

Do U.S. High Corporate Tax Rates Hurt Americans?

By [Amy Fontinelle](#) on May 16, 2014

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The United States has the highest [corporate tax](#) rate of the 34 developed, free-market nations that make up the [Organization for Economic Cooperation and Development \(OECD\)](#). The marginal corporate tax rate in the United States is 35% at the federal level and 39.2% once state taxes are accounted for, according to the 2013 OECD Tax Database. The global average is much lower, at 25%. Switzerland enjoys the lowest national rate, at 8.5%, but its rate increases to 21.1% after factoring in local taxes, giving Ireland the lowest overall rate, at 12.5%. The high tax rate on U.S. corporations, combined with worldwide taxation, impacts American businesses in several ways - some would argue, negatively.

It Sends Jobs, Profits and Tax Revenue Overseas

The U.S. government taxes the income U.S. corporations earn not just domestically but abroad as well. Since firms also pay taxes on profits earned abroad to those countries' governments, U.S. corporations pay a double tax on foreign-earned income. Most developed countries don't use this system; they use a territorial tax system. If the United States used a territorial system, U.S.-based firms would give Uncle Sam a cut only of profits earned here. Not only is this double tax a burden on corporations in and of itself, it also puts them at a disadvantage compared with foreign competitors who are not subject to the double tax. (To find out about what some corporations are doing to get around this issue, see "[Overseas Cash Hoards: Shareholder Boon or Taxpayer Burden?](#)")

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"The high corporate income tax rate puts the U.S. at a competitive disadvantage versus lower-taxed nations like Ireland and Canada in the effort to attract new corporate investment and jobs," says John Boyd, Jr., principal of [The Boyd Company](#), a Princeton, N.J.-based firm that counsels major corporations on where to locate their facilities and invest globally.

One result is the relocation of U.S. corporations to foreign countries with more favorable tax laws. When these companies move their headquarters or create foreign subsidiaries, jobs and profits move overseas. The number of U.S. jobs at major multinational corporations shrunk during the last decade by 2.9 million, even more than the 2.4 million jobs these companies created abroad. In 2009, about one-third of all these companies' workers were located abroad. And U.S. companies were holding \$1.95 trillion in foreign countries in 2013, according to calculations by Bloomberg News. When you can choose where to do business, it makes sense to choose the lowest-cost option, and many corporations do.

It Consumes Enormous Resources

Because tax rates and corporate tax deductions and credits have such a significant impact on corporations' bottom lines, lobbying politicians to change or maintain the tax code in ways that benefit corporations becomes a valuable use of corporate income. If corporate taxes were not such a burden, companies could instead spend lobbying dollars on developing new products and services and increasing sales. Not only do corporations lose, their customers lose as well, because these products and services either take longer to get to market or never make it there at all. And despite the United States' high tax rate, economists project that lowering the rate would actually increase tax revenue because corporations could dedicate more resources to taxable, profit-generating activities.

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About 10% of federal revenue comes from corporate taxes; the rest comes from payroll taxes (34%), income taxes (47%), and excise, estate and other taxes (9%). The share of federal revenue attributable to the corporate tax was close to 40% in 1945 and has hovered around today's level since the 1980s. Individuals have paid an increasing share of total taxes in recent decades, as corporations have paid a decreasing share, according to the Center on Budget and Policy Priorities, a public policy organization focused on budget and tax policies. This increase is mostly in the form of the payroll tax.

It Discourages Saving and Investment

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Saving and investing revenues so that more capital is available for future growth, or to sustain the business through hard times, would be the smarter decision for many businesses, but those saved and invested revenues incur more taxes. "High corporate taxes disincentivize corporate saving, which leads to more instability in the business world," Kear says.

It isn't just corporations themselves that have noticed how the high corporate tax rate discourages saving and investment. The very government responsible for the rate acknowledges this flaw. So why haven't they tried to correct it?

Prospects for Reform

Corporate tax reform efforts aim to repeal corporate tax credits and deductions, reduce the corporate tax rate and get companies to bring income from abroad back to the United States (called "repatriation") without reducing overall federal tax revenue. Many of these proposals are unpopular with corporations, who are often major contributors to politicians' election campaigns. These contributions give politicians an incentive to keep corporations happy, which frequently means maintaining the status quo. Politicians can't agree on reforms, so little changes. The proposals are also unpopular with the entities reformers propose raising taxes on to keep total government revenue the same. These groups fight change as well.

The Bottom Line

The 35% marginal tax rate on U.S. corporations discourages U.S. companies from earning profits domestically, which sends jobs and taxable income overseas. It gives businesses an incentive to spend now instead of saving and investing for the future, even when the latter might be the more prudent choice. It also wastes corporate resources that could be spent on developing new products and services and instead redirects those resources toward lobbying politicians for favorable changes in the corporate tax code or for maintaining the status quo. Because the tax code is so complex, it is difficult to reform it in ways that make everyone better off. Instead, numerous reform proposals never pass because of different interest groups' conflicting incentives.

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by Amy Fontinelle



Amy Fontinelle is a financial journalist and editor for a variety of websites, public policy organizations, and book publishers. She has written hundreds of published articles and blog posts on topics including budgeting, credit management, real estate and investing. Her articles have been featured on the homepage of Yahoo! and on Yahoo! Finance, Forbes.com, SFGate.com and numerous local news websites.

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