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Introduction and Overview

Good morning, Chairman Ryan, Ranking Member Van Hollen, and distinguished Members of the Committee. My name is Michael Wall and I am Vice President of Corporate Tax for Case New Holland Inc. ("CNH"). I want to thank you for the opportunity to testify on behalf of CNH this morning. I applaud your leadership in holding this timely hearing on the necessity of fundamental U.S. corporate tax reform that will increase the competitiveness of the U.S. corporate tax system to attract investment in a competitive global market and be a driving force for job creation in America.

CNH manufactures the tools used to shape the world, from machinery for building roads, bridges, schools and hospitals, to equipment for growing and harvesting food. Formed in 1999 through the merger of New Holland and Case Corporation, CNH unites two renowned international companies with roots dating back to the 1800s. Today, CNH is one of the world's leading manufacturers of agricultural combines and tractors as well as a leader in the markets for hay and forage and specialty harvesting equipment. In the construction industry, CNH maintains a top position in backhoe loaders and a strong position in skid steer loaders in North America and crawler excavators in Western Europe. CNH comprises the heritage and expertise of three agricultural brands: Case IH; New Holland Ag; and Steyr and three construction equipment brands: Case Construction Equipment; New Holland Construction; and Kobelco.

CNH is perhaps the most geographically diversified manufacturer and distributor of agricultural and construction equipment in the world. CNH is present on six continents and in approximately

170 countries with a network of approximately 11,300 dealers, including more than 2,000 dealers in the United States, as well as 40 manufacturing facilities located throughout Europe, North America, Latin America, and Asia. CNH has manufacturing, distribution, and research facilities in 32 countries, including the United States with locations in Arizona, California, Georgia, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oregon, Pennsylvania, Texas, and Wisconsin. CNH had global revenues of over $15.6 billion in 2010. CNH employs over 10,800 people in the United States; however, this number does not include the significant number of employees of our 1,300 plus U.S. suppliers and dealer network. CNH is a majority-owned subsidiary of FIAT Industrial S.p.A., a public company whose capital stock is listed on the Italian Stock Exchange (FI.IM).

As an American subsidiary of a foreign domiciled company, CNH is representative of a large group of inbound corporations making substantial direct investments in the United States. However, because of our historic tax structure in the United States, we share many of the same policy goals and concerns as U.S. based multinational corporations. This hearing comes at a critical time when the United States is at an economic crossroads, facing serious fiscal challenges at home, historically-high levels of annual federal deficits, excessive federal debt, and an increasingly competitive global landscape for attracting and retaining investment. As CNH and other American businesses make plans to invest and hire, we look to the United States to adopt sound economic and tax policies that will drive economic growth. To grow the United States economy, there must be comprehensive reform of the U.S. corporate tax system to make it more competitive with our international trading partners.

This Congress's work on fundamental tax reform is vital to ensure that the United States adopts a competitive corporate tax system to attract and retain capital in a global marketplace. While many of the United States international trading partners have substantially lowered their corporate tax rates to encourage business investment and job growth, the United States has the second highest corporate tax rate among the Organization for Economic Cooperation and Development ("OECD") countries.

CNH's Unique Global Perspective

Given CNH's unique perspective of having manufacturing, distribution, and research facilities in 32 different countries, we believe that substantially lowering the U.S. corporate tax rate, while preserving essential business growth incentives, will significantly improve American business competitiveness and incentivize foreign investment in the United States. In 2010, CNH's operations in the United States accounted for over $7 billion in annual revenues and CNH exported 34% of our U.S. production to global markets. CNH's U.S. operations are helping the United States reach the National Export Initiative goal of doubling exports by the year 2015. For example, our tractor plant in Racine, Wisconsin, exported 40% of its production so far this year.

As CNH seeks to expand its global operations, the relative competitiveness of a country's corporate tax system is a key financial consideration. Unfortunately, there is effectively a 14% *incremental* tax burden between the 39.2% combined U.S. federal tax rate of 35% and the additional 4.2% average state applicable tax rate, and the 25% average corporate tax rate for the OECD countries, which negatively impacts America's ability to attract and retain capital in a competitive global marketplace.

Unlike the 1960s and 1970s, the United States is no longer the sole dominant global player and American businesses operate in a fiercely competitive global marketplace. While many of the U.S. international trading partners have substantially lowered their statutory corporate tax rates as an incentive to encourage business investment and job growth, the United States is burdened with an uncompetitive corporate tax system in this increasingly competitive global landscape. In fact, virtually every industrialized country except the United States has lowered its corporate tax rate over the past 20 years, but the United States has resisted this trend and actually increased its corporate tax rate, creating a less-hospitable environment for business and job creation.

