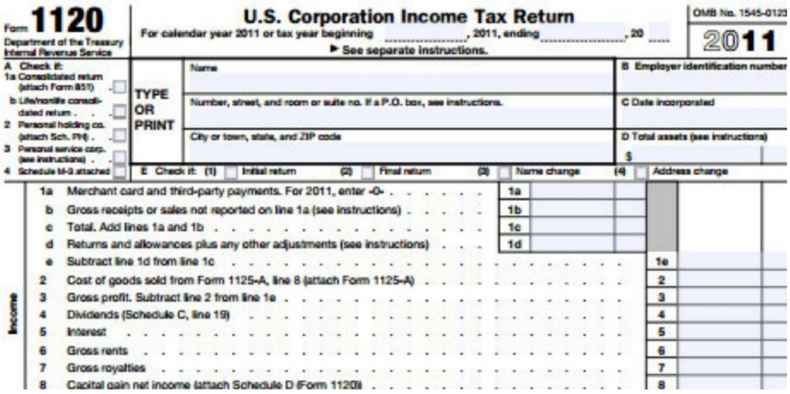
U.S. Tax Code Puts America 32nd Out of 34 Countries


Form 1120
Department of the Treasury
Internal Revenue Service
U.S. Corporation Income Tax Return
For calendar year 2011 or tax year beginning , 2011, ending , 20
▶ See separate instructions.
OMB No. 1545-0123
2011
A Check if:
1a Consolidated return (attach Form 851)
b Life/nonlife consolidated return
2 Personal holding co. (attach Sch. PH)
3 Personal service corp. (see instructions)
4 Schedule M-3 attached
TYPE OR PRINT
Name
Number, street, and room or suite no. If a P.O. box, see instructions.
City or town, state, and ZIP code
B Employer identification number
C Date incorporated
D Total assets (see instructions)
$
E Check if: (1) Initial return (2) Final return (3) Name change (4) Address change
Income
1a Merchant card and third-party payments. For 2011, enter -0- 1a
b Gross receipts or sales not reported on line 1a (see instructions) 1b
c Total. Add lines 1a and 1b 1c
d Returns and allowances plus any other adjustments (see instructions) 1d
e Subtract line 1d from line 1c 1e
2 Cost of goods sold from Form 1125-A, line 8 (attach Form 1125-A) 2
3 Gross profit. Subtract line 2 from line 1e 3
4 Dividends (Schedule C, line 19) 4
5 Interest 5
6 Gross rents 6
7 Gross royalties 7
8 Capital gain net income (attach Schedule D (Form 1120)) 8

The release of the Tax Foundation's latest study last week, its "[2014 International Tax Competitive Index](#)" (ITCI), gave commentators from the *Wall Street Journal* to the Independent Women's Forum plenty to chew on. The foundation's analysis, based on more than 40 variables across five major categories, concluded that the United States ranked just 32nd out of the 34 countries making up the Organization For Economic Cooperation and Development (OECD).

In their executive summary, the authors of the study noted that the largest factors behind the United States' poor performance on this index included the U.S. corporate tax rate, at 39.1 percent, which is the highest corporate tax rate in the developed world, and that it remains one of only six OECD countries that still demand that profits companies earn abroad be taxed at home.

Claiming first place in the study is the Republic of Estonia, a country that occupies just 17,000 square miles in northwestern Europe, with a population of less than two million people. The key differences between Estonia and the United States are that Estonia has a relatively low corporate tax rate of just 21 percent, does not double tax dividend and capital gains income the way the United States does, and its citizens enjoy a nearly flat 21 percent income tax rate, instead of a highly progressive tax rate as in the United States. In addition, real estate taxes are levied only on the value of land and not on buildings and other improvements the way the United States and most states do.

The authors took pains to explain why the United States is a good example of a highly discriminatory and uncompetitive tax code:

> The last major change [to] the US tax code occurred 28 years ago as part of the Tax Reform Act of 1986 [under the Reagan administration], when Congress reduced the top marginal corporate income tax rate from 46% to 34% in an attempt to make US corporations more competitive overseas.
>
> Since then, the OECD countries have followed suit, reducing the OECD average corporate tax rate from 47.5% in the early 1980s to around 25% today.
>
> The result: the United States now has the highest corporate income tax rate in the industrialized world.

The United States now has fallen far behind the other countries of the OECD because, according to the authors, "Businesses will look for countries with lower tax rates on investments in order to maximize their after-tax rate of return. If a country's tax rate is too high, it will drive investment elsewhere, leading to slower economic growth [at home]."

The *Journal* noted that the release of this study was especially timely as the political conversation in Washington about "tax inversions" continues apace, with threats by the Obama administration and Senators Charles Schumer and Carl Levin to limit the ability of U.S. corporations to move their headquarters to lower tax jurisdictions in order to remain competitive. As the *Journal* explained:

> With the developed world's highest corporate tax rate at over 39%, including state levies, plus a rare demand that money earned overseas should be taxed as if it were earned domestically, the US is almost in a class by itself.

According to the *Journal*, the solution is simple, but not easy: "Rather than erecting an iron tax curtain that keeps US companies from escaping, the White House and Congress should enact reform that invites more businesses to stay [in] or move to the US."

Simple, but not easy. As Charlotte Hays of the Independent Women's Forum noted, "This index comes out when the Obama administration and Senator Schumer want to make the tax code even more hostile to business as a way to prevent them from doing what, in the light of the already horrible burdens the US imposes, makes sense: relocating."

Lest readers become discouraged, it is well to note the Tax Foundation's footnote to its study: "It is true that taxes are not all that matter. There are many factors unrelated to taxes which affect the country's economic performance and business competitiveness." There are a number of indexes that rank the United States in areas other than taxes. For instance, in its 2012 World Competitiveness Scoreboard, IMD International ranked the United States second out of 60 economies. In 2009, the *CIA World Factbook* noted that the United States' gross domestic product per person place it 11th out of 227 countries, while the next year it reported that America's life expectancy rates placed it at 49th out of 224 countries. In 2011, the *Wall Street Journal* and the Heritage Foundation joined forces to publish the "Index of Economic Freedom," which placed the United States in ninth position out of 157 countries.

Nevertheless, as the *Wall Street Journal* noted, if Obama, Schumer, and Levin succeed in passing laws preventing corporations from relocating — called "tax inversions" — then "the US could fall to dead last on next year's ranking."

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