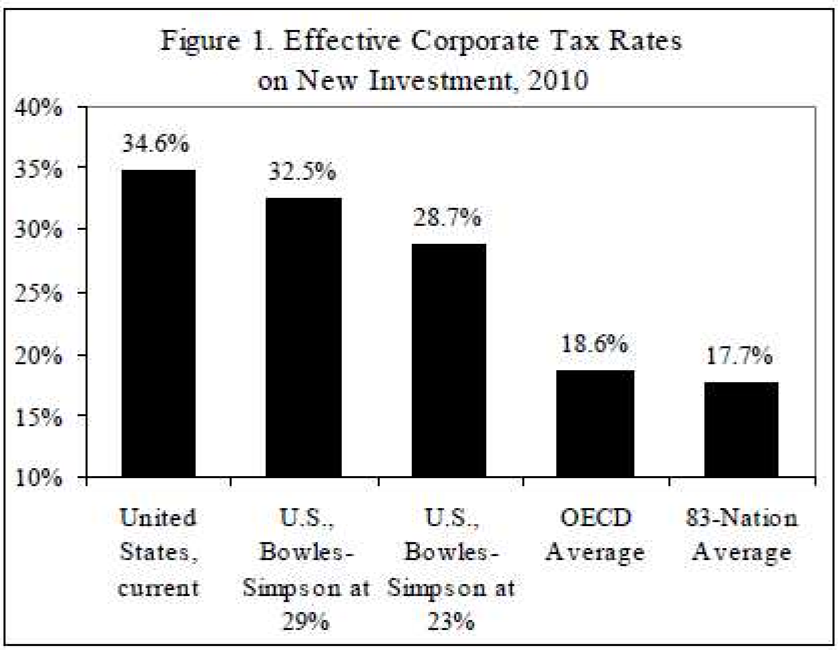
High U.S. Corporate Tax Rate a Barrier to Economic Growth?

16 comments | by: David Hunkar March 13, 2011

The U.S. has one of the highest corporate tax rates in the world. Only Brazil, Uzbekistan, Chad and Argentina have higher corporate tax rates than the U.S. According to a research study by the Cato Institute, the effective U.S. corporate tax on new investment was 34.6% in 2010. This was higher than the average OECD rate of 18.6% and the average rate for 83 countries at 17.7% as shown in the chart below: *(Click to enlarge)*



The table below lists the corporate tax rates on new investments by country: *(Click to enlarge)*

Table 1. Effective Corporate Tax Rates on New Investment, 2010

United States	34.6%		
Argentina	43.1%	Thailand	17.0%
Chad	36.3%	Rwanda	16.9%
Brazil	35.1%	Netherlands	16.8%
Uzbekistan	34.9%	Luxembourg	16.8%
France	34.0%	China	16.6%
India	33.6%	Hungary	15.9%
Russia	31.9%	Uganda	15.4%
Japan	29.5%	Nigeria	15.1%
Korea	29.5%	Madagascar	14.6%
UK	27.9%	Israel	14.6%
Italy	26.9%	South Africa	14.5%
Australia	26.0%	Bangladesh	14.5%
Spain	25.4%	Poland	14.3%
Lesotho	25.3%	Morocco	13.9%
Austria	25.3%	Botswana	13.6%
Costa Rica	25.2%	Trinidad	13.1%
Norway	24.7%	Greece	13.0%
Pakistan	24.1%	Ghana	12.9%
Germany	23.8%	Czech Rep	12.0%
Peru	23.0%	Vietnam	11.7%
Bolivia	22.9%	Slovenia	11.6%
Tunisia	21.9%	Slovak Republic	11.2%
Portugal	20.8%	Ireland	10.9%
Iran	20.6%	Taiwan	10.9%
Fiji	20.6%	Ethiopia	9.8%
Indonesia	20.5%	Croatia	9.5%
Canada	20.5%	Iceland	8.9%
Kazakhstan	19.9%	Romania	8.6%
Tanzania	19.3%	Singapore	8.5%
Sierra Leon	19.0%	Mauritius	7.8%
Sweden	18.9%	Egypt	7.0%
Georgia	18.9%	Chile	6.7%
Denmark	18.5%	Turkey	5.6%
Finland	18.3%	Latvia	5.6%
Malaysia	18.0%	Bulgaria	4.6%
Jamaica	17.9%	Kenya	4.5%
Ecuador	17.9%	Hong Kong	4.0%
Jordan	17.6%	Ukraine	3.1%
Switzerland	17.6%	Belgium	-1.7%
New Zealand	17.6%	Serbia	-5.1%
Mexico	17.5%	Average of 83 nations	17.7%
Zambia	17.2%		

From the research report:

Many industrial and emerging countries have reduced their corporate tax rates over the last decade or so. The largest rate cuts were in Austria, Bulgaria, Canada, the Czech Republic, Germany, Greece, Iceland, Ireland, Italy, Netherlands, Poland, Slovakia, Turkey, Egypt, Georgia,Kazakhstan, Lesotho, Mauritius, and Singapore. America's largest trading partner, Canada, cut its statutory corporate rate from 43% to 29%, which helped to bring down its effective rate from 44% to 21%, according to our calculations. Substantial cuts were also achieved in Australia, Belgium, China, Denmark, Finland, Korea, Luxembourg, Mexico, New Zealand, Taiwan, and the United Kingdom. Taiwan cut its statutory rate from 25% to 17% in 2010, and now has an effective rate of just 10.9%.

The authors of the report propose that the current U.S. corporate tax rate must be reduced by at least 10% or even higher in order to be in-line with the OECD average. A new academic study suggests that reducing corporate tax rates in high-rate countries will not cause significant revenue losses. In addition, lower tax rates will encourage U.S. companies to repatriate their profits stashed abroad and subsequently will lead to higher tax revenue collection for the government and stimulate more investment.

In conclusion, the authors suggest that the goal of tax reforms should be to make the U.S. corporate tax rate competitive relative to other countries. Hence a sharp reduction in the federal corporate tax rate of 10% of more would generate higher economic growth and ultimately more jobs and income.

Source: *New Estimates of Effective Corporate Tax Rates on Business Investment, by Duanjie Chen and Jack Mintz, School of Public Policy, University of Calgary*