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Abusive tax policies hurt businesses

By Steve Stanek

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The United States is the only industrialized nation that uses a “worldwide” tax system, in which a U.S.-based corporation must pay taxes to our government regardless of where the corporation earns its money. Most of the rest of the world uses a “territorial” tax system, in which a corporation pays taxes only where it earns income.

For instance, Volkswagen and BMW pay taxes to the federal and state governments on income earned in the United States. If they bring that money back to Germany, where they are headquartered, Germany taxes none of it, because the United States has already taxed it. On the other hand, if a U.S.-based company earns income in Germany and wants to bring some of it back into this country, the company must pay federal tax even though the money has already been taxed in Germany.

This is a disadvantage to multinational corporations based in the United States and a big reason for corporate “inversions,” the word used to describe U.S. companies reincorporating in foreign countries. The U.S. has the highest corporate tax rate in the industrialized world, 35 percent, and most states levy their own corporate tax on top of that.

The Tax Foundation earlier this year noted the combined (state and federal) average corporate tax rate in the U.S. is 39.1 percent, while the average rate is 25 percent among the 33 other nations in the Organization for Economic Cooperation and Development. OECD nations include Australia, Canada (this nation’s largest trading partner), France, Germany, Japan, South Korea, Mexico, Sweden and the United Kingdom.

In an interview with Budget & Tax News, Chris Edwards, director of tax policy at the Cato Institute, noted Canada has a net corporate tax rate of 15 percent – less than half the U.S. federal rate – and receives as much corporate tax revenue as a percentage of its gross domestic product as the U.S. receives.

“We don’t find companies trying to invert out of Canada or Ireland these days, because they have reasonable corporate tax policies,” Edwards said. “Left wingers like Durbin and [Sen. Carl

and Rep. 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."

Pete Sepp, executive vice president of the National Taxpayers Union, also noted, "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."

Sen. Carl Levin, D-Mich., has introduced a bill that would virtually end the ability of American companies to do inversions. So has Sen. Dick Durbin, D-Ill., who has seen the news that two Illinois-based companies, including Walgreen Co., the nation's largest pharmacy chain, are mulling overseas mergers to do inversions. He has introduced the "Patriot Employer Tax Credit Act," a bill his press statement says "would provide a tax credit to companies that provide fair wages and good benefits to workers while closing a tax loophole that incentivizes corporations to send jobs overseas."

Notice the slam against the "patriotism" of companies that do inversions.

Lack of patriotism and "tax loopholes" are not the problem. The problem is a nation with the highest corporate tax rate in the industrialized world, a government that taxes income earned anywhere, and an outrageously time-consuming and costly system just to pay taxes.

Until those problems are addressed, expect more U.S. companies to try to reincorporate outside the United States, and expect almost no companies outside the United States to try to reincorporate here.

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