THE JEFFERSON JOURNAL

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THE THOMAS JEFFERSON INSTITUTE FOR PUBLIC POLICY

U.S. Tax System Forces Corporations to Look Overseas

By Michael Thompson

6/10/2016 -- Anti-big-business rhetoric is alive and well in this presidential election year.

Of course Big Business works the halls of government to its advantage whenever it can. As do the lobbies for small business, unions, farmers, etc. But when it comes to creating a business climate where our internationally renowned businesses can succeed, the prestige of Big Business seems to be failing miserably.

The U.S. tax structure has created a situation where our major companies are looking to move to other countries in order to maintain viability in the world competition. To enhance shareholder value and remain competitive in this global economy some businesses have looked overseas to find partners that will "take them over" and move the headquarters to countries more friendly to business. This corporate move is called a tax inversion.

It is sad that the United States, a country that used to be a magnet for businesses to start, grow and prosper, has created such a byzantine tax and regulatory structure that some of our premier companies seek to leave our shores for better horizons.

Don't blame "crony capitalism" or "Big Business control of government" for this problem. Too many of our elected officials simply don't understand the competitive world and how to create a business climate that will protect our workers and, at the same time, allow our industrial engines to succeed.

Recently Pfizer, one of our most respected corporate citizens, was planning to merge with an overseas competitor -- its Irish counterpart, Allergan -- and move to that country. This was to save billions of dollars in taxes and thus be able to survive in a more competitive world.

The U.S. Treasury Department decided to stop Pfizer by making it so terribly expensive to move out that Pfizer decided to stay here, at least for now. The Treasury "reinterpreted" laws and regulations in a heavy handed way, rather than taking actions to cut our corporate tax rate which is the highest in the industrial world.

Pfizer paid approximately $3.1 billion in taxes on its 2014 income at a rate of 25.5 percent. Ireland's rate is about 17 percent. Under Ireland's rate, the company would have increased its profits by just over $1 billion.

For a major company like Pfizer (nearly 80,000 employees), a $1 billion profit increase is a huge deal. The reason the gap is so large is the U.S. has the highest corporate tax rate in the developed world.

Our policy makers think that we can make our companies compete against overseas firms when our companies face a huge disadvantage in corporate taxes. Not only does this tax disadvantage encourage US companies to move overseas, but new corporations may well find better places to set up their headquarters rather than here in America – rather than in Virginia or any other state.

Here's an idea that makes more sense than adding to the financial burdens of companies that want to move out from under our heavy tax burden: let's lower our abnormally high corporate tax rate so that it's at least more competitive to our worldwide competitors.

Had Pfizer moved to Ireland, its tens of thousands of U.S. employees would have continued to work in the U.S. and contribute to our economy by buying houses, cars, groceries, clothes, etc. – and paying taxes just as they do today. And the extra $1 billion in tax savings might well have allowed further expansion of that company thus employing more people.

Leading academic research has shown that these moves overseas can actually be better for the U.S. economy compared to the status quo. Why so? Because if the corporation is stronger economically (a larger profit because it save significantly on its taxes), it can hire more people, invest in more research and development, and offer products at a more competitive price.

So stopping Pfizer or other companies from "corporate inversions" – the term used to describe a US company merging with an overseas competitor and moving out – is only government trying to stop the inevitable. If our tax code and regulatory stranglehold on companies continue, our businesses will find ways to move overseas in order to avoid the incredibly high tax rates and overly costly regulations imposed on our corporations today.

Tax cuts almost always create an expanding economy and in a few years even more tax revenue. The problem is that government allows its costs to rise even faster. Those who don't understand how the world works or who believe government exists to tax businesses and people, blame the companies for seeking lower taxed "safer havens." These bureaucrats and their allies in Congress raise taxes or build other roadblocks to profits – the life blood for any society.

For all the finger pointing at "Big Business" for its close relationship with government, has anyone asked why these corporate buddies in government can't craft an economic climate that encourages companies to move to the United States rather than our companies seeking ways to move out?

Maybe Big Business isn't so powerful after all. The real problem is Big Government and its allies in Congress. We wouldn't have corporate tax inversions if US corporate tax rates were competitive with the rest of the world.

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