Insight

Would An “Exit Tax” Work?

GORDON GRAY | DECEMBER 8, 2015

The latest call for an “exit tax” for US businesses was articulated today. Fierce populist rhetoric at campaign time is perhaps expected, but this proposal doesn’t address the actual problem (an unfriendly business environment), doesn’t work in practice (jobs still leave), and continues the incentives for U.S. businesses to be bought by larger foreign competitors. In other words, despite the rhetoric, an exit tax actually helps send US headquarter jobs overseas.

The U.S. has become a tax-unfriendly environment for businesses. The rest of the world’s major economies have taken note and made themselves more business friendly. But while they’ve taken action, the U.S. maintains the highest corporate tax rate in the world. That has sent a clear message to U.S. businesses: do self-help tax reform while making your business deals. The commonsense solution here would be to fix the brolken tax code and make America a more business friendly environment. Instead, some leading progressives are resorting to a gimmick that doesn’t work, a “solution” that entirely avoids dealing with the problem. They want to penalize businesses for doing what’s in their best interest, rather than create an environment where businesses can thrive.

Similar attempts actually make the business environment worse – pushing tens of thousands of headquarters jobs overseas. American Action Forum research found that similar anti-inversion laws would send 42,000 jobs overseas — many management and headquarters positions.

Do approaches like an exit tax work? No. (And those proposing them know it. They want to use the proceeds of the exit tax to fund their spending plan, but that means exits are continuing.) The U.S. already has an anti-inversion tax regime (sec 7874) that denies tax benefits to a newly formed parent company if the (former) U.S. company owns 80 percent or more of the new entity. Tax benefits are also limited for foreign mergers where the (again, former) U.S. company owns between 60 and 80 percent of the new company. This was put in place in 2004 and stiffened since. What happened? Other countries continued to reform their tax systems and the U.S. has continued to lose businesses. What didn’t happen? An overhaul of the U.S. tax code. No matter how much U.S. policymakers try to tinker around the edges of the international tax system, until the U.S. pursue a pro-growth tax reform that’s at least competitive with other world economies, the U.S. will keep losing companies to foreign nations.

An exit tax actually makes it more likely that U.S. companies are bought up. It would make U.S. multinationals less competitive overseas. Rather than move their headquarters and invert, U.S. companies would simply fall so far behind that they’re bought by larger foreign competitors — which only hurts American workers and job creators.