Testimony of Mr. Walter J. Galvin
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U.S. Senate

Hearing on the
“Impact of the U.S. Tax Code on the Market for Corporate Control and Jobs”
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Good morning Chairman Portman, Ranking Member McCaskill, and Members of the Committee.

My name is Walter Galvin; I am the former Vice Chairman and Chief Financial Officer of Emerson, a 25 billion dollar global manufacturing company founded in the United States 125 years ago. Emerson has over 110 thousand employees and operations in more than 150 countries.

Emerson is a large U.S. taxpayer. In each of the last three years, we paid $1.3 billion in taxes worldwide. Of that, over half was paid in the U.S. at an effective tax rate of approximately 35 percent. This high effective rate is why Emerson is so engaged in the tax reform debate.

Emerson’s business is global. Over 55 percent of our sales are outside the U.S., **and several of our major competitors are domiciled abroad**. Being domiciled in the U.S. means we pay more in taxes on our worldwide earnings. It means we are prone to being outbid by our foreign competitors for acquisition targets. And, perversely, it also means that Emerson is encouraged to invest abroad, rather than bringing cash home and paying taxes to the U.S. Treasury.

All these are results of our antiquated tax code failing to evolve, while other countries have modernized their tax laws to gain an advantage for their homegrown companies.

Mr. Chairman, Madame Ranking Member and Members of the Committee, **Congress must modernize our tax code by moving to a territorial system and lowering the corporate rate like other countries have done, and continue to do.**

Explaining this conclusion, my testimony will focus on three areas:

First, why America’s tax cost on foreign profits is such a disadvantage for U.S. businesses.

Second, how other nations have set examples we can follow; and

Third, how Emerson can serve as an example of an American-based multinational that lost out to foreign competitors because of our tax code.

To begin, **the combination of our high corporate tax rate and the way the U.S. taxes foreign profits can make U.S. companies more valuable in foreign hands –** which is leading to American businesses being stripped away.

A recent analysis by Ernst & Young found that, from 2004 through 2013, foreign buyers acquired $179 billion more of U.S. companies than we acquired of theirs. Additionally, data provider Dealogic reports that the gross value of foreign takeovers of U.S. companies doubled last year to $275 billion and, at the current rate, will surpass $400 billion this year. These takeovers reflect thousands of U.S. companies leaving American shores.

How can we stop this accelerating exodus? Congress must remove the premium **only American companies' pay** by moving to a territorial system and reducing the top corporate tax rate.

We know it can be done. Other nations, like the U.K., are successfully reducing their top rates. In 2009, the U.K. switched to a territorial system while their corporate rate stood at 28 percent. Now, that rate is 20 percent, and earlier this month, the U.K. released a plan to drop that rate further to 18 percent.

Companies are taking note. Monsanto, an American company also founded in St. Louis more than 100 years ago, is attempting to merge with a competitor, Syngenta, and set up a new parent company in the U.K. It is no mystery why.

According to the U.K.'s Chancellor of the Exchequer, George Osborne, their lower rate sends out a loud and clear message around the world that the U.K. is quote, "open for business."

I have two very real examples of how Emerson's investors, shareholders, and employees have been directly impacted by America's out of date tax code. As background, Emerson uses strategic acquisitions to augment existing businesses, acquire technologies and engineering capabilities, and penetrate faster-growing markets, while enhancing our position in the markets we serve.

In 2006, Emerson sought to acquire a company called American Power Conversion, a Rhode Island-based producer of high-tech electronic equipment. At that time, over half of APC's earnings were made outside the U.S. Emerson competed against Schneider Electric, a French company, **and Ohio-based Eaton Corporation**, to buy APC.

Emerson valued the company at just under $5 billion, but Schneider ultimately acquired the company by offering about $5.5 billion. **The principal reason Schneider's valuation of APC was higher was due to the French tax law on repatriation.**

Headquartered in France, 95 percent of Schneider's repatriated profits are exempt from French taxes, **so APC's profits are worth more to Schneider because they can be repatriated at a tax rate of about 2 percent. By contrast, if Emerson repatriated those earnings, we would be subject to a tax rate of approximately 17 percent.** That 17 percent is the difference between our 35 percent corporate rate, and foreign taxes we pay elsewhere. The difference between Schneider's rate of 2 percent and Emerson's rate of 17 percent made APC worth $800 million more to Schneider. Therefore, Schneider was able to outbid Emerson and what had once been an American company, became a French domiciled company.

As for Eaton, they dropped out of the bidding process fairly early, and about six years later, acquired Ireland-based Cooper Industries. Eaton is now an Irish domiciled company, enjoying a lower worldwide tax rate.

Second, America's worldwide system creates a perverse incentive to keep foreign profits abroad. A few years ago, Emerson bought a company in the U.K. called Chloride for about $1.5 billion with cash we had earned abroad, and kept abroad. We considered other options for that cash, but the U.S. would have charged us an extra 10 to 15 cents in taxes on every dollar to bring those earnings home. So where will we get a higher expected return – from one dollar invested in the U.K., or only 85 cents in the United States?

I fully appreciate the magnitude of effort required to reform America's tax code. But if the United States is serious about slowing the unprecedented outflow of capital and jobs to foreign countries, we must permanently restore the competitiveness of U.S.-based multinationals. We need to do this sooner rather than later. Every time a company is acquired and their headquarters is moved overseas, there is a real community impact. In addition to costing American jobs, this impacts local communities because of a decline in state and local tax revenue and a loss of corporate philanthropy.

Fortunately, thoughtful efforts—like the bipartisan Portman-Schumer international reform framework—are moving the conversation forward, and give me hope that Congress will do what is necessary to stem this outflow.

In closing, we cannot expect to create more jobs at home if we continue punishing businesses like Emerson who want to remain headquartered here. America's businesses and workers are the best in the world, and **we're not asking for a tax handout – we're asking for a level playing field. With that, we can compete anywhere in the world, and win.**

Thank you, and I welcome your questions.