TAX FOUNDATION
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SPECIAL REPORT

November 2005
No. 136

The U.S. Corporate Income Tax System: Once a World Leader, Now A Millstone Around the Neck of American Business

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Introduction

In the Tax Reform Act of 1986 (TRA'86) the U.S. Congress lowered the top corporate income tax rate from 46 percent to 34 percent, the largest reduction since the tax was enacted in 1909. This change, along with an earlier move in the United Kingdom, started a wave of corporate income tax reduction worldwide.[1]

"One of the ironies of tax policy during the Bush presidency is that five years of tax-cutting legislation have left the corporate income tax rate unchanged. …the U.S. now has the highest combined statutory corporate income tax rate among OECD countries."

One of the ironies of tax policy during the Bush presidency is that five years of tax-cutting legislation have left the corporate income tax rate unchanged. Meanwhile, another wave of corporate income tax reduction has swept around the world and is still underway. The United States is not the leader this time around. In fact, the U.S. is lagging behind and now has the highest combined statutory corporate income tax rate among OECD countries.

A review of corporate tax policies in the OECD countries reinforces a theme that is well developed in the economic literature: a nation will not attract new and expanded business and its attendant job creation if its corporate income tax is significantly higher than it is in comparable nations. Therefore, as the U.S. contemplates fundamental tax reform, one of the major goals should be a lower corporate income tax rate.

The President's Advisory Panel on Tax Reform has done just that in its new report, but possibly with an overly modest rate cut. The panel suggested a 31.5 percent top rate in one plan and a 30 percent top rate in an alternative plan. Both plans would improve the U.S. worldwide ranking, but the U.S. would still be taxing corporate income at a rate well above the OECD average. Lawmakers should consider reducing the federal rate to 25 percent which, when coupled with state corporate income taxes, would almost bring the U.S. rate down to the OECD average of 29.2 percent.

[1] *See* Chris Edwards and Veronique de Rugy, *International Tax Competition: A 21st Century Restraint on Government*, Cato Institute Policy Analysis No. 432, at 13 (April 12, 2002), located at http://www.cato.org/pub_display.php?pub_id=1290 ("Britain and the United States jump-started the worldwide move toward lower tax rates in the 1980s.").

[2] There are two statutory rates higher than the top rate of 35 percent. Corporations face a 39 percent rate on taxable income between $100,000 and $335,000, and they face a 38 percent rate on taxable income between $15 million and $18,333,333. These "bubble" rates recapture the tax revenue that large firms save from the application of three lower tax rates. The 35 percent rate applies to all income above this amount.

Corporate Income Tax Rates Falling Worldwide

After cutting 12 percentage points off its corporate tax rate in 1986, the U.S. rate stayed below the world average until 1994. That was the first effective year of the tax hike President Clinton signed into law a year after his election, the Omnibus Budget Reconciliation Act of 1993, which added a new top rate of 35 percent.[2] Since then, the top federal statutory U.S. rate has remained at 35 percent. Combined with an average state corporate income tax rate of 6.6 percent, which is deductible from federal taxable income, the overall rate of tax on corporate income is 39.3 percent in the U.S. Among our major trading partners, tax competition has driven the average rate down to 29.2 percent (see Table 1).

Table 1

*Corporate Tax Cuts in Many OECD Nations Leave U.S. with Highest Rate[1]
2000 and 2005*

Country	Corporate Tax Rate in 2000	Corporate Tax Rate in 2005	Rank (2005)	Percentage Reduction in Corporate Rate (2000-2005)
United States[2]	39.4%	39.3%	1	0.3%
Japan	40.9%	39.0%*	2	4.6%
Germany	52.0%	38.9%	3	25.2%
Canada	44.6%	36.1%	4	19.1%
Spain	35.0%	35.0%	5	0.0%
Greece	40.0%	35.0%*	5	12.5%
France	37.8%	35.0%	7	7.4%
Belgium	40.2%	34.0%	8	15.4%
New Zealand	33.0%	33.0%	9	0.0%
Italy	37.0%	33.0%	9	10.8%
Netherlands	35.0%	31.5%	11	10.0%
Luxembourg	37.5%	30.4%	12	18.9%
United Kingdom	30.0%	30.0%	13	0.0%
Turkey	33.0%	30.0%	13	9.1%
Mexico	35.0%	30.0%	13	14.3%
Denmark	32.0%	30.0%	13	6.3%
Australia	34.0%	30.0%	13	11.8%
Sweden	28.0%	28.0%	18	0.0%
Poland	30.0%	28.0%*	18	6.7%
Norway	28.0%	28.0%	18	0.0%
Portugal	35.2%	27.5%	21	21.9%
Korea	30.8%	27.5%	21	10.7%
Finland	29.0%	26.0%	23	10.3%
Czech Republic	31.0%	26.0%	23	16.1%
Austria	34.0%	25.0%	25	26.5%
Switzerland	24.9%	24.1%	26	3.3%
Slovak Republic	29.0%	19.0%	27	34.5%
Iceland	30.0%	18.0%	28	40.0%
Hungary	18.0%	16.0%	29	11.1%
Ireland	24.0%	12.5%	30	47.9%
OECD Average[3]	33.6%	29.2%		13.0%

