Testimony of
Mike Duke
President & Chief Executive Officer
Wal-Mart Stores, Inc.

Before the
Committee on Finance
United States Senate

Hearing on CEO Perspectives on How the Tax Code
Affects Hiring, Businesses and Economic Growth

Wednesday, July 27, 2011

Chairman Baucus, Ranking Member Hatch, and Members of the Committee, I appreciate the opportunity to testify before you today on corporate tax reform.

We urgently need to modernize our tax code, and I want to thank you for taking on this issue. Modernizing our corporate tax code will be a difficult process, but it is the right thing to do for America and America's competitive position in the world. Ultimately, this effort must achieve the goal we all share: a strong, vibrant, job-creating U.S. economy.

I hope you all know your local Walmart store. But let me start with a few words about the company we run out of Bentonville, Arkansas.

We serve 106 million unique customers in the U.S., about one third of our population, every week. The business model that has earned our customers' trust is simple: we give them everyday low prices by passing on savings from our everyday low cost operations. "Save money, Live Better" is not a tagline; it is our mission. Other companies may keep cost savings for themselves, but we believe they belong to our customers.

Last year in the U.S., Walmart paid $1.25 billion in state and local property tax. We paid $630 million in state corporate income tax. We collected and remitted $13.8 billion in sales tax. And we paid $4.7 billion in corporate taxes in the U.S., which was about 3% of all corporate income taxes that were collected by the U.S. Treasury. Our effective corporate tax rate last year was 32.2%. Many companies that testify before you theoretically face similar tax rates; we actually pay them.

We're not here to ask for sympathy for our tax burden. Likewise, we recognize the many benefits we enjoy as a result of the taxes we pay, which support the communities where we live and work. The question for today's discussion is not whether Walmart can get by as a company under the current tax structure. The question is whether this structure is the best approach for our country. We believe it is not.

As we begin this discussion, it is important to understand how Walmart's operations at home and around the world contribute to the economy here in the United States.

In the U.S. we operate more than 4,400 stores and clubs and employ almost 1.4 million associates across every state in the country. We have more than 1,900 stores in the 24 states you represent, and we employ more than 600,000 of your constituents. We also have suppliers in all of your states. Last year, we spent a total of $65 billion with those companies, and this spending supported more than 1 million jobs in your states.

I'm happy to say that the domestic business is still growing. This year alone, we're investing more than half of our $12.5 to $13.5 billion capital expenditures budget in the U.S. to grow our business. Just last week, we announced we will build 275 to 300 stores by 2016 in "food deserts" - areas that lack convenient access to grocery stores, and this is just part of our growth strategy. When complete, more than 40,000 people will work in those stores. And every store we build also means construction jobs, an expanded local tax base, and more opportunities for our U.S. suppliers to sell their goods.

Walmart is also growing around the world. With our recent acquisition of Massmart in Africa, we now operate under 69 different banners in 28 countries, including Mexico, the United Kingdom, China, Japan, Brazil, Chile, and South Africa.

At the same time that we've grown our international business to more than $100 billion, we've become the largest private employer in the U.S. In fact, since we began operating our first international store, we've created about 1 million jobs in America.

Like our domestic growth, our international growth is good for the U.S. economy. Our international growth allows Walmart to source more goods and technologies from U.S. companies to sell in our stores around the world. From Procter & Gamble to PepsiCo, 70% of our top international suppliers are U.S. companies. We sold nearly $8 billion worth of products from these suppliers last year in our overseas stores, boosting their revenue and creating and sustaining American jobs.

We are also one of the largest purchasers of American agricultural products. Last year, we directly exported nearly $40 million worth of Washington apples, California asparagus, Florida grapefruits and other American crops. We are also a large exporter of U.S. beef, ice cream, fruit juices, and many other products.

Likewise, we look for opportunities to use American products as we build our stores. For example, we are updating the lighting in our parking lots in many countries using LED technology. We worked with GE to develop this application for LEDs, and the lights are now mostly manufactured in North Carolina.

The best way I can say it is this: when Walmart goes overseas, we bring American companies with us. When we grow, they grow.

One of our suppliers testified before the House Ways and Means Trade Subcommittee earlier this year. John B. Sanfilippo and Son, Inc, an Illinois-based nut processor, has used Walmart as a platform to expand the sales of its products internationally, from providing products to our stores in Mexico two years ago to supplying our stores in Chile, Japan, Central America and Brazil today. And because other retailers in Mexico saw this supplier's products on Walmart's shelves, Sanfilippo now supplies their local stores too. These international sales not only help support 1,800 jobs at the Illinois processor, but other nut farmers in California, Oklahoma, Texas, Kansas and almost every southern state.

So, with that as background, how do we reform the tax code to drive job growth here at home and encourage America's competitiveness abroad?

My advice to this committee is straightforward: lower the corporate rate as much as you can, make the tax base as broad as you can, and move to a territorial system as quickly as you can.

If the ultimate goal is to strengthen the U.S. economy and level the playing field for U.S. companies, these are the three key components of reform. Without any one of the three, it will be impossible to achieve a fiscally responsible, simplified, and competitive tax system. And we need comprehensive solutions, not piecemeal attempts to repeal this or that incentive to raise revenue for unrelated initiatives.

