



Tax Policy



Overview

The U.S. corporate tax rate is out of step with rates levied by most industrial nations, and America's global competitiveness is suffering as a result, according to the Tax Foundation, a nonpartisan think tank.

U.S. manufacturers and foreign-based firms compete daily in the marketplace, and their success has a direct impact on their local communities, region and country in the form of income, jobs and increased standard of living. For U.S.-based corporations to effectively participate in the global market, the U.S. tax system must be overhauled to ensure that domestic manufacturers can fairly compete not only on their home turf but also in other countries. The current U.S. tax structure – with the highest corporate tax rate in the developed world and the only major developed economy without a globally competitive international tax system – reflects a U.S. economy of a different era, when international activity for U.S. manufacturers was far less important and U.S. companies faced far less competition.

The non-competitive U.S. tax structure harms the ability of U.S. companies to compete overseas, reduces the attractiveness of U.S. investment designed for export markets and the ability to expand their U.S.-headquartered operations. History has shown that as U.S. companies grow overseas, they increase their U.S.-based employment in key areas such as research and development, engineering and other functions at corporate headquarters.



U.S. tax policy should foster business-driven foreign investment. Tax policy actions that further reduce the competitiveness of U.S. companies will result in reduced corporate growth with a corresponding reduction in U.S. jobs. As we address comprehensive tax reform, it is essential to realize that 95 percent of the world's population resides outside the U.S. Building a level playing field for the foreign operations of U.S. businesses is necessary to achieve the high growth and job expansion that the U.S. urgently needs.

Recommendations

Globalization and cross-border trade have highlighted serious flaws that must be resolved not only in how the U.S. approaches trade policy, but also in the structure of the U.S. tax system. The U.S. corporate income tax system should be reformed in the following ways:

- Lower the U.S. corporate tax rate to 25 percent. The U.S. corporate tax rate is the highest of all OECD countries, placing the U.S. at a significant competitive disadvantage when compared with other countries. A more competitive tax rate would incentivize investment from domestic and foreign companies in the U.S. and allow U.S.-based companies to compete in the global marketplace.
- Tax U.S. corporations on a globally competitive basis. No major OECD country taxes its home companies on a worldwide basis, which means that those countries' global companies pay the same tax on foreign earnings as their local competitors. In contrast, the U.S. taxes its companies on a worldwide basis, so taxes must also be paid on income earned outside the U.S. (subject to complex and inefficient anti-double taxation rules). A modern, hybrid international tax system would allow U.S. manufacturers to compete better with foreign companies. To reduce tax arbitrage and unintended consequences, U.S.-based companies should be subject to similar tax systems as their foreign competitors.
- Provide incentives to encourage companies to conduct their research and development in the U.S., own the resulting intellectual property in the U.S., and manufacture goods with the resulting intellectual property from the U.S. Although the U.S. R&D credit is currently in effect, the U.S. still only ranks 24th among OECD countries in its tax treatment of research and development activities. Other countries' experiences prove that greater research and development investments result in greater economic growth and worker productivity and a higher standard of living.
- Reject industry specific taxes such as the Superfund Tax and other narrow impact taxes such as paying for infrastructure with a deemed repatriation tax outside the context of transitioning to a competitive international tax system.
- The U.S. must adopt comprehensive tax reform. Success will increase U.S. jobs and expand economic prosperity. Failure will result in job loss and diminished standard of living.