[1] Rates for 2000 and 2005 are combined central and sub-central tax rates. Where sub-central income tax is deductible against central government tax, this is reflected in the overall rate.

[2] The sub-central tax rate for the U.S. is calculated as a weighted average of state corporate marginal income tax rates, 6.7 percent in 2000 and 6.6 percent in 2005, deductible in both years from federal taxable income.

[3] Unweighted average.

* Adjusted central rate unavailable for 2005; 2004 data used.

Source: OECD data, located at http://www.oecd.org/dataoecd/26/56/33717459.xls and Tax Foundation calculations.

This 10-point disparity between the U.S. rate and the average OECD rate is unacceptably high. The Congress effectively narrowed the gap, albeit slightly, when it passed the American Jobs Creation Act of 2004. Signed into law in October of 2004, this tax bill did not actually change statutory rates, but it enacted a phased-in deduction that for many firms has effectively lowered the top federal tax rate to 34 percent in 2005 and 2006, to 33 percent during the next three years, and finally to 32 percent after 2009.

Other nations are lowering their corporate tax rates much more rapidly. Congress is responding to the international trend toward lower corporate tax rates with inadequate corporate tax relief, and by enacting a complex deduction instead of a straightforward rate cut, Congress has muddied the waters and created administrative problems. Of course, it is not terribly surprising that Congress would replace one complex deduction (for extra-territorial income) with another (for qualified production activity income, or QPAI), but as a result taxpayers are having difficulty complying.[3] Instead, Congress should have significantly lowered corporate income tax rates for all U.S. companies.

While the President's tax reform panel has certainly lived up to the spirit of fundamental reform by calling for expensing and the elimination of the corporate alternative minimum tax, the panel's proposal is more modest on the subject of rates. It suggests a 31.5 percent top rate as part of its "Simplified Income Tax"

[3] For a discussion of some of the confusing issues surrounding the term "manufacturing" in the American Jobs Creation Act of 2004, *see* http://www.bnatax.com/tm/insights_Sec199.htm.

(Plan A) and a 30 percent flat rate as part of its "Growth and Investment Tax Plan" (Plan B). Both plans would avoid the complexity of the recently enacted QPAI deduction. The panel's business tax suggestions are meritorious throughout, but it still must be acknowledged that neither plan would keep pace with the rate-cutting approach of our trading partners around the world.

Lawmakers need to reduce the corporate income tax rate to at least 25 percent. While a rate cut of that size would certainly improve our worldwide competitiveness, by the time we enact it, we would probably just barely keep up with current worldwide trends.

While some lawmakers will be concerned about the potential loss of tax revenues that results from lowering the corporate income tax rate, the U.S. – like other high-tax countries such as Japan and Germany – collects a relatively small amount of corporate tax revenues despite having high tax rates. The economic literature (supported by the experience of low-tax countries) suggests that the increased investment and economic growth generated by the lower corporate income tax rate will be well worth the "loss" of a small amount of federal tax revenues.

