STATEMENT OF JOHN STEPHENS

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Hearing on How Tax Reform Will Grow Our Economy and Create Jobs

United States House of Representatives, Committee on Ways and Means

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Thank you, Chairman Brady and Ranking Member Neal, Members of the Committee.

I am John Stephens, Chief Financial Officer of AT&T, and I appreciate the opportunity to discuss the importance of enacting corporate tax reform with you today.

AT&T is a company with a 140-year heritage of innovation that includes 8 Nobel Prizes and more than 15,000 patents and pending patents worldwide. We employ more than 200,000 people in the United States, and over the past five years, we've invested more in the U.S. than any other public company — nearly $135 billion.

One of the biggest issues facing the country is how to unleash economic growth, which has underperformed for the last decade. We can and should do better.

The key driver of US-economic growth is private-sector investment. When investment increases, so does economic activity and hiring. And when more people are working, they have more money to spend. However, private-sector investment in the U.S., measured as a percentage of the nation's Gross Domestic Product, is at its lowest in generations.[1] It is not surprising then that the U.S. economy has been mired in sluggish growth for nearly a decade.

If we're serious about robust growth, then we must get serious about jump-starting private sector investment. And the best way to do that is to fix our broken, last-century corporate tax code. Achieving competitive corporate tax rates is likely the most effective catalyst available to our public policy makers to increase capital investment and create jobs.

The current tax code

Our current tax code is outdated. It has been over 30 years since major tax reform was enacted. As a result, our 20th century tax code fails to reflect the realities of today's 21st century global and internet-focused economy. We no longer live in a world where the U.S. can set a corporate tax rate without considering what our international competition looks like. Countries are vigorously competing against each other to attract investment and jobs, but the U.S. has done little to retain its competitive advantage. When tax reform was passed in 1986, we were competitive with other OECD countries, but over the last 30 years, tax rates in other countries have moved from about 35% to about 20%. This puts the U.S. at a real disadvantage. We thereby have saddled our economy with the highest corporate tax rate in the developed world, which is exacerbated by our system that taxes companies in the U.S. on their worldwide income.[2]

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[1] Restoring Investment in America's Economy, Robert D. Atkinson, Information Technology and Innovation Foundation, June 2016.
[2] Tax Foundation, "The U.S. Has the Highest Corporate Income Tax Rate in the OECD," January 27, 2014.

Elements of tax reform

We have a once in a generation opportunity to comprehensively update the code for the 21st century and put the U.S. back on top.

First, we need to reduce the top corporate rate. This is the quickest, most straight forward way to jumpstart investment in our country. It will bring our tax system in line with other developed countries. By reducing the rate, simple economics will drive companies to invest in America rather than overseas.

Second, policy makers should allow for full expensing of capital investments. This is an effective way to quickly stimulate the economy.[7] The Tax Foundation estimates this policy change would create the equivalent of 1 million full-time jobs.[8]

Rather than providing industry-specific tax credits or grants that can be cumbersome to administer and allow policy-makers to pick winners and losers, 100% immediate expensing removes the negative effects of taxation on investment. And we know it works. Bonus depreciation, a provision with bipartisan support from this Committee, allowed accelerated depreciation that positively affected our investment decisions in those years. Plain and simple, we invested more under bonus depreciation than we otherwise would have. The ability to fully expense investment would do even more to incentivize AT&T — and companies throughout the United States —to accelerate investment. And more investment results in more jobs.

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[7] Tax Foundation, "Why Full Expensing Encourages More Investment Than a Corporate Rate Cut," May 3, 2017.
[8] Tax Foundation, "Options for Reforming America's Tax Code," 2016, page 77.

Lowering the corporate tax rate will make the United States more competitive globally. We can respond to foreign countries that have implemented modern tax policies to aggressively compete for jobs and investment. Tax reform will also propel domestic investment and job creation by businesses of all sizes. Reform would increase productivity and GDP, which was just 1.6 percent in 2016[3] and 0.7 percent in the first quarter of 2017.[4]

Our current tax system also harms workers; they bear up to 75% of the corporate tax burden through lower wages.[5] And a study commissioned by the Business Roundtable estimates that over a 10-year period a 10-percentage point reduction in the corporate tax rate would have reduced the number of U.S. companies and subsidiaries sold to foreign acquirers in OECD countries by 1,300.[6] That represents hundreds of thousands of jobs moved offshore.

With meaningful tax reform, we can expect to see more companies stay in the U.S. rather than relocate to countries with lower tax rates. A lower corporate tax rate would give companies less incentive to execute these inversions. It would also reduce the risk of foreign companies taking control of American companies.

