New American

Written by **William P. Hoar** on October 24, 2016

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Correction Please!

Casualties Mount in the War Against Business Growth

Item: *In an article for the "Money Watch" column for CBSNews.com for September 21, 2016, Jonathan Berr writes: "U.S. businesses have amassed an overseas cash hoard of $2.4 trillion because they aren't paying their fair share of taxes, according to two think tanks…. The Economic Policy Institute (EPI) and Americans for Tax Fairness argue that U.S. corporate profits are at record highs while business tax revenue as a share of GDP is at record lows."*

Item: *In a press release on April 13, 2016, issued by Senator Bernie Sanders, the Vermont socialist declared: "Corporate greed is destroying the fabric of America. It must come to an end." The senator made his comments in connection with a just-released Government Accountability Office (GAO) study, which was made in his behest. It found that in a recent year (2012) profitable large corporations paid an average tax rate of 16.1 percent and that about one-fifth paid no taxes.*

Item: *Writing for the New York Times for August 12, 2016, Neil Irwin said: "If Hillary Clinton wins the White House and persuades Congress to pass her agenda, wealthy Americans will pay higher taxes, businesses will face tax rules that make it less advantageous to relocate overseas, and the money those changes produce will go to fund the rest of her policy agenda, from child care to roads, bridges and other infrastructure."*

One of her provisions "would change a key rule to make it harder to execute 'tax inversions,' in which a United States firm merges with a foreign competitor and moves its corporate headquarters overseas in order to get access to lower taxes in the merger partner's country. Another would limit the deductibility of interest when it is used as a tool to avoid American taxes. A third provision is an 'exit tax' on companies that relocate outside the United States without first repatriating earnings kept abroad."

Correction: Years of demagoguery have helped to disguise who actually pays taxes on "big business." They are real people. They live in your town, on your street, perhaps next door and probably right in your home. *We* are the targets.

"One thing is certain: Corporations do not pay taxes. Only people pay taxes," as was made clear by James Angelini and David Tuerck in discussing their study for the National Center for Policy Analysis. "The corporation itself is just a legal veil behind which the executives in charge serve at the will of its owners, in which capacity they try to minimize the corporation's tax liability."

The two men, both professors at Suffolk University in Boston, emphasized that corporations

don't pay the corporate income tax. They just pass it along in the form of lower dividends to shareholders, lower wages to employees and higher prices to consumers. There appears to be agreement in principle that U.S. corporate tax rates have become too high largely because corporations have come to be seen as an easy target for raising tax revenue.

The fact that the tax code is byzantine and riddled with loopholes — and it is — does not mean that the preferred alternative is the erection of an even more confiscatory federal tax system, as statist Bernie Sanders and Hillary Clinton, among others, would have us believe.

Tub-thumpers want us to think that only the filthy rich will wind up paying more — ignoring that it is also the little guys and gals who own the mutual funds and retirement accounts that are invested in corporate stocks. Economist Richard Rahn, chairman of the Institute for Global Economic Growth, is spot-on with his rhetorical question: “Ask yourself, who is likely to spend the money in a way that will bring more human satisfaction and create more jobs — corporate executives trying to make money by producing goods and services people want, or politicians and government bureaucrats trying to enhance their own power?”

And consider that GAO report, cited above, made to support Sanders’ socialist screeds about “greed.” Yes, some accountants and executives did look very carefully at the law — a creature of Congress, lest we forget — to find out if there were legal ways to pay less. After all, when you tackle your personal income taxes — or hire someone to do so because the code is so convoluted — do you seek to drop more money into the federal maw? Or, assuming you are a sentient being, do you try to keep more of your own earnings for yourself and your family?

With that in mind, should we truly be astonished when those seeking to stay in business try to maximize the bottom line? Even Samuel Gompers, the founder of the American Federation of Labor (AFL), recognized that. “The worst crime against working people,” he said, “is a company which fails to operate at a profit.”

As it happens, the GAO report also points out that, depending on how the statistics are interpreted, average corporate taxation could just as well be reported as 17.3 percent, or 18.5 percent, or 19.5 percent, or 21.1 percent, or 22 percent, or 23 percent, or 26.3 percent, or even more. It depends on what is being measured. *The Wall Street Journal* took a look at the report at the time that it was issued and discussed just that point.

Here were some of the choices, as was noted by the *Journal’s* Richard Rubin:

Are the taxes just U.S. taxes or should they include foreign taxes? Should taxes be measured under accounting standards or as actual taxes paid? Should the rate reflect the fact that companies can make a profit this year but deduct past years’ losses? Should all companies be included or just ones making a profit? Should it focus on large corporations as GAO defines them with assets over $10 million or on the very largest companies with assets exceeding $2.5 billion?

Mix and match those answers, and you get multiple results — and confusion. One version gave the average tax rate over the 2008-12 period for all large corporations as 40.1%.

“Effective tax rates on corporate income can be defined in several ways, each of which provides insights into a different issue,” GAO wrote.

