

Testimony  
OF  
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Before the  
Senate Committee on Foreign Relations  
On  
Pending Income Tax Agreements with Belgium, Denmark,  
Finland, and Germany

Mr. Chairman, Ranking member and Members of the Committee, thank you for the opportunity to appear before you today to support, on behalf of the Organization for International Investment (“OFII”), prompt ratification of the proposed protocols to the United States income tax treaties with Germany, Denmark, and Finland, and the new proposed income tax treaty with Belgium, all pending before this Committee.

OFII is an association representing the interests of U.S. subsidiaries of companies based abroad which I will refer to as “insourcing” companies. OFII has over 160 member companies, which range from mid-sized businesses to some of the largest employers in the United States, such as Honda, HSBC, Sony, AEGON Insurance, Nestlé, Unilever and L’Oreal.

Collectively, insourcing companies employ over 5 million Americans, pay 32% higher compensation than all U.S. firms, support 19% of all U.S exports, and in 2006 reinvested \$80 billion in profits back into the U.S. economy.

For both foreign and US multinationals, income tax treaties, such as the agreements before you today, promote business and employment opportunities in each country, protect against discrimination, provide a common and consistent set of rules aimed at fair taxation, as well as provide a mechanism for eliminating the potential for double taxation. The prompt ratification of these agreements will signal to insourcing companies that their continued investment and job creation in the United States is to be encouraged.

The US Treasury Department is to be commended for its dedication and drive to maintain and expand our network of bilateral income tax treaties with our major trading partners and assuring that these agreements remain current and relevant in an ever-changing global fiscal and economic environment. The agreements pending before you today contain important improvements over our current income tax treaties with Belgium, Denmark, Finland, and Germany, reflecting the most current US international tax policies.

Beginning with the 2001 new income tax convention with the United Kingdom, the United States has advanced a policy of eliminating the withholding tax on direct investment dividends. The four agreements before you today are a further and meaningful step in extending that policy to most of the United States' major European trading partners. Elimination of the withholding tax removes a significant impediment to direct foreign investment. It also assures that United States corporations receive the same benefit from dividends paid by their subsidiaries in Europe as European corporations receive from dividends paid by their subsidiaries throughout Europe.

The agreements with Germany and Belgium also make significant strides in addressing potential inefficiencies when employees are on assignment away from their home country, assuring that pension benefits are preserved and the tax treatment of contributions to, income earned by, and payments from, pension plans are not distorted by reason of employee transfers abroad.

Finally, we welcome and endorse a provision reflected in the agreements with Germany and Belgium -- the addition of arbitration as a means of improving the dispute resolution process. Tax treaties cannot resolve every instance of potential double taxation. In recognition of this, our treaties have consistently included a "Mutual Agreement" article allowing taxpayers to request that, where the action of one or both tax authorities results or could result in double taxation, the two tax authorities meet with a view to eliminating the potential double taxation. This mechanism most commonly comes into play in the area of transfer pricing. The United States experience with resolving these double taxation disputes under the Mutual Agreement article has been mixed. The process is often lengthy and expensive and the tax authorities may have basic differences that impede agreement. The United States has been a leader in this dispute resolution process and would greatly benefit from a more disciplined approach. A process that provides for submission of specific issues to binding arbitration if the two tax authorities are not able to resolve the matter within a reasonable period would be a welcome improvement to the bilateral dispute resolution process.

In conclusion, OFII appreciates this opportunity to register its strong support for the agreements pending before your Committee today.

I thank the Committee for the opportunity to provide this input and am happy to answer any questions you may have.