Testimony before the Committee on Ways and Means
United States House of Representatives
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Hearing on How Business Tax Reform Can Encourage Job Creation

Statement of Mark Stutman, Grant Thornton LLP

Mr. Chairman, Mr. Ranking Member and other members of this distinguished committee, it is an honor to appear before you and participate in this hearing on comprehensive tax reform and the role it can play in promoting job creation and economic growth. My name is Mark Stutman, and I am the tax practice leader for Grant Thornton LLP, the U.S. member firm of Grant Thornton International, one of the six global accounting, tax and business advisory organizations. Through our 49 offices in the United States, Grant Thornton helps thousands of the most dynamic and entrepreneurial businesses in America to budget and plan their business activities, report their earnings to creditors and shareholders, and fulfill their Federal, state and local tax obligations.

Grant Thornton supports tax reform aimed at lowering effective business tax rates in order to promote global competitiveness for U.S. businesses. Low effective tax rates encourage investment and business activity, spur job creation, and ultimately increase national wealth. Tax reform should benefit the dynamic businesses that are the backbone of American economic growth and the driving force behind expanding employment. Included in this category are many privately held businesses, the Russell 2000 and similar groups. I urge members of the Committee to make their highest priority those tax reform proposals that:

- Will lower effective business tax rates;
- Will preserve valuable incentives for domestic business activity; and
- Will not disproportionately burden any one segment of the business community.

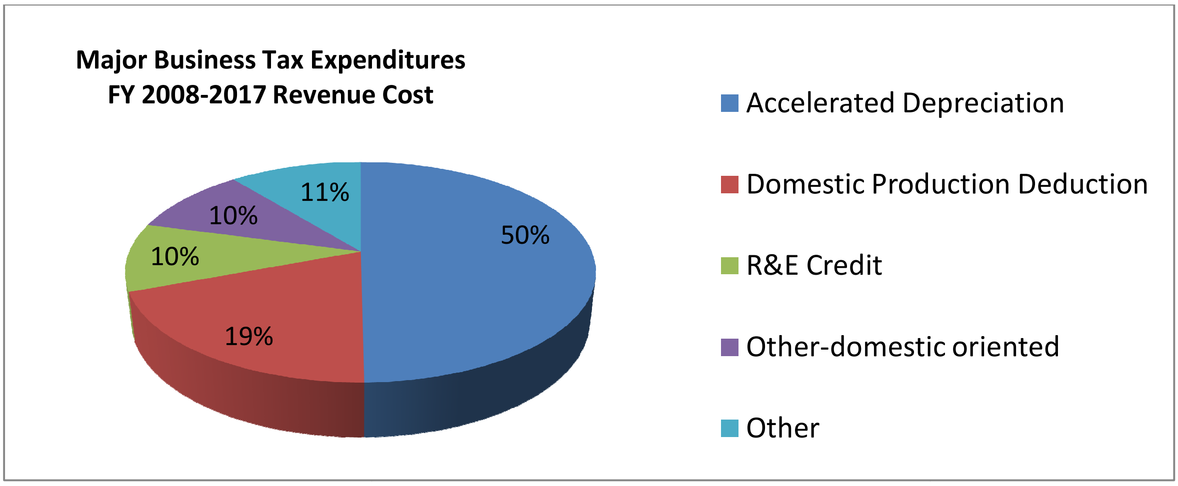
It is important for policy makers to focus on effective business tax rates, not just the statutory corporate tax rate. The effective tax rate measures how much tax is actually paid and is the true measure of the burden taxes place on business activity.

Much has been made of the fact that the United States has a higher statutory corporate tax than many of our trading partners. The statutory corporate tax rate is an important factor in determining the effective rate a business must pay, but it is by no means the only factor. Equally important are the rules for calculating income tax liability. Where these rules produce an unintended or inappropriate result, they are properly called “loopholes.” Where these rules serve a specific and intended policy goal, they are better described as “tax expenditures.” It is also important to consider the presence of other taxes that apply to business activity. Virtually every country with a statutory corporate tax rate lower than the United States also burdens business activity with some form of a value-added tax. The effective business tax rate can only be measured by considering all of these factors, not just the statutory corporate tax rate.

There is little opposition to closing tax "loopholes." However, most reform proposals envision going significantly beyond "loopholes" to cover some or all of the cost of a statutory corporate tax rate reduction by eliminating existing business tax expenditures. This may result in a lower statutory corporate tax rate, but will not necessarily improve effective business tax rates. If the Committee chooses to reduce or eliminate tax expenditures, caution should be exercised so as not to unduly burden domestic business activity.

