

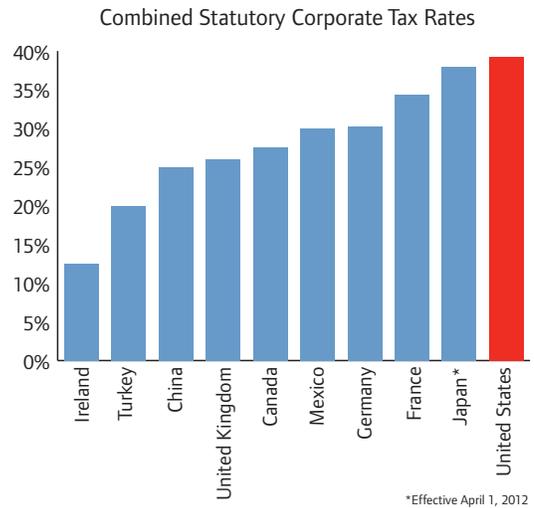


COMPETITIVE TAXATION

Fast Facts

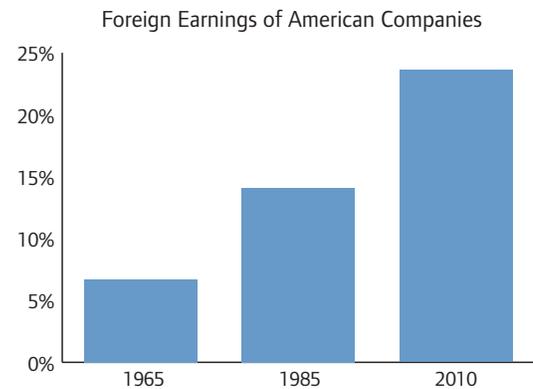
- The world economy has changed enormously since the last comprehensive reform of the corporate tax system in 1986. Rising incomes and new market-based economies around the world have created vast growth opportunities for American companies and American workers to provide goods and services to billions of new consumers. At the same time, American companies and American workers face significant new competition in markets at home and abroad. The U.S. tax system has failed to keep up with the demands of a modern, global economy and now hinders American competitiveness. Tax reform is needed now.
- The U.S. combined statutory corporate tax rate stands at 39.2 percent, now the highest in the Organisation for Economic Co-operation and Development (OECD) after Japan reduced its corporate rate this year. This U.S. statutory rate is more than 50 percent higher than the 25.1 percent average corporate tax rate in the rest of the OECD in 2011.¹
- Economic studies indicate that as much as 45 percent to 75 percent of the corporate tax burden is borne by labor, in the form of lower wages.² This linkage was recently acknowledged in the year-end report of the President's Council on Jobs and Competitiveness.³
- The high rate is not the only problem, as the United States is the only G-8 country that still taxes the worldwide income of businesses headquartered in America. Among the 34 OECD countries, 26 use a territorial tax system, whereby little or no additional home country tax is imposed on active trade or business profits earned abroad when those earnings are remitted home.⁴ The U.S. worldwide system of taxation significantly magnifies the damage done by the high U.S. corporate tax and significantly impairs American businesses competing in world markets.

Among its major trading partners, the United States has the highest combined statutory corporate tax rate.



Source: OECD Tax Database, Table II.1 and PricewaterhouseCoopers LLP (December 2011)

In 2010, American companies generated nearly 25 cents of every dollar of earnings from operations outside the United States.



Source: U.S. Department of Commerce, Bureau of Economic Analysis

- ▶ U.S.-based companies face increasing competition around the world. In 2000, 36 percent of global Fortune 500 corporations located their headquarters in the United States. By 2009, that share had declined to 28 percent.⁵

The U.S. corporate tax system has failed to keep pace with the changing global economy. The U.S. system is an outlier at a time when capital is more mobile and the world's economies are more interconnected than ever before. Modern, streamlined and fiscally responsible tax policies contribute to a competitive business environment that attracts new investment and supports strong economic growth and job creation.

Many countries have reformed their tax policies in response to the increasingly important role that national corporate tax rates play in many investment and plant location decisions. Unfortunately, the United States has not followed suit. The last significant overhaul of the U.S. corporate tax system was in 1986 — before the widespread use of the Internet, before the Soviet Union collapsed and before China became a modernizing economy — and much existing policy dates back to the 1960s and earlier. Most of the policies introduced in the interim have been patchwork solutions that are often temporary in nature. As a result, U.S. corporate tax policy has become increasingly outdated and overly complex, making the United States a less attractive site for new investment and placing U.S. companies at a disadvantage in the global marketplace.

