NEW YORK POST

SOCKING STOCKS

By JIM POWELL

May 6, 2009 --

JUST as the econ omy begins show ing glimmers of a turnaround, here comes President Obama with a "tax-reform" effort that's sure to sock the stock prices and after-tax profits of many of the biggest US employers.

Obama's $190 billion business-tax hike will hit Americans whose jobs and pensions depend on these companies doing well, and will increase pressure on already struggling colleges and hospitals. Why? Because millions of individual investors hold the companies' stocks in their portfolios, mutual funds and pension funds, as do many colleges, hospitals, museums and other institutions in their endowments.

Among the important employers in Obama's crosshairs: Aetna, Alcoa, Allstate, American Express, Berkshire Hathaway, Best Buy, Cisco Systems, Coca-Cola, Costco Wholesale, Dell, Dow Chemical, DuPont, Exxon Mobil, Ford, General Motors, GMAC, Hewlett-Packard, Honeywell, IBM, Intel, Johnson & Johnson, Kraft Foods, Kroger, McDonald's, Merck, Microsoft, Motorola, News Corp., PepsiCo, Pfizer, Procter & Gamble, Safeway, Sears, Sprint Nextel, Supervalu, Sysco, Target, Time Warner, Walgreens and Walt Disney.

Obama is outraged that these employers use offshore tax havens to reduce their tax burdens. But America has one of the world's highest effective corporate-tax rates, 36 percent, while the average for most other nations is 20 percent. This undermines US-based companies' competitiveness.

Moreover, America levies taxes on corporate profits when they're earned, and then taxes the portion of profits that are distributed as interest or dividends. And when an investor uses after-tax personal income to buy a stock that happens to go up, the US levies a tax on the capital gain (a tax Obama wants to increase).

If Obama succeeds in preventing US-based companies from using offshore tax havens, their effective tax rates will go up. There will be further downward pressure on their stocks, many of which are already down by half from recent peaks.

The offshore tax havens at issue include the Bahamas, Cayman Islands, Isle of Man, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands Antilles and Switzerland. To the extent that companies are able to reduce their tax burdens and raise earnings by using offshore tax havens, their stock valuations are likely to be higher than they otherwise would be.

Obama claims it's unfair that US-based multinational employers use offshore tax havens, and most employers operating exclusively in the US don't. But raising the effective tax rate on US-based multinationals would simply erode our competitiveness because offshore-based competitors will continue using tax havens to reduce their tax burdens and capital costs.

Ironically, Obama's increased corporate taxes would probably lead more Americans to seek higher returns by investing in offshore-based companies. The Commerce Department's Bureau of Economic Analysis says US investors hold some $5.1 trillion worth of stock in offshore-based companies. These assets have appreciated as foreign currencies have risen against the dollar, and many Americans have invested in them as a means to diversify and protect themselves from dollar devaluation.

For change we can believe in, Obama could propose abolishing corporate-income taxes altogether.

Corporations don't really pay taxes anyway. Like other costs of doing business, they pass them on to consumers.

Ever since America enacted the corporate-income tax amid a burst of populist fury in 1909, it has become a notorious source of complexity, distortions and scandals. The cost of corporate-income-tax compliance -- including the necessity to hire armies of accountants and lawyers -- could well exceed the revenue corporate-income taxes generate.

At the very least, Obama could seek guidance from European countries, as he has on other issues. He'd find that they've been *cutting* their corporate taxes. Following their lead would be much better than socking the stock market when it's trying to get off the canvas.

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