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## Corporate Tax Madness

The United States is one of the few countries that taxes individuals and companies on their global income. Furthermore, it has the highest corporate tax rate in the world. To mitigate these conditions, companies have at least been allowed to defer taxes on income earned in other countries until it is brought back to the United States, says Richard Rahn, a senior fellow at the Cato Institute.

The Obama administration, however, would like to do away with this ability, further increasing the burden of America's corporate taxes. This demonstrates the administration's fundamental misunderstanding of corporate behavior and rational responses to taxes.

- Companies can charter themselves anywhere in the world, and will likely respond to unfriendly tax code changes by moving operations overseas to countries with comparable resources and more friendly tax climates.
- The United States' unstable fiscal situation and toxic political atmosphere means that Washington needs to offer businesses incentives, not penalties, for keeping operations domestic.
- Furthermore, the haphazard nature of taxation of businesses fails to recognize that businesses can choose the legal form under which they conduct business and do not necessarily have to charter themselves as corporations.

The high-tax-rate lobby fails to understand these fundamental principles, and therefore elects to treat American businesses as if they are a static good that can be exploited.

Canada's experience with its own corporate tax rate, on the other hand, is illustrative of the benefits that can be attained when politicians pay attention to business behavior.

- Canada has been reducing its federal corporate tax rate from almost 30 percent in 1999 to just 15 percent this year, making it more attractive to businesses.
- Rather than falling, corporate tax revenues rose after the rate cut and, more telling, resulted in an increase in federal corporate tax revenues as a percentage of gross domestic product (GDP).
- Canada on average produces approximately 25 percent more in corporate tax revenues as a percentage of GDP than does the United States, even though the Canadian federal corporate tax rate is less than half that of the United States.

Canada's experience demonstrates the lessons of the Laffer Curve, in which a government can realize augmented revenues through a decrease in tax rates; this is a lesson the Obama administration would do well to acknowledge.

Source: Richard Rahn, "Corporate Tax Madness," Washington Times, April 23, 2012.