes from active business income from being fully creditable in the United States. Second, U.S. expenses, mainly interest, are allocated to foreign source income for purposes of calculating the amount of foreign tax credits a U.S. company is allowed. This expense allocation rule artificially reduces net foreign source income and thereby foreign tax credits. Both problems lead to double taxation – taxation by the United States and the foreign

¹ The Securities Industry Association, established in 1972 through the merger of the Association of Stock Exchange Firms and the Investment Banker's Association, brings together the shared interests of nearly 600 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs 780,000 individuals. Industry personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2003, the industry generated an estimated \$209 billion in domestic revenue and \$278 billion in global revenues. (More information about SIA is available on its home page: www.sia.com.)

country in which the income was earned – that the foreign tax credit was intended to eliminate. The American Jobs Creation Act of 2004 contains important reforms that eliminate some of the barriers that prevent financial services firms from using these credits.

H.R. 4520 also contains important modifications to current law to ensure that the rules providing for taxation of the active business income of overseas subsidiaries only when those funds are returned to the U.S. parent company appropriately treat the active business operations of financial services companies.

Moreover, SIA is pleased that your bill does not contain several troubling revenue-raising provisions present in the Senate-passed version of this legislation. Among those of most concern are provisions changing the tax treatment of settlement costs, changes to the tax treatment of contingent payment convertible debt, a provision denying qualified covered call status to options sold over-the-counter, and modifications to the Section 911 provision affecting American citizens employed abroad. SIA remains concerned about the section in H.R. 4520 on deferred compensation with respect to the timing of deferral elections and looks forward to working with you and your staff to address this issue as the measure moves forward.

Thank you again for your leadership on this important international tax measure. SIA is pleased to support H.R. 4520 and will urge all Members of Congress to vote in favor of this legislation.

Sincerely,

Steve Judge
Senior Vice President
Government Affairs

Richard Hunt
Senior Vice President
Federal Policy

Jon Traub
Vice President
Federal Tax Legislation