The Daily Dish

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DOUGLAS HOLTZ-EAKIN | SEPTEMBER 24, 2014

The President visited the United Nations yesterday to ask all countries to support his plans for carbon emissions. Though over 100 world leaders took to the podium to address the General Assembly, the speeches highlighted variances in how each nation wants to approach the issue.

The pharmaceutical industry has come out against the FDA's draft guidelines on the use of social media in the industry. The rules would limit the capabilities of companies to use social media and especially the 140-character limited Twitter. One of the additional concerns is that the rules will leave pharmaceutical companies open to FDA intervention on comments posted by third parties. AAF's look into the rule found "The result is a restriction on free speech intended to protect consumers from a phantom danger."

Eakinomics: Inversions From Bad to Worse

Yesterday the Treasury released the president's administrative actions to combat tax inversions. The economy would have been better served by doing nothing. The proposals do not solve the fundamental problem of losing headquarters, contain counterproductive policy, and constitute a harmful precedent for process.

The problem. Recall that inversions start as a business opportunity, a merger or acquisition that strengthens the U.S. company and economy. However, when the combined entity runs the numbers, the broken U.S. tax code dictates that it is better for the headquarters to be abroad. The latter has *nothing* to do with who initiates the transaction. Foreign firms could simply use their tax advantage to pay a premium, acquire U.S. firms, and the headquarters will end up abroad anyway. Or it could use its advantage to drive the U.S. firm out of the market. Either way, the problem remains: until the U.S. fixes its uncompetitive code, it will continue to lose headquarters.

The policy. The proposals are a grab bag of ways to re-characterize transactions within the merged firm in order to assess more taxes. Some of those are based on arbitrary lines drawn by the Treasury without any economic foundation. Others (you can't pay an "extraordinary" dividend pre-merger) are left to Treasury judgment. Either way, the Treasury is after-the-fact changing the firms' finances. How can a business plan an acquisition if it can't know the tax consequences in advance?

The process. The Treasury issued the rule and made the effective date yesterday, thereby taking square aim at acquisitions that are underway. Is using the power of the Treasury to undercut the legal deals of U.S. corporations good public policy? No. Is laying additional uncertainty about what a firm can and cannot rely on in structuring acquisitions a good idea? No. The process is troubling and enhances the image of an Administration fighting its own businesses to the detriment of the economy as a whole.

The Administration's 6-year unwillingness to engage Congress in real corporate tax reform created the inversion problem. It's willingness to take this flawed but politically-expedient approach will do nothing to solve it.

From the Forum

Reply Comments on the Comcast-Time Warner Cable Merger by Will Rinehart, AAF Director of Technology and Innovation Policy