Although the United States has a vibrant commercial market and an exceptional labor force, an uncompetitive corporate tax system and the increasingly unpredictable regulatory environment are strong negatives that companies take into account when looking to expand their global operations. An indisputable fact is that the U.S. manufacturing base and jobs have been steadily decreasing over the last three decades due to a variety of reasons, which include extraordinarily high corporate income taxes. International trading partners have dramatically lowered their corporate tax rates in recent years, and these countries are winning the global competition to attract business investment and jobs. For example, the United Kingdom lowered its corporate tax rate from 28% to 26% in 2011, and over the next three years, the United Kingdom will further reduce its corporate tax rate by 1% each year until it reaches 23% in 2014. The United Kingdom explicitly chose to lower its corporate tax rate to improve the competiveness of its economy and provide jobs for its workers.

While there is a general consensus in Congress to level the playing field and use the savings to lower the corporate tax rate, as expressed by President Obama in his 2011 State of the Union address, there is a divergence of views as to the specific details to achieve this objective. CNH's summary view is that U.S. corporate tax reform should include the following key aspects to stimulate Gross Domestic Product ("GDP") growth and create jobs in the United States:

- Lower the U.S. corporate tax rate;
- Consider appropriate modifications of certain corporate tax expenditures to broaden the base; and,
- Adopt a U.S. territorial tax system.

Recognizing that foreign investment is an important engine for U.S. job growth and economic recovery, President Obama recently issued a statement highlighting the importance of foreign investment in the U.S. economy and reaffirmed the United States' longstanding commitment to open investment policies. This statement and the subsequent Executive Order to establish the

SelectUSA initiative to attract greater business investment is a good first step in making the United States a better place for global companies to do business, but much more is left to be done, including fundamental reform of the U.S. corporate tax system. In pursuing reform of the U.S. corporate tax system, CNH believes it is imperative that the reformed corporate tax system not discriminate against U.S. subsidiaries of foreign domiciled companies, which would further reduce the levels of investment in the United States that might otherwise be available to enhance job creation.

Need to Lower the U.S. Corporate Tax Rate

The United States has an extremely uncompetitive combined federal and state applicable tax rate of 39.2%, which is the second highest among the OECD countries. Japan is the only OECD country with a slightly higher corporate tax rate (39.5%) than the United States, although Japanese officials had announced Japan's intention to drop its statutory corporate tax rate by 4.5% before the March 2011 earthquake caused the reduction to be deferred. Please see Exhibit A titled "OECD Corporate Tax Rates" for the combined corporate tax rates for OECD countries for the 2010 tax year.

The National Commission on Fiscal Responsibility and Reform narrative recommended lowering the U.S. corporate tax rate to a range of 23% to 29%. CNH believes that the U.S. corporate tax rate should be reduced to 25% or lower to achieve a competitive U.S. corporate tax system consistent with the 25% OECD average tax rate. In our view, the 25% U.S. corporate tax rate included in the House Budget Committee Fiscal Year 2012 Budget is necessary to achieve a competitive U.S. corporate tax system that will stimulate the U.S. economy and create jobs. An analysis by the Milken Institute in 2010, *Jobs for America*, concluded that reducing the U.S. combined federal and state corporate income tax rates to the average of OECD countries would increase real GDP by 2.2% (or $376 billion) and create 2.1 million private sector jobs by 2019.

CNH has substantial business operations in the United States, Australia, Brazil, Canada, India, and many countries in the European Union, including Austria, Belgium, France, Germany, Italy, Poland, and the United Kingdom. As CNH looks to expand its capacity to meet growing demand and create jobs, the after-tax earnings and cash flow from operations is a major factor in considering locations to expand operations. A comparative view of the combined national and sub-national corporate tax rates for 2010 for the major countries that CNH operates illuminates the significant lack of competitiveness of the U.S. corporate tax rate and highlights the inability of the United States to keep pace with its international trading partners to lower its corporate tax rate over the last twenty years.