Yes, corporation taxation is complex. But some of the statistics and facts do stand out. For instance, the supposed free-enterprise, capitalistic U.S. economy is actually chained down by its own government. When it comes to average corporate taxation, the United States is afflicted with the highest general top marginal rate in the developed world — 38.92 percent, as noted by statistics compiled by the Tax Foundation. The rate is higher, among 188 countries, only in the United Arab Emirates and Puerto Rico. Washington’s pilfering rate is higher than in the resource-poor, landlocked Chad since that African nation recently reduced its corporate rate.

There are many on the “progressive” side of the political spectrum who argue that the high marginal rates really don’t mean much because some companies are able to minimize levies through a variety of methods — albeit legal ones. And there is no doubt that loopholes lead to inequities. But there should also be no doubt that heavy taxation hurts both companies individually and national economies in general.

Consider the evidence gathered by Chris Edwards about 19 nations — members of the Organization for Economic Cooperation and Development (OECD). These are not Chad-sized economies, but rather Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Spain, Sweden, the United Kingdom, and the United States. In short, this is what happened: When the tax rates in those countries went down, their governments still enjoyed high revenues.

As recounted by Edwards, the director of tax policy studies at the Cato Institute, from the mid-1960s through the mid-1980s many of those nations had corporate tax rates of 40 percent or even higher. During that period, the 19 collected an average of 2.5 percent of Gross National Product from those corporate taxes. Then, as he put it, there came the "Thatcher-Reagan tax-cutting revolution." Corporate rates fell universally. As Edwards wrote:

Between 1985 and 2012, the average rate for the sample of 19 countries fell from 45 percent to 25 percent.

Did governments in these countries collect less revenue after that huge rate cut? The opposite occurred: corporate tax revenues soared during the 1990s and 2000s. Revenues did fall during the recent recession, but they are now starting to climb again.

Even in the depths of the recession, average corporate tax revenues were still higher than they were prior to the beginning of the rate-cutting revolution in the 1980s.

Our presumptive leaders don't learn, however. They act as though their particular version of heavy taxation will somehow produce prosperity — again giving credence to an oft-quoted definition about such a state of mind: Insanity is doing the same thing over and over again, but expecting different results.

An academic named Mihar Desai rightly pointed out in a piece in March that American companies these days have been given incentives to move their headquarters overseas. Desai is a professor of finance at the Harvard Business School and is also a professor of law at Harvard Law School. As Desai wrote in the *Wall Street Journal*, the United States taxes

the world-wide income of its corporations at one of the highest rates in the world, but defers that tax until the profits are repatriated. The result is the worst of all worlds — a high federal statutory rate (35%) that encourages aggressive transfer pricing, a significant restriction on capital allocation that keeps cash offshore, very little revenue for the Treasury, and the loss of U.S. headquarters to countries with territorial tax systems.

Major financing and investment patterns now reflect these distortions. A series of significant merger announcements are driven by the desire to get out from under the U.S. tax regime and to use offshore cash.

It would be far better, for companies and for workers alike, if the United States were a tax haven rather than a tax hell. Healthy businesses would be more likely to expand and wages would tend to boom as well. The fact that governments at various levels would likely realize more revenues should not be overlooked.

This also fits with the conclusions of two scholars at the American Enterprise Institute (AEI), Kevin Hassett and Aparna Mathur: namely, that lower corporate tax rates are accompanied by higher wages. A decade ago, they co-wrote what was said to be the first empirical study directly linking corporate taxes and manufacturing wages. The data covered international tax rates and manufacturing wages in 72 countries over 22 years. And as Hassett and Mathur have acknowledged, it confirmed that the corporate tax is for the most part paid by workers.

The studies of many others (they can cite a long list) also confirm these conclusions. As the AEI scholars put it in August, these studies, and many more,

convincingly demonstrate that higher wages are relatively easy to stimulate for a nation. One need only cut corporate tax rates. Left- and right-leaning countries have done this over the past two decades, including Japan, Canada and Germany. Yet in the U.S. we continue to undermine wage growth with the highest corporate tax rate in the developed world.

Why are we stuck in such a bad place? A key factor has been the intransigence of Democratic politicians, such as Mrs. Clinton, whose plan to increase wages is to keep taxes high at the corporate level, increase taxes on business income at the individual level, and to punish firms that move overseas in response to these high taxes.

Statist pols try to convince the hoi polloi that they can get something for nothing. There is a cost, of course. In the case of Clinton, her plans — should they be instituted — would come with a long-term price tag of hundreds of billions of dollars.

The sucker pitch is that we are just going to "soak the rich." Yes, that will happen to a certain extent. But there will also be a considerable soaking of the non-rich — because that is where the bulk of the money can be found.

Overall, the Clinton tax policies would, over the long run, reduce the size of the economy by one percent (a huge amount considering the country's $18 trillion GDP). More specifically, as noted by the Tax Foundation analysis, her plan would lead "to 0.8 percent lower wages, a 2.8 percent smaller capital stock, and 311,000 fewer full-time equivalent jobs. The smaller economy results from somewhat higher marginal tax rates on capital and labor income."

We should be making America more attractive for businesses, not more punitive. As it is, so-called progressive politicians have created a tax system that suppresses wages, puts the brakes on job-creation and impedes economic growth. Gallingly, they then pose as champions of the working man. Little wonder that such putative leaders tax our patience.

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