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## US Law may make outsourcing unattractive

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### House of Representatives Approved The Act Last Week, US Senate To Hold Discussions In June

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**A**MERICAN lawmakers plan to make it less attractive for the country's multinational giants IBM and GE to expand their workforce in cheaper locations such as India by taxing their income from international markets, and encourage job creation by renewing several expired tax breaks for local research units.

Last week, the House of Representatives approved 'the American Jobs and Closing Tax Loopholes Act' on a 215-204 vote, clearing the way for the US Senate to hold final discussions in June. At a time when the unemployment rates in the US are hovering near the 9.9%-mark, lawmakers are under pressure to act against companies seen as creating jobs overseas even as they lay off workers in the country.

"In this legislation, which is job creating; it closes the loophole which has allowed businesses to ship jobs overseas. Can you believe that we have a tax policy that enables outsourcing? So, if you have one thing to say about this Bill to your constituents, you can say that today, you voted to close the loophole to ship US jobs overseas and giving businesses a tax break to do so," speaker Nancy Pelosi told lawmakers before the voting process started on Friday. "It is not right. It will be corrected today."



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**NANCY PELOSI** SPEAKER, US HOUSE OF REPRESENTATIVES

The proposal, expected to cost nearly \$112 billion, will be discussed by the Senate during the first week of Congress' after Memorial Day recess.

However, India's \$60-billion outsourcing sector, which counts GE and Citigroup among its top customers does not see any direct impact. "It's more a US issue than about the business of outsourcing. Depending upon the tax rates, US companies' competitiveness can get impacted," said Som Mittal, president of Nasscom. For instance, if an American company such as GE is going to be taxed on the income generated in a European country where the tax rates are around 15%, the impact could act as a 'double whammy'.

Experts argue that such protectionist measures are short-sighted because many US companies derive significant revenues

from outside the country, and any such stance could lead to a backlash in other markets. Some of the top outsourcing customers, include Citigroup, GE and JP Morgan. Indeed, many US companies derive significant revenues from outside the country, and any protectionist stance could lead to a backlash in other markets. For instance, Citigroup in 2007 generated 52% of its revenues outside the United States, and over 60% of its workforce operated from abroad, as its banking business spanned 100 countries. Citigroup's international revenue streams kept pace through 2008, despite the financial crisis, and amounted to a whopping 74% of the total revenues.

Senator Max Baucus, the Senate finance committee chairman and Sander Levin, chairman of the House ways and means committee are lobbying hard to ensure that

this bill becomes legislation.

The proposed 'jobs bill', which is aimed at creating more local employment in the US, is focused at reviving manufacturing, retail and construction jobs. Last year, president Barack Obama had suggested that his government would end tax incentives for American companies creating jobs overseas by removing 'deferred tax' on foreign income for these companies.

"It can't be affecting the outsourcing industry, and even if it does, it will be more about offshoring of manufacturing than what we do from here," said Mr Mittal.

On their part, India's top outsourcing companies Tata Consultancy Services (TCS), Infosys, Wipro and HCL have already started setting up development centres in locations such as Atlanta and Michigan. While TCS aims to double its foreign workforce from 10,000 to 20,000 over next five years, Infosys and Wipro could see non-Indians account for 10-15% of their total employee base in next 3-5 years, from 5% currently.

Meanwhile, in a country where political lobbyists are expressing concerns about the 'jobless recovery' this issue is set to gain momentum going forward. "If I had four words to describe the bill, it would be the same four words-it is a four letter word, I prepare you for that-jobs, jobs, jobs, jobs, and jobs," Pelosi said.