Insight

Raising International Taxes Will Harm U.S. Jobs

RICK GRAFMEYER | AUGUST 18, 2010

It seems to be popular lately to demonize companies trying to expand their international markets as a main cause for lower U.S. employment. The Obama Administration has used this theme to punish multinational companies by raising the amount of U.S. taxes such companies must pay on their worldwide income. This paper will briefly address why such a policy is foolish and actually will harm U.S. economy and U.S. jobs.

The United States is one of only a handful of industrial countries that attempt to tax domestic companies on their worldwide income no matter where such money is earned. A majority of countries instead exempt income earned by foreign subsidiaries and only tax income earned in the home country of the parent company. The U.S worldwide tax scheme has led to a complex system of tax credits and special rules so that the U.S tax code does not competitively disadvantage U.S companies when they compete abroad. The Obama Administration proposals selectively repeal or diminish some of these special rules under the guise of “closing tax loopholes” while ignoring the reason for those rules. Historically they were intended to insure U.S. companies remain competitive overseas. Most of our trading partners’ tax systems already assist their resident companies to compete globally and in U.S markets, but the Obama Administration in their quest to raise revenues in order to increase social spending has decided to move in the opposite direction.

Multinational companies employ 22 million U.S. workers, 19 percent of the U.S. private sector workforce. Foreign subsidiaries tend to complement, not substitute for, U.S activities. One study has found that for every dollar invested overseas, U.S. parent companies invested $2.85 in the U.S. Foreign affiliates are needed to cut transportation costs, avoid tariff barriers, and meet local content rules overseas. Nearly 90 percent of foreign affiliate sales are to non-U.S. markets, further showing the move to foreign markets is to expand global sales of U.S companies, not to produce goods that are sold back into the U.S. Because these increased global sales frequently rely on U.S supplies and services to the foreign affiliates, greater global sales expands U.S jobs and increases U.S. exports. Also, multinational companies generally pay their U.S. workers wages that are 24 percent higher than average U.S private sector wages. It is these high-paying jobs that will foster long-term economic growth and thus the U.S. should be incentivizing global sales expansions.

No one would argue with the idea that we need to review our complex international tax system. But, it should be a comprehensive review of our unique worldwide tax system, not a piecemeal approach whether the need arises to raise additional revenues. But in this difficult economic time, any review must have as its goal that as a result that U.S. companies are able to compete globally on an equal basis with companies located in other industrialized countries. The Obama selective approach fails the need for a comprehensive review and appears to have ignored entirely the goal of increasing U.S. competitiveness by proposing ad hoc tax increases for U.S. multinational companies which will further harm their ability to compete internationally on a level playing field. Other countries are assisting their resident companies to compete, but it is frustrating to see the U.S asleep at the switch.