*“American companies seeking to expand in markets at home and abroad are working with **one of the least competitive tax systems among developed countries in the world.**”*

Reforms of the U.S. corporate tax system must focus on two critical components: the corporate tax rate and the system of international taxation.

First, the U.S. combined statutory corporate tax rate currently stands at more than 39 percent, now the highest in the OECD after Japan reduced its corporate rate this year. In contrast, the average combined statutory corporate tax rate in other OECD countries was 25.1 percent in 2011.⁶ This difference actually understates the United States' disadvantage. Prospective investors will compare the United States not to the average but to the best country when it comes to tax rate comparisons.

— Robert A. McDonald, Chairman, President and CEO, The Procter & Gamble Company; Vice Chair, Business Roundtable; and Chair, Business Roundtable Tax and Fiscal Policy Committee

Although not as widely noted as the high statutory corporate tax rate, the United States also has a high effective tax rate on corporate income. A study of financial statement effective tax rates for the 2,000 largest companies in the world found that U.S.-headquartered companies faced a higher worldwide effective tax rate than their counterparts headquartered in 53 of 58 foreign countries over the 2006–09 period.⁷

Second, the United States continues to use a worldwide tax system that taxes U.S. companies on both the income that they earn at home and the foreign earnings of their subsidiaries, when those earnings are remitted back to the United States. In contrast, the vast majority of OECD countries use a territorial tax system in which little or no additional tax is typically imposed by the home country on active trade or business profits earned abroad because that income is already

taxed in the country where it was earned. The additional tax imposed by the United States on foreign earnings creates a barrier for U.S. companies desiring to access their foreign earnings that is not faced by their competitors headquartered in most other OECD countries. Foreign markets represent 95 percent of the world's consumers, and access to these markets helps expand the demand for U.S. goods and services.⁸ Accordingly, U.S.-headquartered companies and the jobs of their employees depend on their ability to compete and win in the global arena.

A competitive U.S. corporate tax rate and territorial system can enhance U.S. economic performance, including more jobs, more investment and increased economic growth with increased living standards for American families. A lower corporate tax rate will enhance the incentives for companies to locate here, attract high-value investments, reduce investment distortions across sectors and lessen the current incentives to rely on debt rather than equity in financing capital investments. Likewise, the adoption of a territorial tax system will increase the incentive for companies to incorporate in the United States, allow U.S.-headquartered companies to compete more effectively in foreign markets, and encourage existing U.S. companies to bring home their earnings from overseas and reinvest them in the United States.

Solutions

- ▶ **Modernize and simplify the tax code** to increase the competitiveness of the United States as a location for investment and employment by both U.S.-based and foreign-based companies. A stable, reliable, equitable and nondiscriminatory tax system that provides a level playing field is essential for long-term economic growth. U.S. policies should strive not only to make the nation competitive with the other world economies, but also to make the United States the best place in the world to launch a career, headquarter a business, hire employees and conduct business operations. In today's global economy, tax reform is absolutely essential to economic growth and job creation. BRT CEOs believe that these reforms can be undertaken in a fair and fiscally responsible manner, with the cost of these reforms to be offset as much as possible through appropriate base broadening. The key elements of a modern, streamlined and fiscally responsible corporate tax system include:
 - **A competitive corporate tax rate** comparable to the OECD average. A combined federal and state rate of 25 percent would create a U.S. statutory tax rate equal to the average of America's trading partners.
 - **A competitive territorial tax system** similar to the rest of the world. This fundamental reform recognizes the jobs created and the value contributed to the U.S. economy by successful American companies with worldwide operations. Fundamental components for a competitive territorial system include:
 - Providing a 95 percent or greater exemption of tax on foreign dividends of active business income; and
 - Following the practice of other countries. The U.S. system should not deny domestic deductions for expenses not directly allocable to foreign earnings. The U.S. system also should not include other features not adopted abroad — including antideferral rules for active income — that can impede the competitiveness of American companies relative to their foreign competitors.

- ▶ **Extend the business tax provisions** that expired at the end of 2011, including the research and development credit and important international provisions. While corporate tax reform is the priority, the extension of these expiring provisions should not be delayed while Congress considers overall reform.
- ▶ **Make every feature of the reformed U.S. corporate tax code permanent**, establishing the high-priority objective of eliminating corporate tax policy uncertainty.

Ultimately, any attempt to reform and modernize America’s corporate tax system must achieve the shared goal of creating a strong, competitive, job-creating U.S. economy. If the United States is guided by these principles and provides competitive and growth-promoting features for research and investments in plant and equipment, the nation will become more attractive for company headquarters and for the new investment that will increase production of goods and services. This approach to tax reform will foster economic growth, job creation and a higher standard of living.

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