Table 2

OECD Nations with High Corporate Tax Rates Depend Less on Corporate Tax Revenues, 2003

Country	Statutory Central/ Sub-central Rate[1]	Rank (1 is highest)	Percentage of Total Taxes	Rank (1 is highest)	Percentage of GDP	Rank (1 is highest)
Australia	30.0%	18	16.7%	3	5.3%	3
Austria	34.0%	9	5.1%[2]	26	2.0%	25
Belgium	34.0%	12	7.4%	20	3.4%	11
Canada	36.6%	4	10.4%	9	3.7%	9
Czech Republic	31.0%	16	12.3%	8	4.8%	4
Denmark	30.0%	19	5.9%	22	2.8%	16
Finland	29.0%	22	7.7%	18	3.5%	10
France	35.4%	5	5.7%	24	2.6%	21
Germany	40.2%	2	3.5%	29	1.3%	29
Greece	35.0%	6	9.2%[2]	10	3.8%	8
Hungary	18.0%	28	5.8%[2]	23	2.4%	24
Iceland	18.0%	29	3.9%	28	1.5%	28
Ireland	12.5%	30	12.9%	7	3.9%	6
Italy	34.0%	10	6.6%	21	2.8%	17
Japan	40.9%	1	13.0%	6	3.1%	13
Korea	29.7%	21	15.3%	4	3.9%	7
Luxembourg	30.4%	17	19.1%	1	8.0%	2
Mexico	34.0%	11	n.a.	n.a.	n.a.	n.a.
Netherlands	34.5%	8	7.6%	19	3.0%	15
New Zealand	33.0%	13	13.6%	5	4.6%	5
Norway	28.0%	23	18.5%	2	8.6%	1
Poland	27.0%	25	5.3%	25	1.8%	27
Portugal	33.0%	14	8.7%	13	3.2%	12
Slovak Republic	25.0%	26	9.1%[2]	11	2.7%	19
Spain	35.0%	7	9.0%	12	3.1%	14
Sweden	28.0%	24	5.0%	27	2.6%	22
Switzerland	24.1%	27	8.5%	14	2.7%	20
Turkey	33.0%	15	8.0%	16	2.6%	23
United Kingdom	30.0%	20	7.8%	17	2.8%	18
United States[3]	39.4%	3	8.1%	15	2.0%	26
OECD Unweighted Average	30.8%		9.3%		3.4%	

[1] Rates are combined central and sub-central tax rates. Where sub-central income tax is deductible against central government tax, this is reflected in the overall rate.

[2] 2002 corporate tax collection data.

[3] The sub-central tax rate for the U.S. is calculated as a weighted average of state corporate income marginal income tax rates, 6.7 percent in 2003, deductible from federal taxable income.

Sources: OECD data at http://www.oecd.org/dataoecd/26/56/33717459.xls; OECD Revenue Statistics, 2005, Tax Levels and Tax Structures, 1965-2003, Tables 12 and 13; and Tax Foundation calculations.

U.S. Corporate Income Tax Rate Highest in the OECD

The United States has the highest overall corporate income tax rate (39.3 percent combined federal and sub-federal) among all countries in the Organization for Economic Cooperation and Development (OECD) (see Table 1). Japan (39.0 percent) and Germany (38.9 percent) have the second and third highest corporate income tax rates. The nation with the lowest corporate income tax rate in the OECD is Ireland (12.5 percent).

The clear trend among OECD countries is a move to cut corporate income tax rates to attract new investment. In fact, not one country raised its corporate tax rate between 2000 and 2005. OECD countries have, on average, reduced their corporate tax rates by 13 percent in this five-year period. Most notably, Germany, with the third highest corporate tax rate in the OECD, slashed its federal rate by 25.2 percent in five years. Other leaders in reducing corporate income tax rates include Ireland (a 47.9 percent rate reduction) and Iceland (40 percent).

High U.S. Rates Yield Low Revenue

With the highest overall corporate rate in the OECD in 2005 (third highest in 2003), one would expect the U.S. to be collecting comparatively high corporate tax revenues and to be heavily dependent on them. This is not the case. In fact, during 2003 the U.S. ranked 15th in the OECD in corporate taxes collected as a percentage of total taxes collected (see Table 2).

