Insight

5 Terrible Tax Policies

GORDON GRAY | FEBRUARY 1, 2016

Senator Bernie Sanders has advocated 5 tax policies that are sure to further reduce already-anemic economic growth. These policies reaffirm progressives' approach to American companies as little more than ATM's, rather than the provider of opportunity, wages and benefits for working families.

Terrible Tax Policy #1: Ending Deferral

The United States corporate income tax is deeply flawed: it has high statutory and effective rates, and disadvantages U.S. firms abroad. Senator Sanders has proposed exacerbating this disadvantage by eliminating the ability of U.S. firms located abroad to defer paying the U.S. corporate rate. At present, U.S. firms are subject to worldwide taxation, which means they must pay U.S. taxes even if they are located overseas. Since the U.S. imposes the highest corporate tax rate in the developed world, this combination places U.S. foreign business operations at a significant disadvantage. To mitigate this effect, U.S. foreign firms can defer paying federal taxes by deferring repatriating income. While the foreign firms' income remains abroad, it can be used to invest in other overseas operations. Only once it is returned to the United States in the form of a dividend is it subject to tax. Senator Sanders has proposed eliminating this policy, which could slash overall wages in the U.S. by $107 billion or eliminate 2.2 million jobs.

Terrible Tax Policy #2: The Myth of the P.O. Box Firm

Senator Sanders has asserted that he would put an end to the practice of allowing U.S. headquarters firms from moving to tax havens artificially – essentially moving to a P.O. box overseas for tax purposes while still maintaining a substantial U.S. presence. Senator Sanders may just be indulging in populist fantasy here. A U.S. firm still has to pay U.S. tax on U.S. business, while the practice of moving to a P.O. Box overseas, or a "naked inversion," has been stopped through legislation.

Terrible Tax Policy #3: Raise Oil and Gas Tax

Successive budgets from the Obama Administration have proposed raising taxes on poltically-unfavored industries, including the fossil fuel industry. Senator Sanders would continue the Obama Administration's attempts to tax these industries, despite such targeted tax hikes being at odds with the basic premise of tax reform and sound energy policy.

Terrible Tax Policy #4: Anti-Growth International Tax Policy

Because the type of "naked inversions" that Senator Sanders vows to end have, in fact, already been stopped, some companies flee the disadvantageous U.S. tax code by merging with foreign companies. The U.S. tax code limits certain tax benefits for the newly formed foreign company if the U.S. ownership share is high enough or if other tests are met. Not content with this standard, Senator Sanders would further tax these transactions – putting 42,000 jobs at risk.

Terrible Tax Policy #5: Tax U.S. Foreign Firms Even More

Senator Sanders's 5th new tax proposal would change existing tax law for U.S. firms with operations, and in some cases future taxable income, to limit their ability to claim credits against taxes paid in foreign countries. This is part of the anti-competitive worldwide system the U.S. imposes on U.S. firms with operations abroad. A better approach would be a territorial system that has been embraced by 26 of the 34 most developed economies.