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STATEMENT FOR THE RECORD

Promote America's Competitive Economy (PACE) Coalition

U.S. Senate Committee on Finance Hearing on "How U.S. International Tax Policy Impacts American Workers, Jobs, and Investment"

March 25, 2021

The PACE Coalition applauds the focus of today's hearing on how U.S. international tax policy impacts American workers, jobs, wages, and investment. The PACE Coalition, a broad coalition of American business organizations and companies, is dedicated to supporting U.S. policies that promote economic growth and long-term prosperity for all Americans.[1] There can be no more important guide to setting U.S. tax policy than its effects on the standard of living of American workers and their families.

Americans have *always* outcompeted the world. American innovation and the skills and dedication of America's workforce have kept the United States as the largest and most productive economy in the world for over a century. As this nation works to rebuild our economy from the unprecedented job loss resulting from the pandemic, we must be focused not only on a strong *short-run* recovery, but also on sustainable *long-term* economic growth that creates rising incomes for all Americans.

America's economic position in the world economy is being challenged today. U.S. international tax policies should ensure we can keep pace with our competitors in the global economy.

- The United States produces a smaller share of world output than in any decade in at least 40 years.[2]
- U.S. companies account for a smaller share of global cross-border investment than they did in any decade in at least 40 years.[3]
- U.S. companies once dominated the list of the world's largest companies, but no longer do.

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[1] More information on the Promote America's Competitive Economy (PACE) Coalition can be found at https://keeppace.us/

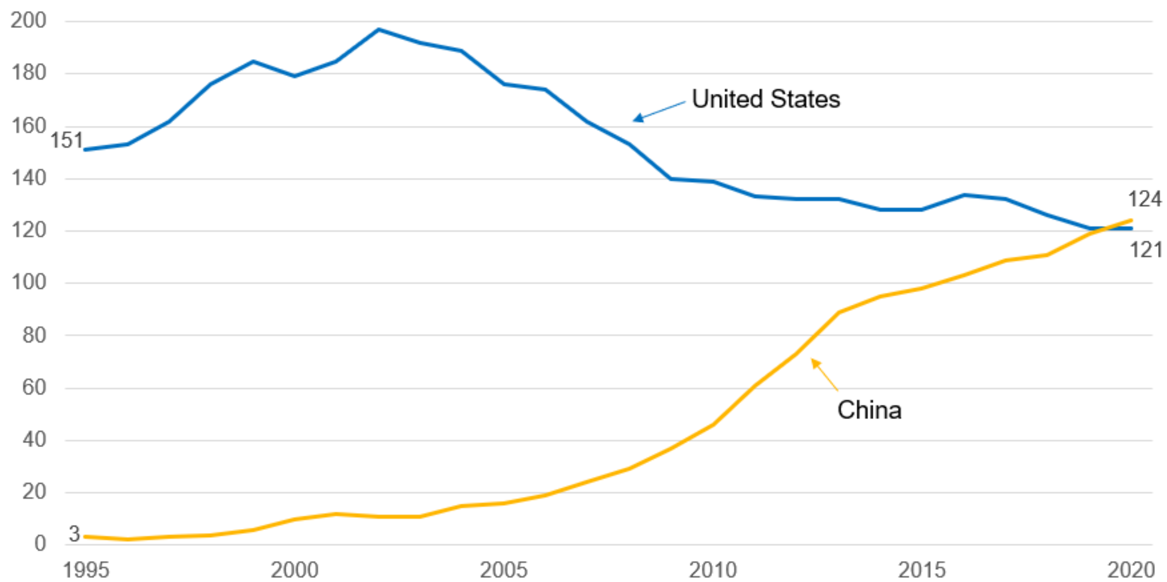
[2] 10-year share of world GDP (2010-2019) (constant dollars, current dollars, and purchasing price parity) compared to decades ending in 1989, 1999, and 2009, from the World Bank, World Development Indicators: https://databank.worldbank.org/source/world-development-indicators#.

[3] 10-year share of world outward stock of foreign direct investment, using official exchange rates: UNCTAD, https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740.