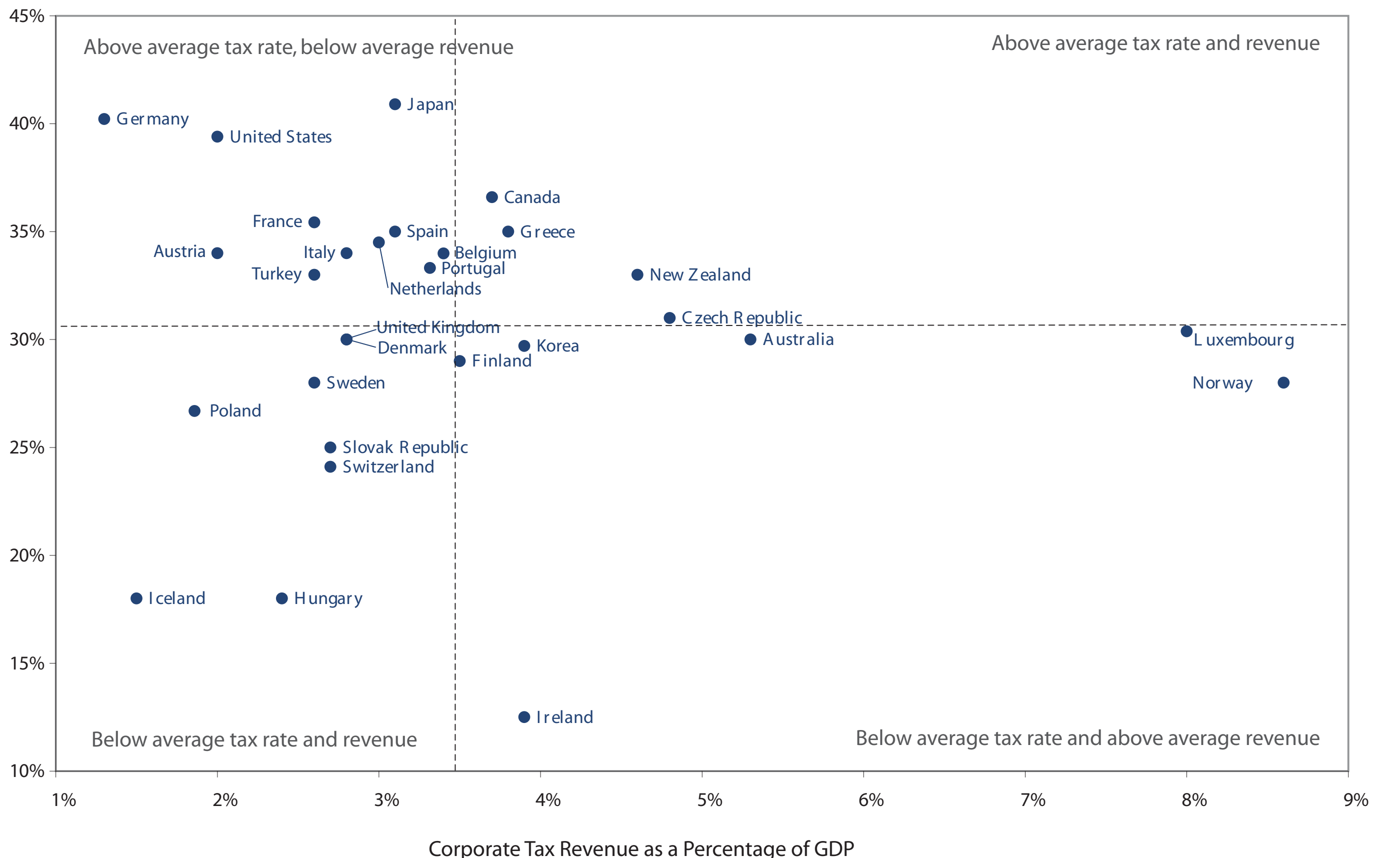
The countries that rely most heavily on corporate tax receipts are Luxembourg (19.1 percent), Norway (18.5 percent) and Australia (16.7 percent). Interestingly, all three of these countries have below-average corporate income tax rates (see Table 1). The countries that rely the least heavily on corporate tax receipts are Germany (3.5 percent), Iceland (3.9 percent), and Sweden (5.0 percent).

Similarly, comparing corporate tax rates and corporate taxes collected as a percentage of GDP paints another picture of the inverse relationship between corporate tax rates and the robustness of corporate tax collections. Economists at the OECD demonstrated that countries with high corporate tax rates – such as the U.S., Germany, Japan, and France – tend to have lower corporate tax collections as a percentage of GDP than the OECD average (see Figure 1).

Figure 1

OECD Countries with High Tax Rates Generate Little Corporate Revenue

2003



Note: For Australia, Greece, Hungary and the Slovak Republic, corporate tax revenue data are for 2002. The dotted line represents the OECD average.
Source: OECD Tax Database; OECD Revenue Statistics.

