



**Americans for Tax Reform Foundation**  
**The Importance of International Tax Competition**

The previous year has witnessed an increase in attacks against so-called ‘tax-havens’ by ill-informed politicians and commentators. Such rhetoric is not only misguided, but downright harmful. International tax competition is vital to promote economic growth, protect human rights, and ensure a prosperous global economy.

**What is a “Tax Haven”?**

“Tax haven” is a pejorative term used primarily by protectionist politicians to describe countries that engage in international tax competition. A so called “tax haven” is generally understood as a market-friendly country with a low tax burden that attracts investment from high-tax jurisdictions. In most cases, “tax havens” often exercise their right as a sovereign entity by refusing to assist high-taxing foreign governments tax economic activity inside the “havens” borders, and to preserve the privacy of its citizens and investors. As a result, countries such as Ireland, Poland, the Slovak Republic, and Switzerland have enjoyed an influx of foreign capital and investment. This will continue until high-tax countries lower their corporate tax rates. Unfortunately, rather than respond to tax-competition, many politicians in high-tax jurisdictions (such as the United States), desperate to protect their crippling high-tax rates, often attempt to stifle competition through heavy-handed pressuring of countries with a low tax burden.

**Why Is Tax Competition Crucial?**

Tax competition is critical to the continued flourishing of economic growth around the world. At a time of global economic downturn, tax competition is more important than ever, and is the prime method by which to reinvigorate international financial markets. Globalization has fostered the integration of separate national economies into a single world economy. Through greater mobility of trade and investment flows, individuals and businesses have taken advantage of foreign investment opportunities. As such, there is significant pressure on high-tax jurisdictions to respond to the loss of capital and skilled labor by reducing the tax burden.

As a result of this pressure, low-tax jurisdictions have helped encourage high tax nations to reduce personal income rates by about 25% since 1980, and corporate income tax rates by about 20% (38% if weighted OECD average is used) since 1980. In the past decade, almost all European nations have cut their corporate tax rate, and even in socially-democratic Scandinavian countries the corporate tax rate has been halved. To the extent that tax competition creates pressure to reduce tax rates globally, all countries, including high tax jurisdictions, benefit from increased growth and higher incomes.

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## **Corporate Taxes in the United States**

Despite the significant reduction in corporate tax rates abroad, the U.S. corporate tax rate has remained unchanged since 1986, and currently, the U.S. has the highest federal corporate tax rate in the world, a staggering 35 percent. This is almost 15 percent higher than the OECD average, and *more than double* the rate of high-growth economies like Switzerland and Ireland.

Furthermore, in a misguided attempt to shield its high-tax base from competition, the U.S. is one of only a handful of countries to violate principles of national sovereignty by taxing *worldwide* income, forcing American businesses overseas to pay taxes *twice*. This system, recently abandoned as unworkable, unfair and harmful by the U.K., Canada and Japan, has resulted in U.S. businesses being forced to pay up to *twice* as much as their foreign competition. Not only is this grossly unfair, it significantly undermines U.S. competitiveness, meaning less profit for American employers, less money flowing into the U.S., and fewer jobs back at home.

In fact, the U.S. pursues this misguided policy to restrict the foreign operation of companies more aggressively than *any* other country; as admitted in 2003 by Assistant Secretary of the Treasury For Tax Policy, Pam Olson, who testified to Congress that “*no other country has rules for the immediate taxation of foreign-source income that are comparable to the US rules in terms of breadth and complexity*”. As a result, companies are not only at a competitive disadvantage to foreign counterparts, but face a significant regulatory cost: Dow Chemical testified to Congress in 2003 that 78% of its 7800 page US tax return relates to foreign income.

## **Financial Privacy**

Opponents of international tax competition have recently turned their attention towards privacy protection in low tax jurisdiction. This “classic display of arrogant imperialism” was witnessed in the IRS demanding UBS Switzerland reveal confidential client data.

Protecting international financial privacy is critical for two main reasons. The first of these is the dangerous precedent it sets regarding the violation of state sovereignty. No international bureaucracy (such as the EU or OECD) or any nation state (such as the U.S) has any right to demand changes to any jurisdictions tax policy.

Another reason that financial privacy is so important is that it is not only necessary for civil society, but it is critical for human rights. Many people are forced to live in countries with corrupt governments, or governments unwilling or unable to enforce private property rights. Without some jurisdictions allowing them financial privacy, such individuals would be unable to protect their assets from criminal elements, both within the government and without. As such, jurisdictions that enforce financial privacy are critical

To those who worry about American citizens escaping the overwhelming U.S. tax burden by investing in such offshore jurisdictions, the solution to this problem is simple: reform the U.S. tax system.

### **Conclusion**

Despite the protestation of protectionist politicians, international tax competition and financial privacy are critical to the continued prosperity of the global economy. The problem is not low tax jurisdictions, but rather the U.S.'s high tax rate. We should celebrate, and indeed seek to emulate, not punish, those countries that have sound tax law.