



Obama's Proposal to Double-Tax Profits Will Kill U.S. Jobs

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America has the highest corporate income tax rate in the developed world. The United States is tied with Japan for one very dubious honor—having the highest corporate income tax rate in the developed world. According to the OECD, the United States has a combined marginal corporate rate of nearly 40 percent. This compares very negatively to our European competitors' average rate of 25 percent. The Republic of Ireland stands in the starkest contrast, with a corporate income tax rate of 12.5 percent. In the developing world, rates of 10 or 15 percent are commonplace.

America is the *only* developed country that double-taxes the international profits of our own companies. If an Irish company earns a profit in France, it pays the French corporate income tax, and nothing else. But if a U.S. company earns that same profit in France, it must pay the French corporate tax *and* the U.S. corporate tax (minus whatever was paid to France). So not only does the U.S. impose the highest corporate rate in the world, it makes sure that this rate is applied to both domestic and international profits. This is called a “worldwide taxation system,” and is unique to the U.S.

Recognizing the problem this creates, Congress has crafted a confusing set of exclusions, deferrals, deductions, and credits on international profits. In general, U.S. companies can avoid paying this double-tax until they repatriate the profits back to the U.S.

By seeking to take away these double-tax band-aids without lowering the corporate rate substantially or fixing the global taxation scheme, Obama's proposal will shove jobs and capital out of America and into foreign countries. Obama's budget and Congressional tax-writers have been clear—they want companies to pay the full corporate rate as soon as the international profit is earned. In a global economy, companies don't have to take this lying down. It's a relatively-simple matter for a U.S. company with an Irish subsidiary to become an Irish company with a U.S. subsidiary. The Obama plan will force thousands of companies to make this job-killing decision. Companies that export goods will soon start exporting jobs.

The U.S. should tax our companies the way the rest of the world taxes theirs--territoriality. The rest of the developed world has figured this out: if they want to retain jobs and capital in their countries, they have to adopt *territoriality*. This means that companies only pay corporate income tax in the country where the profit is earned. The U.S. partially tried this in 2005, when companies were allowed to repatriate deferred foreign earnings at a 5.25% rate—far lower than what they would have to pay otherwise. The result was a one-year infusion of \$318 billion in capital to the United States, resulting in \$17 billion in additional corporate income tax payments, and the creation of thousands of new jobs.

The U.S. needs to lower our corporate income tax rate to become more competitive. American employers are competing globally with Irish, British, German, etc. companies. It makes no sense to saddle our employers with the highest corporate rate in the world. At the very least, we need to lower our corporate tax rate to 25 percent or less. This simply begins to make our tax treatment of large employers somewhat comparable to our European competitors. When combined with territoriality, this move would begin to change the corporate tax culture in the U.S. from a jobs killer to a jobs magnet.

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