THE DAILY CALLER

How High Corporate Taxes Lost America The World's Next Biggest Drug Company

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Pfizer and Allergan are preparing to merge in a $160 billion deal that will create the world's largest drug company. But instead of being based in the U.S., the heart of medical innovation, the new company will headquarter in Ireland.

The historic deal will create a company with an operating cash flow of $25 billion per year. The merger will need to pass regulatory hurdles to avoid any anti-trust violations. The new company, Pfizer Plc, is expected to save $2 billion in the first three years.

Pfizer Plc is the latest in a string of high-profile companies to undertake what is known as a "tax inversion," where a company domiciles in a foreign country with a corporate tax rate lower than the Ameriac's 35 percent. Ireland has a corporate tax rate of just 12.5 percent, making it an extremely attractive proposition to many of the world's leading companies.

President Barack Obama is a vocal critic of tax inversions, calling them "unpatriotic." The administration has taken steps to clamp down on the practice.

But leading experts believe the Pfizer and Allergan inversion is just the symptom of the fundamental problems besetting America's corporate tax system.

Chris Edwards, director of tax policy studies at Cato Institute, tells The Daily Caller News Foundation, "we [America] have an emergency situation with the corporate tax system," and "we are shooting ourselves in the foot," with excessively high tax rates.

"With a globalized economy you can't trap your tax base," he added. The U.S. is an outlier among developed economies in maintaining a punitively high corporate rate. "Even left of center governments in Europe and Canada have slashed their corporate tax rates. The trends are so obvious it's remarkable we haven't acted."

Jared Meyer, a fellow at the Manhattan Institute, argued, “capital is mobile in this global economy, and US corporate taxes are uncompetitive. When average state corporate taxes are included, the top U.S. marginal rate tops 39 percent.

“This rate is much higher than the developed world’s average of 25 percent. Can anyone blame Pfizer for taking steps to help its shareholders and keep costs down for its customers?”

Meyer warns that “until there is corporate tax reform, more companies will follow Pfizer and leave America.” But beyond the high corporate tax rate American companies are expected to pay, there is another aspect to the system that puts them at a further disadvantage.

Veronique de Rugy, a senior research fellow at the Mercatus Center, says she isn’t at all surprised by Pfizer’s decision and says what “adds insult to injury” is that the U.S. corporate tax is a worldwide system. This means if an American company repatriates foreign earnings, they are still obligated to pay a tax on these earnings to the US government.

Aparna Mathur, a resident scholar at the American Enterprise Institute, told TheDCNF, “I think the reason we are seeing a wave of inversions is precisely because the US corporate tax system is so out of line with that of the rest of the world.”

One of the reasons why there has been some reluctance to reform the system is that Democrats, in particular, believe “corporations are bad, that they’re dodging taxes and we need to hammer them,” says de Rugy.

But if anyone thinks corporate taxes just hit the wealthy they are sorely mistaken, says Edwards. “It is a consensus view that the corporate tax burden is shifted on labor.” A study of 65 countries finds increasing the corporate tax by 1 percent decreases wages by 0.5 percent. “Democrats need to bone up on their tax economics,” Edwards adds. There is little prospect of a large-scale cut in the corporate tax rate before a new administration enter the White House in 2016, according to Edwards.