April 15, 2015

The Honorable Orrin Hatch
Chairman
Committee on Finance
United States Senate

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable John Thune
Co-Chairman
Business Income Tax Working Group
Committee on Finance
United States Senate

The Honorable Ben Cardin
Co-Chairman
Business Income Tax Working Group
Committee on Finance
United States Senate

The Honorable Rob Portman
Co-Chairman
International Tax Working Group
Committee on Finance
United States Senate

The Honorable Chuck Schumer
Co-Chairman
International Tax Working Group
Committee on Finance
United States Senate

Dear Chairman Hatch, Ranking Member Wyden, Senator Thune, Senator Cardin, Senator Portman, and Senator Schumer:

On behalf of Comcast Corporation, we make this submission to the Tax Reform Business Income Tax and International Tax working groups to share our thoughts on key proposals that impact domestic investment. We commend you for prioritizing tax reform as an important and necessary component of efforts to advance our economy, increase our competitiveness and spur economic growth and job opportunities. We welcome the chance to provide our views on the tax reform effort.

By way of background, Comcast is a global media and technology company that operates two primary businesses: Comcast Cable and NBCUniversal. Comcast Cable provides video, high-speed internet and voice services to business and residential customers in the United States. NBCUniversal develops, produces and distributes entertainment, news and information, sports and other content for a worldwide audience. Comcast owns and operates a diversified and integrated portfolio of some of the most recognizable media brands in the world. Comcast also employs more than 139,000 people – the vast majority of whom live in the United States. We are highly capital intensive, investing approximately $8 billion dollars every year across our

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technology and entertainment businesses in the United States. Our ordinary course effective tax rate and marginal rate at which we pay cash taxes is 38%. As a largely domestic company which invests heavily in the US economy and also owns and operates significant foreign businesses through NBCUniversal, we think we are uniquely positioned to contribute to this effort.

There is widespread consensus that tax reform should include a lowered corporate rate and a broadened base, and should be revenue-neutral. That is the "easy" part. The hard part is building a consensus around achieving all of those goals simultaneously while also adhering to principles outlined by the Chairman, including economic growth, fairness and simplicity. While daunting, the task may have a greater likelihood of success if certain inescapable facts are laid out. First, there will inevitably be winners and losers if revenue-neutrality is to be achieved – a zero sum result requires that, on an overall basis, some taxpayers or industries will pay more tax and others will pay less. Second, a goal to promote and accelerate growth ought to look to who makes the investments that spur economic activity and innovation and create jobs, and what can be done to encourage more. This goal is best met with an acknowledgment that cash taxes directly affect the funds available to make investment. Third, a goal to achieve fairness ought to squarely consider where the tax burden falls under the current system and whether that should be perpetuated or should be modified. Fourth, base-broadening should close loopholes and not eliminate ordinary business expenses. The temptation to eliminate deductions simply because they are large in dollar amount should be avoided.

With these principles in mind, we turn to the following specific proposals that have been raised in some base-broadening plans:

1. **Accelerated Depreciation**

Some have proposed to pay for a rate reduction through the elimination of depreciation under MACRS which allows for quicker recovery of the costs of investment than does a straight-line method typically used for financial reporting purposes. However, we would caution against any significant curtailment of MACRS for a number of reasons. First, denying this longstanding method of recovery will materially increase the cost of capital and act as a disincentive to investment. If sufficiently severe, this could cause a downturn in the growth profile of the US economy and result in lost jobs. Using our company as an example, Comcast has invested billions of dollars in broadband infrastructure, employing thousands of engineers and purchasing from many small and mid-sized vendors. In fact, in recent years, bonus depreciation, a form of accelerated depreciation, has provided additional investment incentives. Over that time, our capital

spending has increased significantly. Even with a reduced overall tax rate, any significant restriction on MACRS recovery would impact future investment decisions by raising our cost of capital.

Further, since MACRS affects the timing of cost recovery rather than the amount, it can only be treated as a tax expenditure by narrowly defining the budget window looked at. Eliminating accelerated depreciation will increase taxpayers' reported income at the outset and thereby increase government revenue in the short run but over time that tradeoff will turn, and taxpayers will be entitled to larger deductions, reducing government revenue by the same amount. As a result, the change would have no net effect on the federal budget, ignoring time value of money, and will not actually offset any rate reduction.

2. Interest Expense

Deduction of interest expense shares many of the same qualities of accelerated depreciation. It has been an accepted part of the code from the beginning. It is an ordinary and necessary business expense that has never been considered a loophole or been categorized as a tax expenditure. While the distinction between debt and equity in the tax system has been noted often, there is symmetry in the treatment of interest payments as payer deductions are matched by recipient income. The double taxation of equity investment at the corporate and shareholder levels is widely viewed as economically inefficient. Restricting the ordinary interest deduction would perpetuate and expand that inefficiency. And like accelerated depreciation, the interest deduction reduces the cost of capital and encourages investment in infrastructure, andtechnology, promoting growth and jobs. Arguably, one could conclude that in spite of these facts there are companies and industries that are disproportionately leveraged with debt and a reasonable response could be a targeted approach such as a thin-capitalization rule that some other countries have adopted. Such a rule, based either on debt-equity ratio or comparison of interest expense to earnings, could be a potential source of tax revenue used to offset a rate reduction and also serve as a protection against base erosion. Another possible targeted approach with respect to the deduction of interest would be to focus on hybrid arrangements that artificially shift expenses into the US while shifting income to low tax jurisdictions, as highlighted in the OECD's BEPS project.