Comparative Analysis of OECD Combined National and Sub-National Corporate Tax Rates for 2010 in Major Countries where CNH Operates

Country	1990	2010	Change in Rate	
United States	38.7%	39.2%	0.5%	
Australia	39%	30%	(9%)	
Austria	30%	25%	(5%)	
Belgium	41%	34%	(7%)	
Brazil	42%	34%	(8%)	(Non-OECD Country)
Canada	41.5%	29.5%	(12%)	
France	42%	34.4%	(7.6%)	
Germany	54.5%	30.2%	(24.3%)	
India	63%	34%	(29%)	(Non-OECD Country)
Italy	46.4%	27.5%	(18.9%)	
Poland	n/a	19%	-----	
United Kingdom	34%	28%	(6%)	

The OECD average corporate tax rate has dropped by nearly 16 percentage points from 41% in 1990 to 25% in 2010. Whereas, the United States has actually increased its tax rate by 0.5% during this timeframe, principally from a one percentage point increase in the federal corporate tax rate in 1993 offset by a change to the average state applicable tax rate. It is important to note that even by lowering the U.S. corporate federal tax rate to 25%, the combined federal and state applicable tax rate would still be higher than the 25% OECD average tax rate, but within the range of a competitive corporate tax rate.

As the Joint Committee on Taxation ("JCT") staff has recently stated, "the best way to encourage increased investment in the United States (by foreign or domestic investors) is to increase the after-tax return to investment, and that outcome is more efficiently achieved by, for example, lowering the U.S. corporate income tax rate than by narrower policies such as the facilitation of earnings stripping." Source: JCT, *Present Law and Issues in U.S. Taxation of Cross-Border*

Income, September 6, 2011, JCX-42-11, page 59. In a 2005 study, the JCT compared individual income tax reductions and corporate income tax reductions and concluded that a reduction in the corporate income tax had the greatest impact on increasing long-term economic growth, due to increased capital investment, and increased labor productivity. Further, recent research by the OECD concludes that the corporate income tax has the most adverse impact on economic growth than any other tax.

CNH is equally concerned about the tax rates imposed on our suppliers, dealers, and customers. Although CNH is a Subchapter C corporation, many of our suppliers, dealers, and customers operate as Subchapter S corporations, partnerships, and limited liability companies, so that these pass-through entities pay U.S. taxes on their owners' individual income tax returns. While some commentators advocate taxing large pass-through entities as Subchapter C corporations, CNH opposes subjecting pass-through entities to the "double-taxation" regime of Subchapter C corporations because this would be tantamount to a large business tax increase on an important segment of entrepreneurs that fuel U.S. economic growth. CNH's view is that Congress should also lower U.S. individual tax rates and broaden the tax base as part of fundamental U.S. tax reform consistent with the general principles of the National Commission on Fiscal Responsibility and Reform report.

Elimination or Modification of U.S. Corporate Tax Expenditures

CNH recognizes that fundamental corporate tax reform providing for a reduced corporate tax rate may be coupled in the legislative process with the elimination or modification of certain corporate tax expenditures in a fiscally responsible manner. CNH, like many corporations, can accept the elimination or modification of certain corporate tax expenditures if necessary to effectuate a fundamental and fair corporate tax reform, but only to facilitate a 10 percentage point or more reduction of the U.S. corporate rate. Naturally, there is a divergence of views within the business community over which corporate tax expenditures should be modified. While Congress may be forced to make difficult choices in this process, it is of vital importance that the corporate federal tax rate be reduced to 25% or less. CNH strongly believes that the stimulus provided by a significant reduction of the U.S. corporate tax rate would spur U.S. business activity across all sectors of the economy, increase GDP growth, and have a significant beneficial impact on all aspects of the Nation's economy.

As Congress deliberates on fundamental corporate tax reform, CNH believes that retention of accelerated tax depreciation of property and the tax credit for increasing research activities are vital corporate tax expenditures that promote sustainable U.S. economic growth. It is important to note that many of our international trading partners' tax systems also employ the accelerated depreciation and research tax credit incentives. CNH's view is that maintaining accelerated tax depreciation encourages capital expenditures and demand for durable goods, which has been embraced by Congressional policymakers as sound pro-growth business tax provisions. Once a leader in promoting innovation, the United States now ranks 24th out of 38 OECD countries in

terms of the competitiveness of its research and development tax incentives. CNH's view is that the permanent extension of the research and development tax credit is essential to encouraging domestic investment in cutting edge technology to keep the United States competitive in a global economy. According to the Milken Institute report, *Jobs for America*, if the research and development credit were strengthened and made permanent, total manufacturing employment would increase by 270,000 by 2019.

Adoption of a U.S. Territorial Tax System

The United States is one of the eight remaining countries in the OECD that maintains a worldwide system of taxation that taxes U.S. companies on the income they earn in foreign countries upon repatriation of the earnings to the United States. Under current tax law, U.S. companies must factor in the higher rate of U.S. tax it will pay on its foreign earnings when these earnings are repatriated to the United States, which makes U.S. companies less competitive relative to the global competition. This can be exacerbated because although the United States allows a foreign tax credit, such that these repatriated earnings are not subject to "double taxation," often times U.S. companies are unable to fully credit the foreign taxes due to the intricacies of the foreign tax credit calculation. A territorial system would tax U.S. companies only on the income they earn in the United States with an exemption for dividends received from foreign subsidiaries.