If the result is comprehensive reform, we support getting rid of existing incentives that currently benefit some industries over others. In fact, we will give up the existing incentives that benefit us, if it means getting rid of them all in a simplified, more competitive, and territorial system.

Taking these steps to reform America's tax code will help American companies compete abroad. When Walmart competes around the world, we don't compete against American companies. We are competing against companies like Tesco from the United Kingdom, Carrefour from France, and Metro from Germany. I believe that Walmart is far more likely to export Washington apples or California asparagus, for example, than our foreign competitors. Yet these foreign competitors have an advantage: they pay less in corporate income taxes than we do.

Corporate tax rates have been steadily falling internationally, but the U.S. is out of step. The average rate in developed countries is 25.1%, compared with 39.2% in the U.S. We need a rate that is meaningfully lower in order to spark investment and job creation.

Most other developed countries also have a territorial tax system because it helps their companies compete abroad. In overseas markets, we are paying both the tax rate in that jurisdiction *and* an additional U.S. tax rate when that income is repatriated. So for example, when we compete against Tesco in the U.K., they pay 26% to the U.K. while we pay 26% to the U.K. plus an additional 9% to the United States to cover the differential between the U.K. rate and the U.S. statutory rate.

To take this example further, we also compete against Tesco in China. With the U.K. territorial system of taxation, Tesco pays 25% to China on business there and no additional tax when they bring money back to the U.K. In our case, we pay 25% to China plus an additional 10% to cover the differential between the U.S. statutory rate and the Chinese rate when we bring that money home.

The bottom line is that we are often outbid for particular retail sites in other markets because companies with lower overall tax rates have a lower overall cost of capital and therefore more money to offer for sites. When we do win, we pay more overall than our competitors would have. Again, our system simply lags behind.

The keys to reform are to lower the corporate rate, get rid of existing incentives that benefit some industries over others, and level the international playing field with a territorial system. Pursuing reform in a half-hearted way – for example without the territorial system – will only make the effort more complicated. We would have to begin exploring messy trade-offs and could end up no better off than when we started. But if we take these three steps, we will drive the virtuous cycle I've described, with more U.S. exports, more investment, and more job creation at home.

We recognize that Congress is facing some significant challenges regarding the federal budget and the fiscal future of the nation, and we agree that tax reform should be considered with these challenges in mind. In our view, the Bowles-Simpson deficit commission's corporate tax proposal represented a very good start because it endorsed these three key components of reform.

We also understand that there will be issues surrounding how the transition to such a system would work. But while the path to reform may be challenging, the destination is actually pretty clear.

Let me close with one final thought. One reason Walmart has been successful is that we are not afraid to change. Our founder, Sam Walton, said: "Everything around you is always changing. To succeed, you have to stay out in front of that change."

We know this work will not be easy and won't happen overnight, but it does need to happen. The world has changed around us. For America to succeed in this century, we need to get out in front of that change.

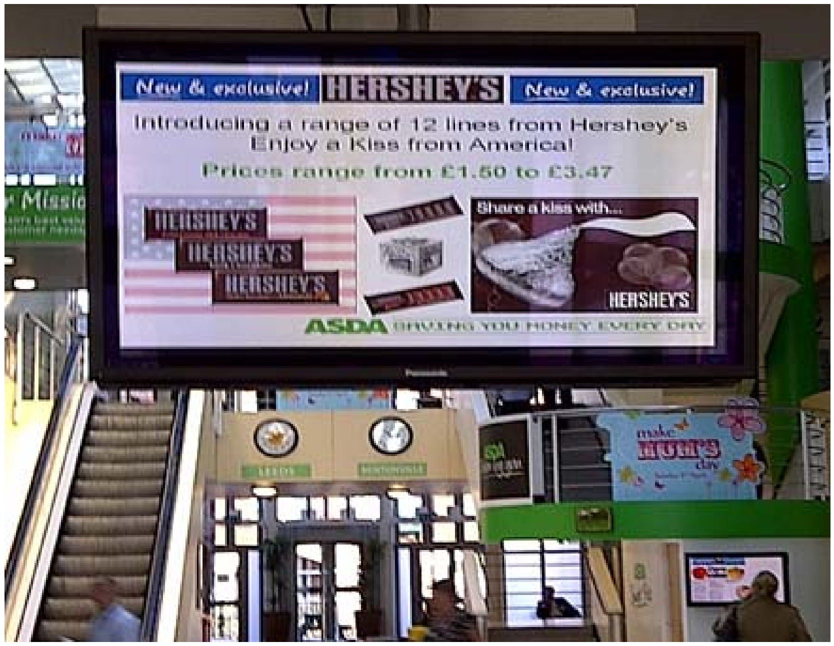
Thank you, and I look forward to answering your questions.

# # #

Appendix

4th of July Promotion of U.S. brands – Chile

4th of July Promotion of U.S. Beef – Chile



Hershey Product Launch – United Kingdom

Washington Apple Promotion - India