

# Tax-break repeal seen costing jobs

## Foreign earnings levy at issue

By Sean Lengell, Washington Times  
June 8, 2009

A repeal of rules that govern the way the United States taxes the foreign earnings of American companies would make U.S. companies less competitive abroad, weaken their investments and lead to job losses at home, says a new economic report.

The report, authored by Robert J. Shapiro, a former Clinton Administration economic official, and Aparna Mathur, a research fellow at the conservative American Enterprise Institute, found that as many as 2.2 million American jobs could be put at risk by a repeal or scaling-back of the so-called corporate "tax deferral" law, a provision that allows companies to delay paying taxes.

The report, released Monday and commissioned by the Technology CEO Council (TCC), a coalition of chairmen and chief executive officers of information-technology companies, also found that investments in the United States in plant, equipment and property could fall by as much as \$84.2 billion if the tax-deferral laws were repealed. "The repeal or substantial limitation of deferral could substantially harm the U.S. economy," the report says.

The White House, in an attempt to crack down on what it considers corporate tax loopholes, is pushing Congress to sharply limit -- though not repeal -- the tax-deferral rules that protect U.S. businesses from bearing much higher tax burdens on their earnings abroad than their foreign competitors. Most foreign competitors are based in countries with "territorial" tax systems that don't tax business profits earned outside the home country.

"The Obama administration deserves credit for many initiatives to promote investment and innovation," TCC Executive Director Bruce Mehlman said. "But we cannot expect to lead the world in high-tech by marrying the world's best innovation infrastructure with the world's most confiscatory corporate tax structure."

U.S.-based corporations are taxed on their worldwide earnings at a 35 percent corporate rate -- among the highest in the world.

Advocates for repealing tax deferrals say the current system encourages U.S. companies to set up foreign operations, which in turn shift investment, jobs and wages from the U.S. to other countries. They add that repealing or limiting tax deferrals would be more fair because it would tax multinational companies on their actual earnings.

The White House says that 83 of the 100 largest U.S. corporations have subsidiaries in tax havens, and that in 2004, the largest corporations paid about \$16 billion - or a tax rate of about 2.3 percent - on \$700 billion in profits.

The administration added it could raise \$60 billion by 2019 by reducing the amount of foreign income that companies can avoid paying tax through tax deferral.

But fiscal conservatives and anti-tax groups counter that increasing taxes on U.S. business interests abroad would produce the opposite of what it intends to do. Many conservative economists and business groups say that U.S. domestic and foreign-based operations complement each other. Penalizing an American company's investments abroad invariably will hurt the company at home, they say.

The report also shows tax money generated from limiting tax deferrals would be largely offset by reduced tax revenues from large job losses, wage cuts and lower investment. Sen. Orrin G. Hatch, Utah Republican, called eliminating tax deferrals a "bad idea" in a commentary published by The Washington Times last month.

"When taxes were reformed in 1986, the United States eliminated deferral for the shipping industry, and in short order, all of the shipping industry fled this country and established headquarters abroad," said Mr. Hatch, a member of the congressional Joint Committee on Taxation. "The same thing will happen across the board if we repeal deferral."