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EDITORIAL: Relief for American enterprise

Canadian experience shows it's time to slash U.S. corporate tax rate

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The U.S. economy is in desperate need of a boost. That's not surprising considering our businesses struggle under a tax burden higher than what is found in any other major industrialized nation. It's long past time to slash these rates and restore the competitiveness of American industry.

A new Cato Institute study puts the issue in perspective. The U.S. tax rate is 35.6 percent, and as University of Calgary scholars Duanjie Chen and Jack Mintz found, only businesses in Argentina, Chad and Uzbekistan suffered greater oppression from the taxman. Our rate is almost double the 19.4 percent average for the 34 countries belonging to the Organization for Economic Cooperation and Development (OECD). That means an entrepreneur in Paris, Texas, pays far more to Uncle Sam than he would pay to the profligate government in Paris, France.

We're even more outclassed by countries like Hong Kong, which has consistently landed at the top of the economic freedom leader boards with a marginal rate of less than 4 percent. While the rest of the world has been moving in Hong Kong's direction — the average rate has dropped from 22 percent in 2005 to 19 percent today — ours has barely budged from the 36 percent rate we had in 2005.

Worse, the U.S. tax code is a mess of special preferences that distort the allocation of capital. Services face an effective tax rate of 37.2 percent, while manufacturing pays about 34 percent — a significant difference. In Hong Kong, the gap between corporate tax rates in manufacturing and services is less than one-half of 1 percent.

The effect is stagnation. High corporate taxes discourage domestic investment and act as a drag on growth. Adding insult to injury, they also generate little revenue. The Cato study concluded the high marginal tax rate "results in low government revenues because the high rates induce businesses to shift their investment and profits abroad." Capital is highly mobile. Other things being equal, a smart investor is going to pick a jurisdiction with lower corporate tax rates to set up shop. The decision is a no-brainer if the choice is between locating in New York state, or crossing the border in Canada, where the tax rate is almost 40 percent lower.

It’s counterintuitive, but cutting corporate taxes is the most important thing we can do to trim our fiscal deficit. Restoring U.S. competitiveness will attract billions of dollars now parked overseas. Beginning in 2000, Canada cut its federal statutory rate from 29 percent to 15 percent and the average provincial rate from 13 percent to 11 percent. It also reformed the system to be more neutral, cutting back many of the special preferences. As a result, our neighbor to the north is experiencing dropping unemployment after it weathered the Great Recession with comparative ease. Canada’s slashing of corporate rates didn’t even put a dent in revenue levels, which remained stable at around 3.5 percent of gross domestic product between 2000 and 2012.

If we want the economy to start growing, we need to start imitating the Canadians.