December 6, 2017

Dear Members of the Tax Cut and Jobs Act Conference Committee:

The Bay Area Council and the Silicon Valley Leadership Group, non-profit non-partisan organizations that together represent nearly 600 of the leading companies in Silicon Valley/Bay Area region, advocate for a strong, growing and sustainable economy in Northern California, and collaborate on economic issues with other business and civic organizations throughout the state. Our member companies come from a wide range of industries, including technology, biotechnology, energy, healthcare, financial services, housing and infrastructure. The region is one of the nation's leading job creators and is also the world's leading center for technology, innovation and entrepreneurship, contributing uniquely to our national economic leadership.

Our organizations are deeply invested in the outcome of the current tax reform debate, from the standpoint of our members, their employees and the residents of our region more broadly, and see both positive and negative elements in the current reform proposals.

We are encouraged that Congress is taking on the much-needed step to reform the tax code, in order to spur economic growth and increase our competitiveness globally. The current corporate tax rate of 35% puts U.S. employers at a global disadvantage and discourages greater investment at home. We support reduction of the corporate rate, and believe the level should be more competitive than the trade-weighted average of the industrialized market economies of the OECD, which is 27.9%. A rate that is more competitive than the OECD average will dramatically improve the competitiveness of American companies, while also reducing pressure to reduce or eliminate other elements of the tax code on which Silicon Valley and Bay Area residents, and many other Americans, rely.

We also support plans to lower the tax rate on repatriated monies, which could lead to a significant infusion of investment in capital equipment, research and development, and support for job training programs. This is a much more effective way to support manufacturing than renegotiating or abandoning trade agreements. However, we strongly recommend adding provisions on repatriated monies that ensure, to the extent possible, that these funds are directed to productive investments that lead to tangible national benefits.

At the same time, a number of the proposed changes will have severely detrimental impacts on the employees of our member companies and on other residents of our region and the state. In part because it is so productive, the Silicon Valley/Bay Area is an expensive place to live and work, with high housing and mortgage costs. Lowering the cap on the size of qualified mortgages and limiting the deductibility of mortgage interest to $10,000 will further increase living costs for our residents, and worsen our crisis-level housing affordability problem. High housing costs already make it difficult for employers to attract and retain top talent, including the moderate income and middle-class workers, they need to compete and grow. Many of those workers are required to commute long distances to find housing they can afford; this will add to that pressure, making their lives worse. The complete elimination of non-mortgage state and local tax deductions would have a similarly negative effect.

Several other aspects of the current proposals are problematic for the region's economy and residents.

We welcome the retention in both the House and Senate bills of the R&D tax credit, which supports the innovation economy and the quality jobs that result, but are concerned with the proposal in both bills that costs be amortized over five years – a limitation that fits poorly with the long-term nature of scientific research and research-based product development. Additionally, keeping the corporate Alternative Minimum Tax, as adopted in the Senate legislation, can force companies to forgo utilizing the R&D credit, and as a consequence, limit both job creation and economic growth.

The elimination of tax-exempt private activity bonds in both bills would hurt our communities' ability to make critical investments in housing, transportation and other vital infrastructure, and greatly reduce the effectiveness of the 4 percent Low Income Housing Tax Credit which enables the creation each year of tens of thousands of affordable homes for working class Californians.

We are concerned about the proposal in the Senate bill to eliminate the individual health insurance mandate, which we believe will lead to increased premiums for employers.

Taxing universities' tuition reduction support for graduate students, in the House bill, also undercuts the innovation economy not just in the Bay Area, but nationally as well, by discouraging young scientists and innovators who are early in their careers and are resource-poor but rich in ideas.

As the debate over tax reform reaches its final stage, the Silicon Valley Leadership Group and the Bay Area Council ask that you address these issues and imbalances in the House and Senate proposals by reconsidering the level of corporate tax reduction, and by eliminating or scaling back the changes outlined above that will negatively impact our employees and large numbers of Californians, harm our nation's ability to invest in critically-needed local infrastructure, and undermine our innovation economy.

Sincerely,

Jim Wunderman
President and CEO

Carl Guardino
President and CEO