CNH's view is that the United States should adopt a territorial tax system with an exemption for dividends paid from active foreign-source income to achieve a competitive U.S. corporate tax system that is in line with our international trading partners and consistent with the recommendations of the National Commission on Fiscal Responsibility and Reform report. All other G-7 countries and 26 of the 34 OECD countries have adopted a territorial tax system that largely exempts active earnings from home country taxation. The eight OECD countries that do not have a territorial tax system are Chile, Greece, Ireland, Israel, Korea, Mexico, Poland, and the United States. Excluding the United States, the other OECD countries that have a worldwide tax system with a foreign tax credit regime have an average corporate tax rate of 21%. In just the past two years, both the United Kingdom and Japan have switched to territorial tax systems to improve the competitiveness of their tax systems and provide more jobs for their economies. Please see Exhibit B titled "OECD Countries with Territorial Tax Systems" for the home country tax treatment of foreign-source dividend income received by resident corporations.

Some commentators have expressed concerns that the implementation of a territorial system may create new incentives to move certain U.S. operations offshore. Based upon our considerable experience as an internationally based company with very extensive U.S. operations, CNH disagrees. We strongly believe that a territorial system coupled with a substantially lower U.S. corporate tax rate would provide tremendous incentives for increasing operations in the United States for both U.S. based and foreign based companies.

Concluding Remarks

Many countries have aggressively reduced their corporate income tax rates in an effort to attract and retain high-quality job-creating investment, which U.S. policymakers should keep in mind as they consider fundamental corporate tax reform to enhance American competitiveness and attract investment in the United States. CNH believes that reducing the U.S. statutory corporate tax rate to 25% or lower, in conjunction with the adoption of a territorial tax system, would make the United States more competitive with other countries, which would significantly increase investment in the United States and lead to much needed job growth.

The broad uncertainty faced by American businesses today includes tax policy in need of reform and an increasingly unpredictable regulatory environment, which has led to a general lack of corporate confidence. Reforming corporate tax policy and removing regulatory uncertainty is necessary for long-term financial planning and capital investments, which are critical for job creation in the United States.

I am pleased to answer any questions you may have, and thank you for this opportunity to share CNH's views on fundamental corporate tax reform. CNH looks forward to working with this Committee and the Congress in considering fundamental corporate tax reform proposals that will increase America's competitiveness, attract and retain capital in a competitive global market, and be a driving force for job creation in the United States.

Attachments: Exhibit A - OECD Corporate Tax Rates

Exhibit B - OECD Countries with Territorial Tax Systems

OECD Corporate Tax Rates

Combined Corporate Tax Rates for OECD Countries, Tax Year 2010

(Federal and local rates)

Ireland
Chile
Iceland
Slovak Republic
Poland
Hungary
Czech Republic
Turkey
Slovenia
Estonia
Switzerland
Greece
Korea
Israel
Denmark
Austria
Netherlands
Finland
Sweden
Portugal
Italy
United Kingdom
Norway
Luxembourg
Canada
Spain
New Zealand
Mexico
Australia
Germany
Belgium
France
United States
Japan

0.00 5.00 10.00 15.00 20.00 25.00 30.00 35.00 40.00

2010 OECD avg. rate excl. U.S., 25.2%

OECD Countries with Territorial Tax Systems

Home Country Tax Treatment of Foreign-Source Dividend Income Received by Resident Corporations			
Exemption (26 of 34 OECD Countries)			Foreign Tax Credit
Australia	Germany	Portugal	Chile
Austria	Hungary	Slovak Republic	Greece
Belgium	Iceland	Slovenia	Ireland
Canada	Italy	Spain	Israel
Czech Republic	Japan	Sweden	Korea
Denmark	Luxembourg	Switzerland	Mexico
Estonia	Netherlands	Turkey	Poland
Finland	New Zealand	United Kingdom	United States
France	Norway		

Note: Some countries limit dividend exemption to substantial shareholders (e.g., 5% or 10% owners). In some cases, dividend exemption is limited to treaty countries that impose corporate income tax above a minimum rate. A few countries (e.g., Belgium, France, Germany, Italy, and Japan) exempt 95% rather than 100% of foreign dividends. The average tax rate for OECD countries with a foreign tax credit regime is 21%, excluding the U.S.