- China now has more companies on the list of Fortune Global 500 companies than does the United States, and the number of U.S. companies that have *fallen off* the list in the past 20 years is greater than the number any country other than China has *on* the list.[4]
- By some measures the U.S. economy is already smaller than China's, and China's economy is forecast to grow faster than the U.S. economy for years to come.[5]

As China's place in the global economy has increased in recent decades, so has the strength of its companies. In 1995, China had only 3 companies on Fortune's list of the 500 largest global companies, while the United States had 151 (**Figure 1**). By the 2020 edition of Fortune's list, China had increased its number to 124, while the U.S. total fell to 121. Higher taxes on U.S. job creators will only put Chinese companies at a competitive advantage in the years ahead. Ensuring a competitive tax code will enable continued U.S. innovation leadership.

Figure 1.—U.S. and Chinese Companies on Fortune Global 500, 1995-2020



Source: Fortune.

China is one focus of the economic competition the United States faces today, along with our traditional competitors in counterpart advanced economies. America can succeed in this economic challenge it faces based on the talent, skills, perseverance, and ingenuity of its workforce, as well as policies that ensure the global competitiveness of American companies. If the United States gives our competitors an advantage, however, we risk falling behind. And once the United States cedes this advantage, it will be even harder to regain it.

The United States must maintain competitive tax policies for its workers and, by extension, for the globally engaged American companies that help American workers sell goods and services in

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[4] Fortune Global 500, https://qlik.fortune.com/global500/.
[5] 2019 GDP measured using purchasing price parity: World Bank, World Development Indicators: https://databank.worldbank.org/source/world-development-indicators#.

the foreign markets where 95% of the world's population lives and over 75% of consumption occurs.

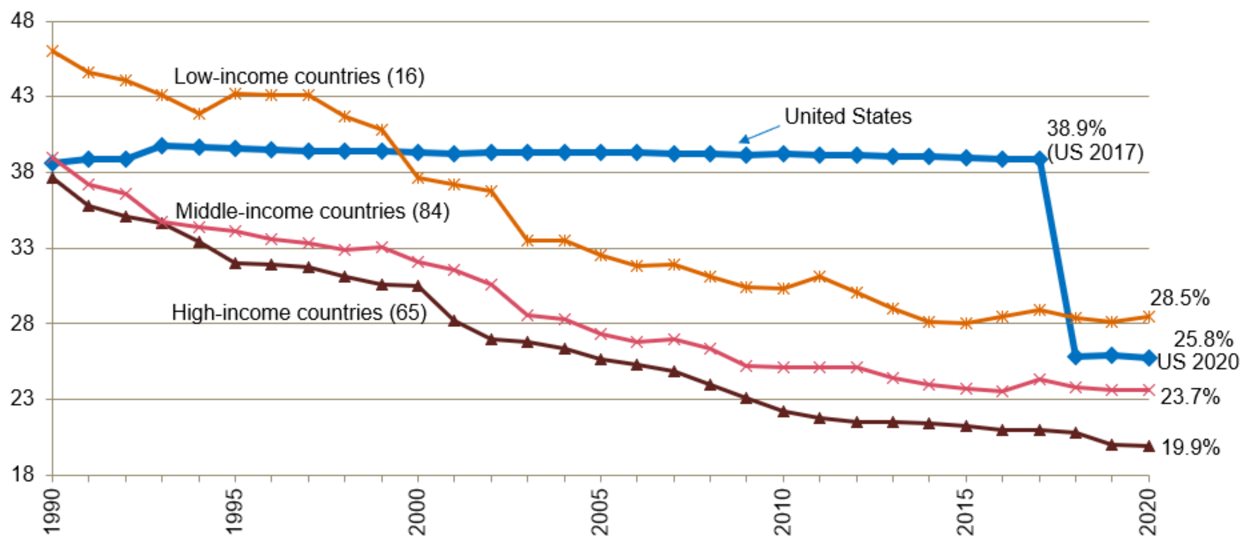
A Competitive Corporate Tax Rate to Attract Productivity Boosting Investment

A competitive U.S. corporate tax rate increases the amount of business investment in the United States, augmenting the productivity of America's workers, boosting their wages, and increasing the long-term growth of the economy.