Table 3

Effective Tax Rates on Capital for Large and Medium-Sized Corporations, by Country, 2005

Country	Statutory Corporate Tax Rate Income	Effective Tax Rates		
		Manufacturing	Services	Average
China	24.0%	45.5%	46.5%	45.8%
Canada	34.3%	35.5%	41.3%	39.0%
Brazil	34.0%	40.1%	37.2%	38.5%
U.S.	39.2%	34.6%	40.0%	37.7%
Germany	38.4%	37.7%	36.3%	36.9%
Italy	39.4%	33.3%	38.1%	36.2%
Russia	22.0%	35.0%	34.1%	34.5%
Japan	41.9%	34.4%	33.1%	33.6%
France	35.4%	33.3%	33.4%	33.3%
Korea	27.5%	31.9%	29.6%	30.8%
New Zealand	33.0%	30.1%	28.8%	29.3%
Greece	32.0%	33.0%	27.8%	29.3%
Spain	35.0%	29.9%	25.8%	27.3%
Norway	28.0%	26.1%	24.7%	25.1%
Netherlands	31.5%	25.3%	24.9%	25.0%
India	33.0%	23.2%	24.9%	24.3%
Australia	30.0%	29.4%	22.1%	24.1%
Finland	26.0%	23.5%	22.4%	22.9%
Luxembourg	30.4%	21.4%	22.1%	21.9%
U.K.	30.0%	22.7%	21.2%	21.7%
Belgium	34.0%	21.4%	21.3%	21.4%
Poland	19.0%	20.6%	20.0%	20.2%
Denmark	30.0%	20.6%	19.4%	19.8%
Austria	25.0%	20.3%	18.8%	19.4%
Hungary	16.0%	18.8%	17.7%	18.2%
Czech Republic	26.0%	21.3%	14.0%	17.7%
Switzerland	22.0%	16.9%	17.1%	17.0%
Mexico	30.0%	17.2%	16.4%	16.7%
Ireland	12.5%	14.1%	13.2%	13.7%
Portugal	27.5%	11.7%	14.6%	13.5%
Sweden	28.0%	12.8%	11.6%	12.1%
Iceland	18.0%	13.1%	11.6%	12.1%
Slovak Republic	19.0%	9.6%	8.7%	9.1%
Hong Kong SAR	17.5%	6.1%	8.3%	8.1%
Turkey	30.0%	7.3%	5.7%	6.4%
Singapore	20.0%	5.8%	6.6%	6.2%
Unweighted Average	28.0%	24.0%	23.3%	23.6%

Source: C.D. Howe Institute and Tax Foundation calculations

High U.S. Statutory Rate Matched by Effective Rate

As telling as these comparative corporate income tax rates are, top statutory tax rates tell only part of the story. Since every nation's tax system taxes a different base (depending upon "depreciation, inventory costs and other business expenditures"[4]), and because each nation levies other business taxes, it is also instructive to compare the effective tax rates on capital for each country.

A new study conducted by the C.D. Howe Institute compared the effective tax rates on capital for large and medium-sized corporations in 36 industrialized and emerging countries. The study found that the U.S. had the fourth-highest average effective tax rate on manufacturing and services, "resulting from a statutory corporate income tax rate that is high by international standards."[5]

By contrast, says the report, "The most favourable tax regimes for investment are in Hong Kong, Ireland, Iceland, Singapore, Slovakia and, perhaps surprisingly, Sweden. These countries' corporate income tax rates are low, and in the case of Sweden, businesses are allowed fast write-offs for capital investment."

This comparison from a broader perspective corroborates the evidence from the comparison of corporate income tax rates – that U.S. taxes on business are internationally uncompetitive.

Corporations are Highly Sensitive to Tax Rates

Figure 1 merely confirms what a considerable amount of economic literature has shown – corporations are extremely sensitive to high marginal tax rates and will structure their operations to do less business in high-tax locations. Where high tax rates prevail, corporations use a variety of complex tax planning tactics to lower the tax costs of doing business and increase the profits derived from low-tax countries. These activities can include the manipulation of

[4] *See* Duanjie Chen, Jack M. Mintz and Finn Poschmann, *Attention G-7 Leaders: Investment Taxes Can Harm Your Nations' Health*, p. 2, C.D. Howe Institute (September 20, 2005).

