



Inversion Controversy Is about Whether Company Profits Should Flow to Shareholders or Government

By Daniel J. Mitchell
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Since I've been in Washington for nearly three decades, I'm used to foolish demagoguery.

But the left's reaction to corporate inversions takes political rhetoric to a new level of dishonesty.

Every study that looks at business taxation reaches the same conclusion, which is that America's tax system is punitive and anti-competitive.

Simply stated, the combination of a very high tax rate on corporate income along with a very punitive system of worldwide taxation makes it very difficult for an American-domiciled firm to compete overseas.

Yet some politicians say companies are being "unpatriotic" for trying to protect themselves and even suggest that the tax burden on firms should be further increased!

In this CNBC interview, I say that's akin to "blaming the victim."

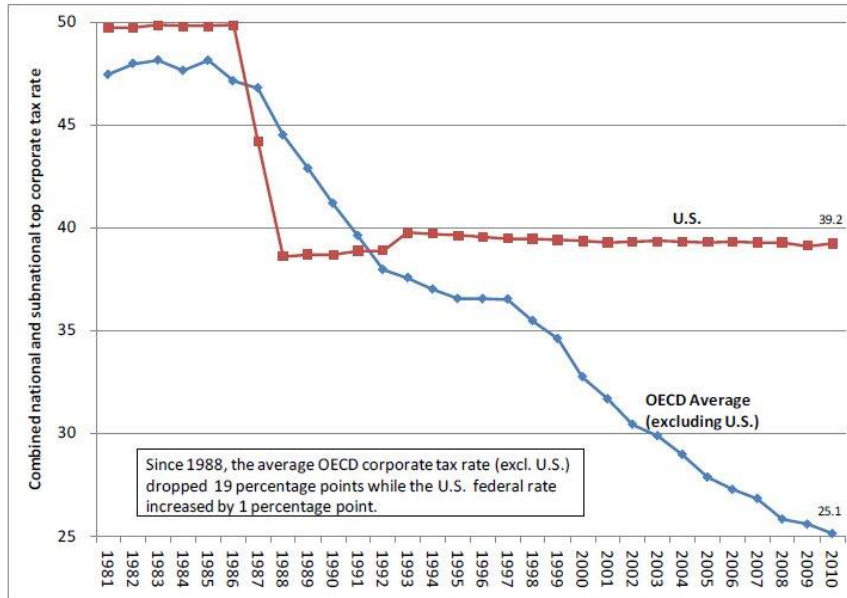
While I think this was a good interview and I assume the viewers of CNBC are an important demographic, I'm even more concerned (at least in the short run) about influencing the opinions of the folks in Washington.

And that's why the Cato Institute held a forum yesterday for a standing-room-only crowd on Capitol Hill.

Here is a sampling of the information I shared with the congressional staffers.

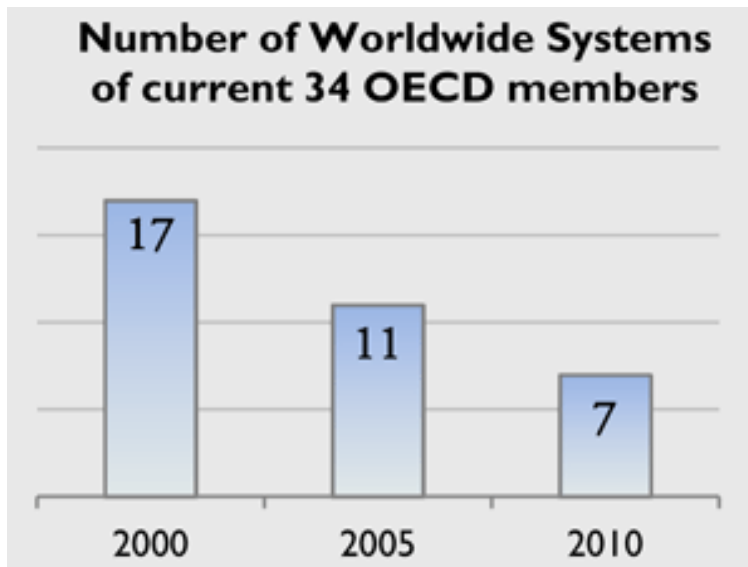
We'll start with this chart showing how the United States has fallen behind the rest of the world on corporate tax rates.

