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Blame Government Policies, Not Companies, for Reincorporating Abroad

By: Steve Stanek
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Recent corporate mergers and acquisitions – and talk of more in the works – have some Americans, including federal legislators, accusing the companies of being "unpatriotic," "freeloaders," and "avoiding their fair share" of taxes.

In response, Senate Majority Whip Dick Durbin (D-IL) today led a group of other Democrat senators in introducing the "Patriot Employer Tax Credit Act," which he said in a statement "will reward businesses that exemplify American values and treat workers fairly – not companies who ship jobs overseas."

Defenders of the companies, however, say they are merely responding to terrible United States tax policies. There would be no need for tax credit programs to induce companies to remain headquartered in the United States if the federal government were to adopt corporate tax systems similar to those in most other industrialized countries, including our largest trading partner, Canada, said Chris Edwards, director of tax policy studies at the Cato Institute.

'Properly Trying to Escape'

"It's so irresponsible, Durbin's position," said Edwards. "We have a horrible corporate tax code, with the highest tax rate in the industrialized world, and he complains when corporations properly try to escape it."

Durbin and other critics are objecting to corporate "inversions," in which companies reincorporate in foreign countries with lower corporate income taxes and a territorial tax system instead of the worldwide tax system imposed by the United States. Their aim is to reduce taxes on income earned abroad. Mergers and acquisitions make inversions possible.

The United States is nearly the only nation that claims the power to tax income earned anywhere in the world. Most other governments tax only income earned in their countries. They levy no tax on income earned abroad. Edwards said this makes United States tax policies "more hostile" than those of governments in Canada, Europe, and most of industrialized Asia.

‘European Left More Sensible’

“Mainly left-wing governments in Europe are more sensible than the left is here in America,” Edwards said. “We don’t find companies trying to invert out of Canada or Ireland these days, because they have reasonable corporate tax policies. They have a 15 percent tax rate in Canada, which compares to our federal rate of 35 percent. [Most states impose a corporate tax on top of that.] The Canadians are not radical tax cutters. They’re centrists who want their companies and their economy to do well. They asked what do we need to do to achieve this? They cut taxes.

“Left wingers like Durbin and [Sens. Carl and Sander] Levin talk about how government is losing money because of these inversions. The government is losing because their policies are inducing companies to move offshore,” Edwards said.

Lower Tax Rate, Equal Revenue

He noted Canada, with a corporate tax rate less than half the United States rate, receives as much corporate tax revenue as a percentage of its gross domestic product as the United States receives. The Tax Foundation earlier this year also noted the average corporate tax rate of the 33 other nations in the Organisation for Economic Cooperation and Development (OECD) is 10 points lower than the federal tax rate and 14.1 points lower when state corporate taxes are included. Even Sweden, long known for high taxes, has a corporate tax rate 13 points lower than the federal rate.

Sen. Elizabeth Warren (D-MA), who introduced the bill with Durbin, said in a statement, “Big corporations have rigged the tax code so badly that they’re actually rewarded when they move American jobs overseas. We should stitch up those loopholes and invest in those companies that invest in America – not those companies that invest in the most lobbyists.”

Lobbyists have nothing to do with it, said Pete Sepp, executive vice president of the National Taxpayers Union.

‘We’re Number 61!’

“It's not America's companies who have given up on this nation, it's America's tax system that's given up on companies, workers, shareholders, and consumers,” Sepp said. “The statistics about other countries' more attractive tax rates tell a compelling story of why many firms can feel pushed to choose inversions, but so do the statistics on tax compliance burdens.

“PricewaterhouseCoopers' annual ‘Paying Taxes’ study shows that for a hypothetical medium-sized firm, the time and cost spent just on tax paperwork puts the U.S. 61st out of 189 countries. Somehow the chant of ‘We're 61!’ doesn't seem to have much appeal to a beleaguered business.”

Number 61 might be optimistic. Sepp added, “Tellingly, the U.S. did even worse when ranked by total tax rate [corporate, payroll, and other taxes] alone – 132nd-best out of 189. Five years ago, the U.S.’s ranking was 92nd out of 181, a stark indication that our country is falling behind in global tax competition.”

Big Pharmacy Inversion

Currently making headlines over a possible inversion is Walgreen Co., the nation's largest pharmacy chain. Walgreens plans to buy Swiss-based Alliance Boots GmbH, a giant European pharmacy company. Walgreens CEO Greg Wasson this week told analysts the company is "looking at everything," including its tax structure with Alliance Boots, to improve the company's finances.

"It is deeply disturbing that Walgreens would even consider this unpatriotic move to avoid paying its fair share of taxes. What will its customers say? The company profits from billions in taxpayer dollars every year, but appears to be putting the interests of Wall Street hedge funds ahead of the American people," said Frank Clemente, executive director of Americans for Tax Fairness, in a statement.

Cato's Edwards said this perspective fails to understand the global nature of economies.

"I broadly see, with the U.S. Congress and policymakers, people who are incredibly parochial. They don't get what globalization is and what it means," Edwards said. "It means they can't willy-nilly adopt anti-competitive policies. They don't get this."