



Americans For Tax Reform Foundation

Analysis of Administration Proposals to “Reform the U.S. International Tax System”

With the current global financial downturn, now more than ever it is critical that we ensure American employers can compete in the world market.

Currently, American businesses are struggling under a crippling tax regime unparalleled anywhere else in the world. The United States has the highest federal corporate tax rate in the world, at 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.

More insidiously, the U.S. is one of only a handful of countries to violate principles of national sovereignty and to tax *worldwide* income, forcing American businesses overseas to pay tax *twice*. Only the relatively low-taxing Korea, Mexico, Ireland and Poland continue to place such a burden on business. This system was recently abandoned as unworkable, unfair and harmful by the U.K., Canada and Japan. What this means is that our businesses overseas are forced to pay up to *twice* as much as their foreign competition. Not only is this grossly unfair, it means less profit for Americans employers, less money flowing into the U.S., and fewer jobs back at home.

Now the Obama Administration wants to make this even worse. Yet while the whole world is moving to a tax system based on *territoriality* (taxing income only once in the country it is earned) so their businesses can stay competitive, the Obama Administration wants us to do the exact opposite. They have proposed 11 tax hikes on American businesses overseas. While the technical details of these proposals are still missing, one thing is clear: rather than helping Americans, the Obama Administration has proposed a staggering \$200 billion of tax hikes on American companies trying to compete in the world market.

At the end of the day, companies don't pay these double taxes – people do. If enacted, these changes will hurt all American families, through lower wages and higher prices at the store. For every worker employed by a U.S. subsidiary in a foreign country, 2.3 Americans are employed in the U.S. And these jobs are in very serious jeopardy if the Administration gets its way. If these changes are enacted, ultimately, businesses will be unable to cope with the burden of excessive taxation. They will shut their doors here, and move overseas. Workers will lose their jobs, economic growth will plummet, and living standards for all families will fall.

In order to restart the American economy, we need to urgently slash (or better yet, abolish) the unfair double tax on foreign earnings. We already have a successful model by which this can be done. In 2004, the Invest America act slashed the double tax on foreign earnings to 5.25 percent for 2005. A staggering \$312 billion was brought back to the U.S. because of this, resulting in nearly \$18 billion in new corporate income tax revenue. The Joint Committee on Taxation predicted that less than \$3 billion in new revenue would be generated during the repatriation year—a six-fold difference. There are billions of dollars in foreign held revenue that could be injected to the U.S. economy *today* if this double tax is lifted. The Obama Administration's proposals do the exact opposite.

Starting on November 18th, Americans for Tax Reform Foundation will be publishing a semi-weekly International Tax Series, explaining each of the 11 proposals, and what they will do to American families if passed into law.