3. Advertising Expense

Another longstanding and ordinary deduction that has never been considered a loophole but that has begun to be questioned by some in the search for revenue offsets

is the deduction of advertising expenses. Some proposals would limit advertising expense by allowing only a partial immediate deduction and stretching the remainder out over years, in a manner similar to the cost recovery of property under depreciation methods. The problem with this approach, beyond upsetting a long-settled area of the law, is that, unlike the gradual wasting value of most property over time, there is no clear basis on which to treat the cost of advertising as creating an asset whose value decreases as time passes. There may be some advertising expenses that tend to support a brand or image rather than a specific product, and those arguably could be seen as having an impact beyond the current year. But even those items are often reflected in ongoing, recurrent promotions that indicate that the company itself sees the impact as brief, thus requiring constant reinvestment that implies a short useful life. Indeed, most advertising would fall more clearly in the category of costs that provide immediate or short-term value, justifying a current expense. Any effort to distinguish among these categories would almost certainly add complexity and uncertainty. Further, any significant restriction on advertising deductibility would not only discourage investment by companies in this vital part of the economy, it would threaten the critical source of revenue advertising represents for many internet, media and communications companies that could have a widespread economic impact across many industries – less advertising revenue collected means less funding available for investment in growth and jobs.

International Tax Reform: Measuring the Appropriate Base

To this point, our focus has been on areas that we think are <u>not</u> appropriate places to look for revenue offsets needed to combine a lower corporate rate with revenue neutrality. We now turn to what we believe is the most justifiable source of potential offsets – taxation of US multinationals (MNEs). It is widely recognized that MNEs pay US tax at materially lower effective rates than largely domestic corporations. We think, therefore, that prior to paying for a lower rate with changes that disproportionately affect the domestic companies that invest in US infrastructure and jobs while paying the highest rate, lawmakers should consider opportunities to create a system for taxing MNEs that is both fairer and simpler. The current system, with its many international tax loopholes and complexities, creates perverse incentives for MNEs. Evidence presented in the OECD's BEPS project makes clear that many aspects of our system allow for, if not encourage, profit shifting by MNEs – the high statutory rate, transfer pricing inadequacies, hybrid instruments and entities, flaws in the treatment of intangibles and the incentive to load up on US debt among them. Further, the system is inefficient in that it can cause MNEs to make foreign investments that, while less profitable than domestic opportunities on a pre-tax basis, are more profitable on an

after-tax basis. This illogical allocation of capital resources is exacerbated by rules that discourage repatriation of foreign earnings, restricting capital that otherwise would be invested in the US economy.

One possible alternative would be to adopt a worldwide system of taxation, with a full foreign tax credit as exists under current law. While we believe that could be the basis for a viable system in the right circumstances, we perceive a lack of interest in its adoption, and understand that MNEs would suggest that such a system would only further compromise their competitive position relative to their non-US counterparts. But in contemplating other alternatives and keeping in mind MNEs' competitive position outside the US, we think due consideration also must be given to the relative competitive positions between largely domestic US companies and their MNE counterparts – as we have noted, domestics generally pay higher effective rates than MNEs. One approach we think most clearly fails to strike that balance is a pure territorial system. Such a system would only exacerbate the perverse incentives of the current system to inappropriately shift profits out of the US through the many tools already used by MNEs in a manner that would seriously threaten the government's revenue needs. Moreover, an approach that gives a free pass on billions of dollars of profits of US companies in the context of adopting a system that purports to balance a lower rate with a broadened base clearly violates any principle of fairness and would necessarily and inappropriately lay the burden on domestic companies that already pay the highest rates. Exacerbating the current inequities should not be on the table for consideration.

However, a territorial system that includes a minimum tax on all foreign income, at a rate equal to or slightly below the new reduced US rate, if accompanied by strong and comprehensive safeguards against base erosion and profit-shifting, could be a viable approach. We are not entirely convinced such a system, with the needed revenue protections in the areas vulnerable under current law, including transfer pricing, hybrid arrangements, intangibles and interest expense, has been reflected in any proposal to date. But we believe this may be an approach worth pursuing in the name of offsetting a lower rate, keeping MNEs competitive but restricting inappropriate incentives for MNEs under the current system. Tax reform should facilitate growth in the US and achieve a fair and balanced sharing of the corporate tax burden, which doesn't exist today.

Another territorial alternative would be to adopt a system that utilizes an apportionment of base taxable income across taxing jurisdictions. One possibility would be to apportion taxable income based on sales, as many US states have moved to in

recent years. Utilizing sales as the sole apportionment factor negates the incentive to shift operations and people based on tax considerations. While such a system has its own issues to consider, we believe that would be a fairer, simpler and more rational method of applying a territorial tax. Extensive experience with that type of system as used among US states would provide an opportunity to tailor the approach to maximize the advantages and avoid or minimize the flaws. While this approach does not yet hold sway in the international tax arena, the EU has studied it extensively, in the form of the common consolidated corporate tax base proposal that is being considered by its members.

While many participants share common goals in this tax reform effort, most notably seeking a lower corporate rate and searching for the most appropriate offsets in order to achieve a revenue neutral result, there are inescapably competing interests that need to be balanced if we are to create a system that promotes US growth and jobs, reflects a fair sharing of the tax burden and avoids excessive complexity. As we have noted, we believe that certain items targeted in other proposals fail to give adequate consideration to their impact on domestic investment, future growth and resulting job opportunities. Many of these proposals also fail to take into account where the tax burden lies today and what can be done to appropriately share the offsets needed to balance a rate reduction. We have attempted to identify and describe approaches that can achieve many of the stated goals of tax reform and avoid the pitfalls of the past. We would welcome the opportunity to discuss these and other issues you face in this important effort to improve our corporate tax system.

Sincerely,

Kristine Dankenbrink
Senior Vice President, Tax
Comcast Corporation