
Romney's plan for tax breaks stirs debate

By Matt Viser

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WASHINGTON — Likely presidential candidate Mitt Romney wants to use the promise of huge tax breaks to entice large corporations to move their overseas profits back to the United States, in hopes they would create a wealth of new jobs for US workers.

The payoff would be significant and almost immediate, generating “hundreds of thousands — if not millions — of good, permanent, private sector jobs,” Romney told Republicans in Bartlett, N.H., last weekend. “We want that money that’s [invested overseas] to come here — to invest in new factories, and new jobs, new equipment.”

Some economists, however, strongly questioned such predictions, pointing to the limited impact of a similar effort, in 2004. That break — made only for one year — brought more than \$300 billion back to the United States, but several studies indicate it did not deliver on promises to boost jobs.

“A cash infusion into the economy is not a bad thing,” said Kristin Forbes, an MIT Sloan School of Management professor who cowrote a widely cited study examining the results of the break. “But it didn’t accomplish the stated goals of bringing jobs and investment to the US.”

Forbes was a member of President George W. Bush’s council of economic advisers when Congress approved the tax break as part of broader legislation. Bush signed the bill even though his administration had concerns over whether the provision would be effective.

If Romney, who founded the investment firm Bain Capital in Boston, runs for president in 2012, he is expected to make economic growth the cornerstone of his campaign.

The overseas tax plan is one of a few specific economic proposals Romney has revealed in speeches, while often settling instead on broadsides against President Obama’s policies.

The former Massachusetts governor and his aides declined to provide any more details about the overseas tax plan. A spokesman said he would tailor it to create as many jobs as possible.

“Mitt Romney’s intent in supporting repatriation is to make America stronger economically, and he’d look at specific ways of structuring this tax change so that it resulted in the creation of jobs,” Eric Fehnstrom said in an e-mail.

Romney’s pitch mirrors an emerging corporate campaign that has been lobbying Congress and the White House to enact another one-year tax break. The issue involves a section of the tax code that applies to the profits earned by foreign subsidiaries of American corporations.

When profits are earned in the United States, they are subject to a 35 percent corporate tax rate. But if they are earned in another country, the multinational company can choose to be taxed instead by that country.

The US corporate tax rate is among the highest in the world, so multinational firms generally keep such profits in overseas accounts. Only when they transfer the funds back to the United States are they subject to the higher rate.

Romney and several large corporations argue that Congress should change the tax code to entice companies to

bring their overseas accounts — which hold an estimated \$1 trillion — back to the United States.

One proposal would lower the rate on overseas profits to 5 percent for one year. That idea was outlined in an October Wall Street Journal column written by John Chambers, chief executive of Cisco Systems, and Safra Catz, president of Oracle Corp.

“By permitting companies to repatriate foreign earnings at a low tax rate — say 5 percent — Congress and the president could create a privately funded stimulus of up to a trillion dollars,” Chambers and Catz wrote. “They could also raise up to \$50 billion in federal tax revenue. That’s money the economy would not otherwise receive.”

During the 2004 tax holiday — when the corporate tax rate was effectively lowered to 5.25 percent — 843 companies moved \$362 billion into the American economy.

But several studies concluded that that policy did not increase domestic investments or employment, as it was designed to do.

A study released by the National Bureau of Economic Research found that 60 to 92 percent of the money brought back instead went to payouts for shareholders.

“Repatriations did not lead to an increase in domestic investment, employment or” research and development, Forbes wrote last year with economists C. Fritz Foley at Harvard University and Dhammika Dharmapala at the University of Illinois.

The nonpartisan Congressional Research Service examined 12 companies that returned significant profits to the United States as part of the temporary tax reduction. They found no evidence that the tax break resulted in “a corresponding increase in domestic investment or employment.”

A coalition of some of the biggest corporations in the United States — including Microsoft

, Duke Energy

, and

Pfizer

— has been meeting for about a month. The coalition is planning to launch a campaign in the coming weeks to urge Congress to pass the tax reduction.

They dispute the contention that the previous tax break did not have an impact on jobs, pointing to a 2008 study that estimated 23 percent of repatriated funds went to hiring and training of US employees.

But they say this time, their argument will be more about continuing the economic recovery and improving the business climate than about its specific impact on jobs.

“We have a choice: Allow innovative American businesses the freedom to invest \$1 trillion in global earnings here at home and help our recovery or leave the money overseas,” said Doug Thornell, an adviser to a coalition of American businesses working on the issue. “It’s that simple.”

Some economists back the plan. Robert J. Shapiro, who served as undersecretary of commerce for economic affairs in the second Clinton administration, and Aparna Mathur, a consultant to the World Bank and a University of Maryland instructor, contend in their study of a similar tax proposal in 2009 that it would provide \$97 billion for job creation or retention.

“The additional funds used for employment could create or save an estimated 2.6 million jobs,” they wrote.

In the 2008 presidential campaign, corporate taxes became a prominent issue, particularly on whether the US tax code is pushing businesses overseas.

Democrats Barack Obama and Hillary Rodham Clinton targeted portions of the tax code that allow US companies to shield their foreign profits. Senator John McCain proposed a cut in the corporate rate to 25 percent but did not address how foreign profits are taxed.

Romney went further and proposed lowering the corporate rate to 20 percent over two years, which he said would trigger more US investment.

While Romney hopes his business background will allow him to pitch himself as an economic Mr. Fix-It, issues around foreign taxes could be delicate.

While at Bain, Romney used offshore tax havens to set up a private equity fund to help investors avoid paying US taxes, the Los Angeles Times reported in 2007.

The legal operations in Bermuda and the Cayman Islands helped shield foreign investors from US taxes they would have paid investing in US companies.

The Obama administration has said it would consider a temporary tax break on overseas profits, but only if it is part of a much larger overhaul of the corporate tax system.

"We would not support it outside the context of overall reform," Treasury Secretary Timothy Geithner said last month at a Senate Finance Committee hearing.

Representative Richard E. Neal, a Springfield Democrat and top member on the House Ways and Means Committee, has been working on the issue. In talks with the Democratic caucus and with some of the executives trying to drum up support for changing the tax code, he has been discussing a proposal that would tie the tax changes to the number of jobs created by companies.

"We need to be thinking about boosting American jobs," Neal said. "Part of the issue is if you were to bring this money back, would it be used for job creation as was promised in 2004?"

Fehrstrom said Romney's opinion was based on "conversations with business leaders, economics, and policy experts," but wouldn't elaborate further.

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