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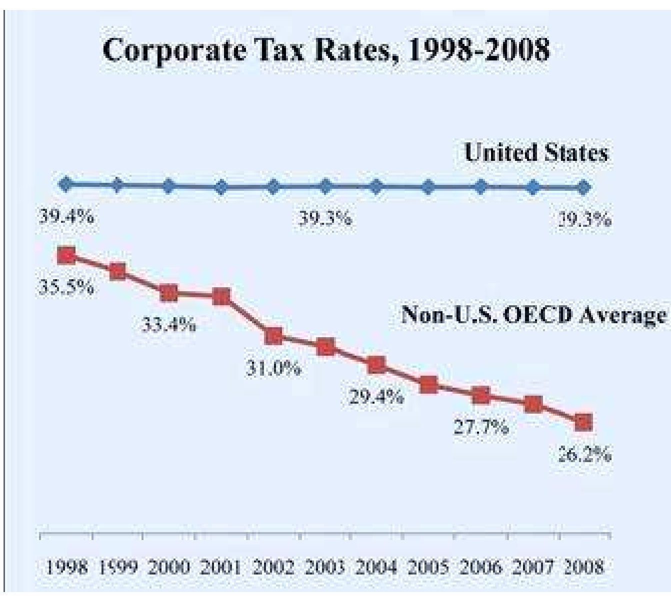
Businesses Flee Opressive Corporate Tax Code

From Tim Andrews on Tuesday, July 7, 2009 2:54 PM



It is purely a matter of common sense that tax cuts generate economic growth, while tax hikes cause business to shut down or flee. After all, why stay in business when half your profits are being taken by the taxman? That's why according to the IRS, over 400,000 tax-refugees fled from the top 10 taxing states to lower-taxing states in 2007 alone.

This is hardly rocket science.

Especially damaging to jobs are corporate tax hikes. As we all know, *corporations don't pay taxes—people do. These tax hikes result in massive job losses as businesses close their doors and move interstate – or overseas. In fact, the* marginal US corporate tax rate (including state and federal taxes) is a whopping 39.3% - the second highest in the world! But legislators just don't get the message and refuse to cut corporate taxes. In some states, like New Jersey , Oregon, and Illinois, in defiance of all laws of logic and reason, corporate tax rates have actually *increased* in the last 6 months!

As the rest of the world is slashing corporate taxes, company after company are fleeing the oppressive tax-regime of the U.S. to friendlier countries, resulting in thousands of job losses nation-wide.

The Cato Institute yesterday provided yet another example of this, where coffee giant Tim Hortons, who operate 3,500 coffee outlets, last week decided to relocate. To Canada. Yes, that's right, Canada, where the city of Ontario has cut its combined corporate tax rate to 25% - a full 15 percentage points lower than the marginal US rate, and 7 percentage points lower than even the most business friendly states.

A second motivating factor for Hortons, however, is the U.S's bizarre tax-code provisions penalizing companies from competing in foreign markets through double-taxation. To make matters worse, President Obama has recently threatened to abolish 'deferral' provisions, which allow U.S. companies to avoid paying this double-tax until they repatriate the profits back to the U.S. As we have pointed out previously, if enacted, Obama's plan would lead to a stampede of businesses relocating overseas, and the loss of as many as 2.2 million jobs.

As such, it is only natural that for Hortons to fulfill their stated aim "to expand in Canada and internationally", they move to a more tax-advantageous climate. As Cato's Chris Edwards notes, *"If the company wants to open locations in, say, Europe, it would be better that the parent company is located in Canada because of its more favorable tax treatment of corporate foreign investment than the United States."*

This is purely a predictable and preventable consequence of our corporate tax code. The U.S corporate tax code as it currently stands discourages American investment, forces businesses to flee overseas, and kills jobs. If President Obama and many state legislators get their way, things will only get worse.

It's time for *real* change.

(Image credit: Centre for National Policy Analysis)

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Unfortunately, I don't think most of America understands that corporations are people too.
>> Conservative Tom Tuesday, July 7, 2009 5:26 PM

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