The current U.S. corporate income tax rate is 25.8%, including state income taxes. By comparison, the International Monetary Fund estimates the average corporate income tax rate for 65 other high-income countries was 19.9% in 2020; for the 84 middle-income countries, the average tax rate was 23.7%. The only group with a higher average tax rate than the United States are the 18 low-income countries, with an average corporate income tax rate of 28.5%.[6]

All countries have lowered their corporate tax rate over the past three decades, with the greatest reductions occurring between 1990 and 2010 (**Figure 2**). Concerns about a "race to the bottom" neglect to mention that (i) the race ended about 10 years ago, and the United States was the loser, (ii) the refusal of the United States to lower its corporate tax rate over this period (we actually *raised* our rate) made it more advantageous for the rest of the world to reduce corporate tax rates, and (iii) countries were motivated to reduce their corporate tax rates solely to increase the incomes of their citizens and future economic growth. Corporate rate reduction is not a beggar-thy-neighbor policy – a lower corporate tax rate can increase income and economic growth independent from any reallocation of investment from one country to another.

Figure 2.—Average Statutory Corporate Income Tax Rates, 1990-2020



Source: IMF.

[6] International Monetary Fund, Fiscal Affairs Division, Tax Policy Rates Database.

As a group, it is the high-income countries – countries with a skilled and educated workforce, good infrastructure, and democratic governments – that have the lowest corporate tax rates. These are also the countries which often are the most likely alternative locations for investment that would otherwise be made in the United States – investments that rely on a skilled workforce.

If the United States increased its federal corporate tax rate to 28%, as proposed by President Biden, the combined corporate tax rate including state income taxes would increase to 32.3%. This rate would be the highest among the 37 advanced economies of the OECD, and 12.4 percentage points higher than the average of the 65 other high-income countries shown in Figure 3. The 32.3% rate would be 7.3 percentage points higher than China's headline 25% statutory tax rate, and more than double the 15% tax rate China provides for high technology industries. The U.S. rate would be higher than even the average rate of low-income countries, which currently as a group have the highest tax rate in the world. Such a high U.S. rate would be a recipe for slow U.S. economic growth and stagnant incomes.

The ultimate harm from a high U.S. corporate tax rate falls on the American worker. As Professor Laura Tyson, former President Bill Clinton's top economic advisor, wrote:

> For many years, the conventional wisdom was that the corporate income tax was principally borne by the owners of capital in the form of lower returns. Now, with more mobile capital, workers are bearing more of the burden in the form of lower wages and productivity as investments move around the world in search of better tax treatment and higher returns.[7]

Globally Competitive U.S. International Tax Rules to Enhance U.S. Competitiveness

The U.S. economy is strengthened through innovative and competitive global American companies. Globally engaged American companies directly and indirectly support approximately half of all private sector jobs in the United States – 76.6 million jobs in their companies, their supply chain, and their communities through the spending by their employees.[8] In 2018, 26.6 million American workers were employed directly by globally engaged American companies and they earned total compensation of $2.3 trillion.[9]

Globally engaged American companies boost U.S. productivity. More than 40% of all the gains in U.S. labor productivity since 1990 are attributable to multinational companies.[10] Globally engaged American companies performed $322 billion in research and development, comprising

[7] Laura D'Andrea Tyson, "The Logic of Cutting Corporate Taxes," New York Times, April 8, 2011, available at https://economix.blogs.nytimes.com/2011/04/08/the-logic-of-cutting-corporate-taxes/.

[8] Economic Impacts of Globally Engaged U.S. Companies: Employment, Labor Income, and GDP (May 2016), available at: http://businessroundtable.org/sites/default/files/Economic Impacts of Globally Engaged US Companies_FINAL for Distribution_0.pdf.

[9] Bureau of Economic Analysis, Activities of U.S. Multinational Enterprises, 2018, and National Science Foundation, Business Research and Development: 2018.

[10] Jason Cummings, et al. Growth and competitiveness in the United States: The role of its multinational companies, https://www.mckinsey.com/featured-insights/americas/growth-and-competitiveness-in-us#.

85% of their global R&D and 73% of all business R&D in 2018.[11] They also invested $722 billion in U.S. plant and equipment, 79% of their global capital expenditures in 2018.

Globally engaged American companies open up the world for American workers to sell the goods and services they produce. Over half of all goods and services that are exported from the United States are by globally engaged American companies or to their foreign affiliates. The foreign affiliates of American companies are primarily there to serve foreign markets. Approximately 90% of the sales of goods and services by their foreign affiliates are to foreign customers.[12]

U.S. and Foreign International Taxes

American companies compete in foreign markets head-to-head with foreign-headquartered multinationals and locally owned foreign companies. Both U.S. and foreign companies pay tax in the local foreign country in which they operate. Foreign-headquartered multinational companies from all other G7 countries (Canada, France, Germany, Italy, Japan, and the United Kingdom) owe *no current tax* on their active foreign business income and, when the earnings are repatriated home, the foreign income is 95% to 100% exempt from home country tax under the territorial tax systems of these countries. As a result, repatriated foreign income in these other countries typically result in a home country tax ranging between zero and 1.5%.