[5] *See* Id.

transfer prices on intermediate goods traded among members of the same group, for example, or lending from low tax countries to subsidiaries in high tax rate countries.[6]

For example, Grubert and Mutti used data aggregated from more than 500 multinational tax returns to test firms' sensitivity to tax rates. They found that average effective tax rates have a significant effect on the choice of locations and the amount of capital invested there:

"A lower tax rate that increases the after-tax return to capital by one percent is associated with about 3 percent more real capital invested if the country has an open trade regime."[7]

Based upon these results, they predict that were taxes not a motivating factor, approximately one-fifth of U.S. capital abroad would be in a different location.

In another study of corporate tax sensitivity, economists analyzed the investments of U.S. manufacturing firms in 58 countries. They found that not only are multinationals highly sensitive to host country tax rates, but that they were twice as sensitive in 1994 as they were just a decade earlier. The study's authors report, "These results are consistent with increasing international mobility of capital and globalization of production."[8]

On the issue of whether firms shift income between high-tax and low-tax countries, one study by Grubert analyzed the dividend, interest, and royalty payments by 3,467 foreign subsidiaries to their parent American companies in 1990. He found that high corporate tax rates in countries in which American subsidiaries are located are correlated with higher interest payments and lower dividend payout rates.[9]

There is considerable evidence that multinational firms are sensitive to the taxes they pay on repatriated profits through dividends – although some studies show this sensitivity is only evident when effective tax rates fluctuate frequently as opposed to when rates are stable. A 1990 study by Hines and Hubbard found that only 16 percent of foreign subsidiaries of American firms paid dividends to the parent company in 1984, and those that did had a particular tax advantage.[10] They conclude that a one percent decrease in the repatriation tax is associated with a four percent increase in dividend payout rates.[11]

Similarly, a more recent study by Desai, Foley, and Hines asserted, "One percent lower repatriation tax rates are associated with one percent higher dividends. This implies that repatriation taxes reduce aggregate dividend payouts by 12.8 percent, and, in the process, generate annual efficiency losses equal to 2.5 percent of dividends."[12] These efficiency losses have the same effect as an additional tax placed on multinational firms and their shareholders, workers and customers.

The American Jobs Creation Act of 2004, which lowered repatriation taxes from 35 percent to 5.25 percent for one year, 2005, put the results of these studies to the test. In the first nine months of 2005, U.S. companies repatriated approximately $225 billion, and J.P. Morgan Chase estimated that they are likely to bring home another $75 billion in the final quarter.[14]

Not only are U.S. firms sensitive to the different tax rates abroad, but studies have also found that foreign investors are sensitive to U.S. taxes – especially state corporate income tax rates. These studies find that state tax rates have a significant effect on the location of new

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[6] *See* Michael Devereux, Rachel Griffith, and Alexander Klemm, *Corporate Income Tax Reforms and International Tax Competition*, 17 Economic Policy 451, 481 (October 2002).

[7] Harry Grubert and John Mutti, *Do Taxes Influence Where U.S. Corporations Invest?,* 53 National Tax Journal 825 (December 2000).

[8] Rosanne Altshuler, Harry Grubert, and T. Scott Newlon, "Has U.S. Investment Abroad Become More Sensitive to Tax Rates?" *NBER Working Paper No. 6383* (January 1998).

[9] *See* Id., Harry Grubert, cited in Gordon and Hines, p. 51.

[10] *See* Id. at 55.

[11] Hines and Hubbard (1990), cited in Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., "Repatriation Taxes and Dividend Distortions," p. 9, *NBER Working Paper 8507* (October 2001).

[12] *See* Id. at 2.

[13] "Homecoming Victory," *Wall Street Journal*, October 17, 2004, p. A 18.

[14] For an extensive discussion of the literature, *see* Gordon and Hines at 50-51.

plants. One such study found that high-tax states attract fewer new plants and that existing plants expand less. These same high-tax states have an unusually high number of their domestic firms purchased by foreign firms.[15]

Due in large measure to the sensitivity of corporations to tax rates, Lee and Gordon found that reductions in statutory corporate tax rates have a significantly positive effect on economic growth rates. According to their analysis of the tax rates and economic performance of 70 countries between 1970 and 1997, a 10 percentage point cut in the corporate tax rate will raise annual economic growth rates by one to two percentage points.[16] Moreover, they found that the lower corporate rates boosted entrepreneurial activity suggesting, "The growth effects of tax reforms, as well as the more standard efficiency and equity effects in a static context, merit serious consideration."

