Business Roundtable

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CONTACT: Amanda DeBard
(202) 496-3269

Business Roundtable Releases Economic Case for Corporate Tax Reform

Comprehensive Data Analysis Shows Tax Reform Would Ensure U.S. Competitiveness and Lead to U.S. Economic Growth

Washington – Renewing its call for fiscally responsible and revenue neutral corporate tax reform, Business Roundtable (BRT) today released *Corporate Tax Reform – The Time Is Now* to the House Ways and Means Working Groups on Tax Reform. The report provides in-depth data and up-to-date analysis from a wide array of resources supporting the need for corporate tax reform to enhance and sustain economic growth and job creation.

"A comprehensive overhaul of our overly complex and anti-competitive tax system, for both individuals and corporations, is long overdue," said Robert A. McDonald, **Chairman, President and CEO, Procter & Gamble Company, and** Chairman of Business Roundtable's **Tax and Fiscal Policy Committee**. "Today we've released what we believe is the most comprehensive compilation of data and analysis supporting our call for tax reform. If we are serious about economic growth and job creation, we need a modern system that places U.S. economic growth and competitiveness as our top priority."

To ensure that corporate tax reform benefits the economy without increasing the deficit, Business Roundtable supports base-broadening measures as part of revenue-neutral reform to provide a competitive corporate tax rate and a more modern and competitive international tax system.

Key components of the Roundtable's analysis include:

- **U.S. Companies' Fiercest Competitors Enjoy Lower Home-Country Tax Rates:** It is well known that the U.S. combined (federal and state) statutory tax rate is the highest of any developed nation, averaging 39.1 percent. As the analysis points out in detail, American companies now find that their closest foreign competitors are based in countries with lower corporate tax rates and international tax systems more favorable to their global operations than the U.S. rules. Since 2000, 30 of the 34 Organisation for Economic Co-operation and Development (OECD) countries have reduced their corporate tax rate.

- **High Rates are a Drag on the U.S. Economy:** Researchers at Cornell and the University of London report that a one-percentage-point decrease in the average corporate tax rate would result in an increase in real U.S. GDP of between 0.4 to 0.6 percent within one year of the tax cut.

- **Double Tax on Foreign Earned Income Hurts American Companies and U.S. Competitiveness:** Within the OECD, of companies headquartered outside the United States, 93 percent of the world's top 500 companies (based on *Fortune's* 2012 list) are headquartered in countries that use "territorial" tax systems, where income earned abroad is not taxed again when earnings are repatriated, unlike under the current U.S. system. This is up from only 27 percent of the

same countries utilizing territorial systems in 1995 – signaling a significant trend towards the more competitive method of taxation.

- **Under current law, foreign earnings are effectively "locked out" of the United States:** An estimated $1.7 trillion in accumulated foreign earnings was held by the foreign subsidiaries of American companies in 2011. If only half of that amount came back to the United States in response to enactment of a market-based territorial tax system, the funds freed up for use at home would exceed the increased government spending and tax relief provided under the 2009 American Recovery and Reinvestment Act.
- **Effective U.S. Corporate Tax Rate 12+ Percentage Points Higher than OECD Countries:** Data in the new document disproves claims of low "effective" rates (amount of tax paid after deductions) paid by U.S. corporations, citing a new World Bank study of corporate income taxes in 185 countries for 2013 that finds that tax payments are higher for companies operating in the United States as a percentage of income than the average of other OECD and non-OECD countries. In fact, the U.S. effective tax rate (ETR) of 27.6 percent is more than 12 percentage points higher than the average of other OECD countries and 11 percentage points higher than the average of non-OECD countries. The analysis also explains why using the ratio of corporate income tax to GDP is an improper measure of effective rates.
- **U.S. Workers Bear the Burden of the Outdated U.S. Corporate Tax System:** *Corporate Tax Reform – The Time Is Now* also analyzes a number of recent studies that find that workers bear between half and three-quarters of the burden of the corporate income tax. These findings suggest reducing the corporate income tax rate would provide benefits to workers through higher wages.

"The United States has the unfortunate distinction of the least competitive tax system among the world's advanced economies. The end result is a more slowly growing economy resulting in fewer jobs and lower wages for American workers," stated John Engler, President, Business Roundtable. "Corporate tax reform done right – with appropriate safeguards to keep our tax base strong – can grow the economy by enhancing the ability of every business operating in the United States, whether domestically headquartered or foreign, to better compete in the world economy."

Significant additional data and analysis outlining the reasons for reforming the corporate income tax system to allow American companies to be competitive in markets both at home and abroad and return economic growth and job creation to the United States is available at BRT.org and usahomecourt.org.

Click here to read *Corporate Tax Reform – The Time Is Now*. Click here to read a summary of the report.

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