Figure 1.--Average OECD Member Country Corporate Tax Rate, 1981-2010



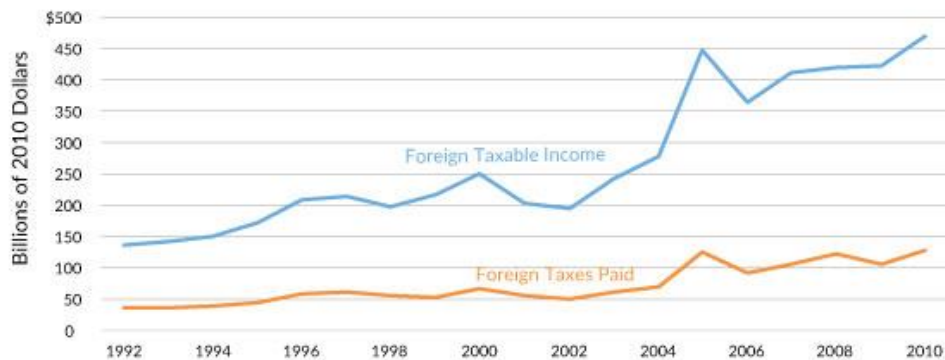
Source: OECD tax database; 2010 average includes reported tax rates for three members that acceded to the OECD in 2010 that are not yet included in the tax database. The U.S. rate is based on the 35-percent federal tax rate and average state taxes of 6.47 percent, which are deductible from federal taxes.

Here’s a chart showing the number of nations that have worldwide tax systems. Once again, you can see a clear trend in the right direction, with the United States getting left behind.



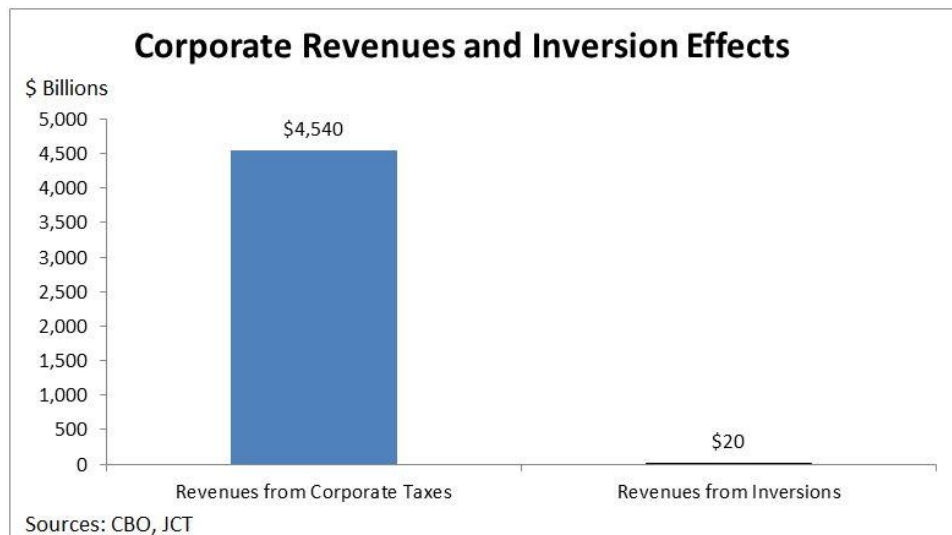
Next, this chart shows that American companies already pay a lot of tax on the income they earn abroad.

Figure 1. Foreign Taxable Earnings and Taxes Paid by U.S. Companies, 1992-2010



Note: Includes only repatriated income and income subject to current taxation. Does not include income currently held abroad.

Last but not least, here's a chart showing that inversions have almost no effect on corporate tax revenue in America.



The moral of the story is that the internal revenue code is a mess, which is why (as I said in the interview) companies have both a moral and fiduciary obligation to take legal steps to protect the interests of shareholders, consumers, and employees.

The anti-inversion crowd, though, is more interested in maximizing the amount of money going to politicians.

Actually, let me revise that last sentence. If they looked at the Laffer Curve evidence (here and here), they would support a lower corporate tax rate.

So we're left with the conclusion that they're really most interested in making the tax code punitive, regardless of what happens to revenue.

P.S. Don't forget that your tax dollars are subsidizing a bunch of international bureaucrats in Paris that are trying to impose similar policies on a global basis.

P.P.S. Let's end with a note on another tax-related issue.

We've already looked at evidence suggesting that Lois Lerner engaged in criminal behavior.

Now we have even more reasons to suspect she's a crook. Here are some excerpts from the *New York Observer*.

“The IRS filing in federal Judge Emmet Sullivan’s court reveals shocking new information. The IRS destroyed Lerner’s Blackberry AFTER it knew her computer had crashed and after a Congressional inquiry was well underway. As an IRS official declared under the penalty of perjury, the destroyed Blackberry would have contained the same emails (both sent and received) as Lois Lerner’s hard drive. ...With incredible disregard for the law and the Congressional inquiry, the IRS admits that this Blackberry “was removed or wiped clean of any sensitive or proprietary information and removed as scrap for disposal in June 2012.” This is a year after her hard drive “crash” and months after the Congressional inquiry began. ...One thing is clear: the IRS has no interest in recovering the emails. It has deliberately destroyed evidence and another direct source of the emails it claims were “lost.” It has been blatantly negligent if not criminal in failing to preserve evidence and destroying it instead.”

Utterly disgusting.

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