A recent path-breaking study by Devereux, Lockwood, and Redoano finds that OECD countries are competing with each other over corporate taxes in two important ways. First, because firms have a variety of tools available to them to shift profits between jurisdictions, countries are using lower statutory tax rates to compete for those highly mobile corporate profits. Secondly, countries have been broadening their tax bases to reduce their effective marginal tax rates (EMTR) in order to compete for new capital.

According to their findings, "A 1 percentage point fall in the weighted average statutory rate in other countries tends to reduce the tax rate in the home country by around 0.7 percentage points. A similar effect is found for the EMTR."[17]

As Gordon and Hines sum up the empirical literature, "The reported profitability of multinational firms is inversely related to local tax rates, a relationship that is at least partly the consequence of tax-motivated use of debt financing, the pricing of intrafirm transfers, royalty payments, and other methods."[18]

In other words, tax rates matter. Countries with higher tax rates will always see a higher incidence of tax minimization strategies among multinationals than low-tax countries and will experience lower rates of economic growth than low-tax countries.

Conclusion

Considering worldwide trends, U.S. lawmakers should look to lower the corporate tax rate to at least 25 percent. To be sure, the biggest obstacle to cutting the top corporate rate is its perceived cost to the U.S. Treasury. Calculated on a static basis, a cut in the corporate tax rate to 25 percent or lower would certainly be scored as a revenue loss. However, if international experience is any guide, the real cost will be much less because of the new economic activity generated by the cut in the corporate rate.

As capital and labor become more mobile and more sensitive to the tax consequences of investment decisions, the U.S. must keep its tax system competitive with other nations. The federal corporate tax is a relatively small share of total federal tax collections (12.5 percent in FY 2005).[19] Consequently, any revenue loss from a significant rate cut will not put great pressure on government finances.

Broadly speaking, a large body of economic evidence suggests that cutting the top corporate tax rate would:

- **Make the U.S. rate comparable to the rates of our major trading partners.** Since the United States lowered its top corporate tax rate in 1986 from 46 to 34 percent, other leading countries have followed suit and lowered their corporate tax rates. Whereas the United States did have one of the lowest rates in the world, the U.S. now has the highest combined corporate rate in the OECD.
- **Reduce the domestic costs of U.S. exporters.** Lower tax costs for U.S. exporters should translate into lower prices of goods

[15] *See* Young Lee and Roger H. Gordon, "Tax Structure and Economic Growth," 89 *Journal of Public Economics* 1027, 1041 (2005).

[16] Michael P. Devereux, Ben Lockwood, Michela Redoano, "Do Countries Compete over Corporate Tax Rates?" p. 5, working paper (November, 2004).

[17] Gordon and Hines at 58.

[18] *See* http://www.cbo.gov/showdoc.cfm?index=1944&sequence=0

shipped abroad, thus making those goods more competitive overseas.

- **Help small firms trying to enter foreign markets.** Firms too small to have foreign subsidiaries cannot afford to take advantage of deferral and must repatriate any profits to finance their on going operations. Reducing the corporate rate would reduce the tax penalty for repatriating those profits and improve the ability of these emerging firms to expand into foreign markets.

U.S. lawmakers should reduce the federal corporate rate to 25 percent. That would bring the combined federal-state rate down to 30 percent, just above the OECD average of 29.2 percent.

- **Encourage multinationals to increase the amount of dividends repatriated back to the U.S.** A lower rate would reduce the tax penalty against reinvesting foreign profits back into the U.S. This would lead to more investment in the U.S. by domestic multinationals.
- **Encourage greater foreign investment in the U.S.** While the U.S. is a highly desirable market for foreign firms, a lower rate would spur more investment and encourage those companies to reinvest their U.S. profits here.

*SPECIAL REPORT
(ISSN 1068-0306) is published at least 6 times yearly by the Tax Foundation, an independent 501(c)(3) organization chartered in the District of Columbia.*

*4–20 pp.
Single copy: free
Multiple copies: $5 each*

The Tax Foundation, a nonprofit, nonpartisan research and public education organization, has monitored tax and fiscal activities at all levels of government since 1937.

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