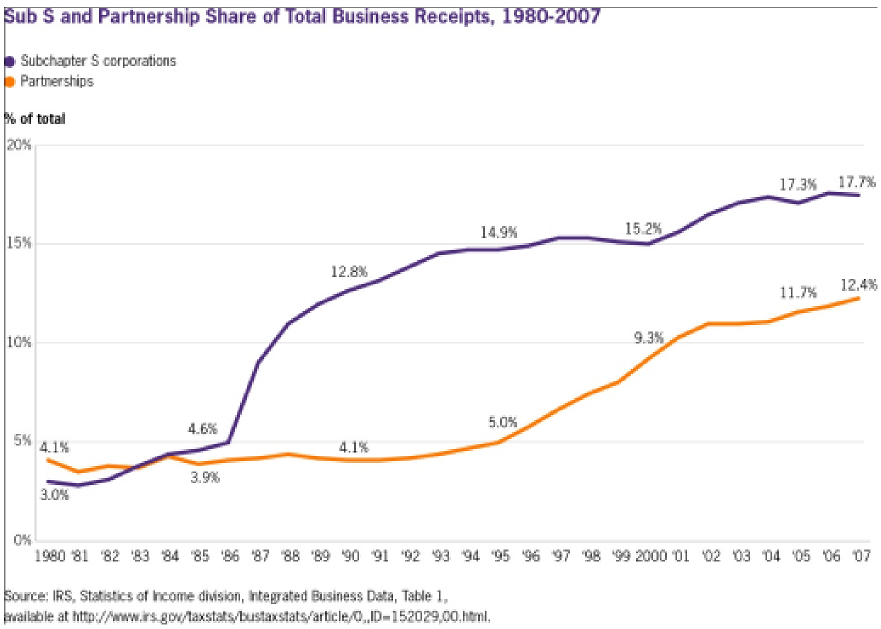
Existing business tax expenditures are predominantly directed at encouraging investment, production and research in the United States. According to the December 2007 Treasury Department report, "Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century," the three largest business tax expenditures in the Internal Revenue Code are accelerated depreciation, the domestic production activity deduction and the research credit. Each of these is an incentive to domestic economic activity. Accelerated depreciation requires property to be placed in service in the United States. The domestic production activities deduction is only for domestic production. The research credit is dependent on the research performed in the United States.

The tax benefits realized by dynamic organizations through these incentives are significant drivers of domestic economic growth and job creation. A reduction in these tax expenditures, even if combined with a reduction in statutory rates, could result in an increase in the effective rate on domestic business activity.



Business leaders appear keenly aware of the role that tax benefits play in determining their effective tax rate. In a recent Grant Thornton national survey of 318 U.S. CFOs and senior comptrollers, over 60% of respondents said they would prefer to retain their existing tax benefits unless the statutory corporate tax rate was reduced to 25% or lower, and 17% preferred keeping their incentives regardless of the size of the rate cut.

I also urge the members of the Committee not to consider tax reform proposals that would disproportionately burden any one segment of the business community. Dynamic organizations are frequently organized as pass-through entities and have become part of the backbone of American economic activity and a driving force behind expanding American employment. Pass-through businesses represent an ever-increasing share of the U.S. economy and are responsible for an increasing proportion of all business receipts, rising from 7% in 1980 to over 30% in 2007.



The earnings of pass-through businesses, such as S corporations and partnerships, are generally taxed at individual rates. Any tax reform proposal that eliminates business tax benefits but provides only a statutory corporate tax rate reduction would significantly increase the effective tax rate on many dynamic pass-through companies.

In conclusion, Grant Thornton supports tax reform efforts that seek to reduce effective business tax rates. Low effective business tax rates encourage investment and business activity, spur job creation and ultimately increase national wealth. Reducing statutory corporate tax rates can be an important part of reducing effective business tax rates; however, it is important to remember that other factors contribute to determining the effective tax rate of any business. I urge the members of the Committee to support tax reform proposals that will lower effective business tax rates, preserve valuable incentives for domestic business activity, and not disproportionately burden any one segment of the business community.

Thank you for giving me the opportunity to share this information with committee. I am pleased to answer any questions.

Mr. Stutman is the National Managing Partner of Tax Services and a member of the firm's Senior Leadership. In this role, Mark has overall responsibility for the quality of services, the profitable operations and the welfare of the clients and employees of the core and specialty tax practices. Over the course of his career with Grant Thornton, he has built a reputation for value-added, attentive service to entrepreneurial companies and their management teams. Mark specialized in entity planning and structuring, cost classification, mergers and acquisitions, and operational issues for both public and private clients predominantly in the manufacturing, distribution, service and real estate industries.

During his thirty-seven year career with Grant Thornton, Mr. Stutman has served in many leadership positions, including as a member of the firm's governing body, the Partnership Board; as Managing Partner of the Washington National Tax Office; and as a member of the National Real Estate Committee. Mark also served on the AICPA Partnership Committee, a national technical task force that monitors legislative and regulatory developments and works with the U.S. Department of Treasury to provide feedback on proposed guidelines, as well as creates working tools for use by AICPA members.