



November 4, 2021

The Honorable Ron Wyden
Chairman
U.S. Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC

The Honorable Richard Neal
Chairman
U.S. House Committee on Ways and
Means
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Mike Crapo
Ranking Member
U.S. Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Kevin Brady
Ranking Member
U.S. House Committee on Ways and
Means
1139 Longworth House Office Building
Washington, DC 20515

Re: Corporate Profits Minimum Tax

Dear Chairmen Wyden and Neal, and Ranking Members Crapo and Brady:

We are writing to respectfully convey our concerns with the proposed Corporate Profits Minimum Tax currently under consideration as part of the Build Back Better Plan.

Financial accounting and tax reporting are intended for two different purposes. Financial accounting is meant to provide stakeholders of a company with information about the performance of the company and its managers. This is quite different than the purpose of taxable income, which as you know, is meant to raise revenue for public finance and includes rules to provide incentives and disincentives for certain behaviors (e.g., investment). Thus, it is not surprising that the two income numbers can be very different from each other. The Financial Accounting Standards Board (FASB) is set apart from the government in order to be free from lobbying and ideally arrive at the most appropriate financial accounting standards.

Using financial accounting as part of the tax base, for example, as in the Corporate Profits Minimum Tax, carries with it many risks. The first is that FASB will in effect have some control over the U.S. tax base. A second risk, conversely, is that the U.S. Congress might exert more influence over the FASB. The potential politicization of the FASB will likely lead to lower quality financial accounting standards and lower quality financial accounting earnings. A third risk is that companies will alter their reporting and report lower financial

accounting earnings than they would in the absence of this tax. This type of behavior is documented in academic research that examines previous experiences of including financial accounting in the tax base and/or increasing conformity of financial accounting and taxable incomes. Such behavior will lower the quality of financial accounting earnings, will lead to less information provided to the capital markets from financial accounting, and result in less efficient capital allocation.

Finally, the use of financial accounting income as part of the alternative tax base injects needless complexity into the tax code. One primary motivation for including financial accounting income in the tax base is the apparent simplicity of it—it's a ready-made number that already exists. However, using financial accounting income will actually be quite complicated because of the different purposes of the measures. For example, the entities included on a consolidated financial statement are different than those included on a consolidated tax return (e.g., a difference in treatment exists for domestic entities owned between 50% and 80%, those owned between 20% and 50%, and those owned less than 20%; the treatment of non-U.S. entities is also quite different).

We respectfully submit that financial accounting income should not be used as an alternative tax base. Rather than risking the degradation of the FASB, lower quality financial reporting by firms, less efficient capital markets, and a needlessly complicated tax system, it would be cleaner and simpler to just fix the tax code if there are perceived problems with the tax system.

Sincerely,



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