In contrast, the United States treats all active foreign business income in excess of a 10% return on tangible property as taxable income under the global intangible low-taxed income ("GILTI") provision of current law. A 50% deduction is permitted against this income, which in principle results in a 10.5% rate of tax applied against this income (half the 21% U.S. rate). U.S. companies may apply a foreign tax credit against U.S. tax on this income, but only 80 percent of foreign taxes are creditable. In theory this would result in no additional U.S. tax on foreign earnings taxed at a foreign rate in excess of 13.125% (since 80 percent of foreign taxes at a foreign tax rate of 13.125% would provide sufficient foreign tax credits to offset the effective U.S. tax rate of 10.5%). However, due to complicated expense allocation rules to determine the foreign tax credit, U.S. companies generally incur additional U.S. tax on foreign earnings taxed in excess of 13.125%, and even on foreign earnings taxed at foreign rates in excess of the U.S. 21% tax rate.[13]

In contrast to the U.S. GILTI rules, *no other* advanced economy applies a minimum tax to the foreign earnings of their multinational companies. Due to GILTI, globally engaged American companies generally pay more in tax on their foreign earnings than do their foreign competitors.

U.S. companies are therefore generally tax disadvantaged relative to their foreign competitors because of GILTI. Proposals by President Biden to increase the rate of tax – at least doubling the

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[11] Bureau of Economic Analysis, Activities of U.S. Multinational Enterprises, 2018, and National Science Foundation, Business Research and Development: 2018.
[12] Bureau of Economic Analysis, Activities of U.S. Multinational Enterprises, 2018.
[13] Richard Rubin, "Tax Changes Hit Overseas Profits of Some U.S. Companies," Wall Street Journal, March 27, 2019.

rate of tax under GILTI – would extremely disadvantage U.S. companies, since their foreign competitors would continue to be exempt from additional tax on their foreign earnings.

The greater the tax disadvantage faced by U.S. companies, the greater the impact will be on their ability to successfully compete in foreign markets. As the tax disadvantage increases, U.S. companies will contract their sales in foreign markets, causing a contraction throughout the company – including in the United States where its employees help support the foreign operations through both production and managerial activities.

It has been estimated that a 10 percent increase in the number of foreign employees of a U.S. company will cause a 6.5 percent increase in the number of its U.S. employees.[14] Likewise, if the foreign employment of the company contracts, its U.S. employment will similarly contract.

As a result, an increase in U.S. taxes imposed on the foreign operations of U.S. companies has a feedback effect that causes a loss of U.S. jobs. Any loss in foreign market share of U.S. companies will accrue to the benefit of foreign-headquartered multinational companies who will increase employment. Growth of foreign-headquartered companies at the expense of U.S. companies may result in yet further decline of U.S. companies as they lose the efficiency benefits of economies of scale. These effects may also cause the U.S. company to become less competitive in the U.S. market.

A level playing field for globally engaged American companies and their foreign-headquartered rivals requires that the United States not impose additional taxes on the foreign earnings of U.S. companies beyond those paid by foreign-headquartered companies to their governments. Increases in the GILTI tax rate would further disadvantage American companies and their U.S. workers.

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The world economy has become more challenging for American workers and the American companies for whom they work. Other countries have sought to create a tax advantage over the United States – even countries we consider our close economic partners.

The United States needs a competitive tax code to defend its economic interests and support American jobs. If U.S. companies must jump over hurdles and steer around stumbling blocks that companies headquartered elsewhere in the world do not face, we are only disadvantaging Americans and advantaging foreign competitors, including China.

Imposing higher taxes on the foreign earnings of American companies is not in the U.S. interest and risks American jobs and investment in the United States. By maintaining competitive tax rules for American companies and their workers, we can better ensure our economic security and the broader benefits that flow from a strong economy.

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[14] Mihir A. Desai, C. Fritz Foley, and James R. Hines Jr., "Domestic effects of the foreign activities of U.S. multinationals," American Economic Journal: Economic Policy, February 2009.