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[3] Bureau of Economic Analysis, U.S. Department of Commerce, "National Income and Product Accounts, Gross Domestic Product: Fourth Quarter and Annual 2016 (Third Estimate), Corporate Profits: Fourth Quarter and Annual 2016," March 30, 2017.
[4] Bureau of Economic Analysis, U.S. Department of Commerce, "National Income and Product Accounts, Gross Domestic Product: First Quarter 2017 (Advance Estimate)", April 28, 2017.
[5] The Business Roundtable, "Tax Reform: Advancing America in the Global Economy," October 2015, page 6.
[6] EY, "Buying and Selling: Cross-border mergers and acquisitions and the US corporate income tax," prepared for the Business Roundtable, March 2015, page 18.

We recognize that any comprehensive corporate tax reform will involve trade-offs. But the key word is "comprehensive." Any plan being considered should be judged in totality, not just by a single provision. For example, one area I know the Committee has looked at is eliminating interest deductibility. Viewed in isolation that provision would be extremely problematic, but I understand that it may be necessary as part of a broader solution. If the Committee plans to eliminate interest deductibility, I would encourage you to utilize reasonable transition rules that do not penalize past choices companies made under a vastly different tax system. This would not only give companies appropriate time to adjust their capital structures to the new system, but also allow them to immediately increase their investment in response to the lower overall tax rate.

I'd encourage all companies and interested parties to join the conversation so that you, our legislators, hear all sides to this important debate. With open dialogue, we can find a comprehensive solution that works.

The results of corporate tax reform

We are confident that these reforms will encourage businesses to step up their capital investment plans. In fact, the Business Roundtable, an association of CEOs of leading U.S. companies, recently released the results of a survey of its CEO members on the topic of corporate tax reform. The results make it abundantly clear that businesses are ready to step up their investment and hiring in the U.S. if Congress enacts comprehensive tax reform. That will have a demonstrable positive impact on the overall pace of economic growth.

According to the survey, a significant majority — 71% — of Business Roundtable CEOs believe that tax reform is the single most effective action Congress can take to accelerate economic growth over the next year.[9] The CEOs overwhelmingly agree that successful tax reform will lead to more jobs. Seventy-six percent of the respondents said they would increase hiring if the United States tax system is reformed.[10] And 82% said they would increase capital spending, making investments that lead to even more hiring and broader economic growth.[11] This is an important ripple effect that will magnify the positive impact of tax reform.

The CEOs also see significant negative consequences of inaction. Roughly 90% of respondents said that delaying tax reform for an extended period will lead to lower rates of hiring, growth and investment.[12] Another 57% said that they would delay capital spending, the investment that drives jobs and growth, if tax reform is delayed.[13] And 56% said they would delay hiring.[14]

I can tell you what tax reform would mean for AT&T. A lower corporate tax rate would give us an incentive to step up our investment in technology and next-generation networks. We could rethink the pace of our fiber and wireless build outs, including our buildouts of next generation broadband networks that will fuel the exploding "Internet of Things." Over the past five years, no other public company has invested more in this country than AT&T, and with comprehensive tax reform, the levels of investment can go even higher.

And tax reform will generate economic growth. Companies throughout the U.S. would likely see an increase in revenues. As those companies become more open to new investment, we

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[9] Business Roundtable, "New CEO Survey: Tax Reform Will Lead to More Jobs and U.S. Investment," May 4, 2017.
[10] Id.
[11] Id.
[12] Id.
[13] Id.
[14] Id.

would expect to see an increase in their spend with their vendors, including AT&T. This is the most exciting aspect of tax reform; it will give us the opportunity to grow our top line.

And with investment and increased revenues come jobs. We already employ more than 200,000 people in the United States. And we're the nation's largest private employer of full-time union employees. A significant uptick in investment accompanied by more business from other U.S. companies would require that we employ people in new jobs. And, not only that, our vendors and contractors would also need to increase their hiring. Again, that's the important effect of investment — it spurs additional investment throughout the economy.

That is why the biggest beneficiary of tax reform — and the growth it will stimulate — is the American worker. An expanding economy increases demand for labor and pushes wages higher. Economists project that even a modest modernization of the tax code would raise American wages by 3.8 percent or more over 10 years.[15] And it would grow GDP by 2.2 percent over 10 years.[16]

[15] The Business Roundtable, "Tax Reform: Advancing America in the Global Economy," October 2015, page 9.
[16] Id.

We will have failed American businesses and American workers if we let this opportunity slip by. I look forward to continuing this important dialogue and continuing to move us toward meaningful tax reform. I welcome your questions.

Thank you again Mr. Chairman for this opportunity.