Business Roundtable

Deferral Supports the Competitiveness of Globally Engaged American Companies and Their Workers

Further limitations on deferral would endanger American jobs and lower American standard of living.

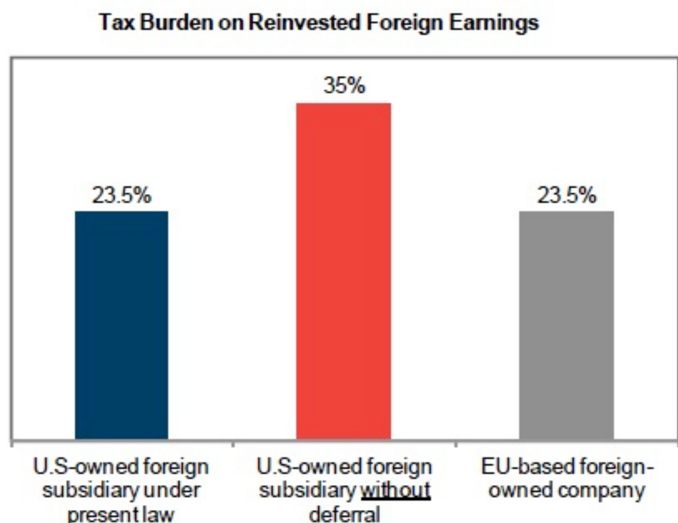
Deferral better levels the playing field for U.S. companies that compete in worldwide markets

- Deferral supports American economic competitiveness by maintaining a measure of comparability between taxes on the foreign operations of globally engaged American companies and foreign-based international companies.
- Proposals to further limit deferral would have adverse consequences for the U.S. economy by limiting the foreign operations of American companies, undermining efforts of American companies to compete for new foreign markets, and giving an advantage to foreign-owned companies at the expense of American companies and American jobs.
- Business Roundtable opposes further restrictions on deferral because they would reduce the international competitiveness of U.S. companies, hamper American economic growth, and reduce American living standards.

Further limitations on deferral would hurt American workers

- American workers earn higher wages at American companies with foreign operations than comparable U.S. companies without foreign operations. Contractions in foreign sales would reduce employment by U.S. parent companies and reduce wages.

How much of a tax disadvantage would U.S. companies face if deferral were eliminated?



Consider a U.S. foreign subsidiary operating in the European Union:

- The average statutory corporate tax rate within the EU was 23.5% in 2012, including local income taxes.
- In contrast, the U.S. federal corporate tax rate is 35% (and the tax rate is more than 39% including state and local income taxes).
- For every $100 earned in a representative EU country, a U.S.-owned foreign subsidiary would have $65 left to reinvest after paying the local country tax and U.S. federal income taxes (net of the foreign tax credit), while a foreign competitor operating in the same location would have $76.50 left.
- The 18% higher after-tax return earned by the foreign-owned company would allow it to reinvest more, raise funds for new investment more easily, and sell its products at lower prices than the U.S.-owned subsidiary.

- Productivity advancements would diminish as American companies reduced their investments in advanced technology and R&D, leading to a slower growing economy.
- In addition to a lower level of wages, over time American workers would experience smaller wage increases as productivity growth declined.
- Reduced wages would result in a decline in American living standards as American companies became less competitive in the global marketplace.

Without deferral, the competitiveness of globally engaged American companies would suffer

- Over time, U.S.-owned foreign subsidiaries would be unable to compete profitably against foreign corporations. Reduced foreign sales would also negatively affect operations in the United States, leading to a loss of American jobs in parent domestic operations.
- Reduced foreign sales would also reduce the ability of U.S. parent companies to undertake costly investments in R&D and advanced technologies. Over time, reduced innovation by parent companies would cause them to be less competitive in U.S. and foreign markets relative to expanding foreign-based international companies.
- U.S.-owned subsidiaries and their parents in the long-run might be attractive as takeover targets since a foreign acquirer could operate their foreign operations at a lower tax cost.

Further limitations on deferral would have negative tax consequences on U.S. companies

- The direct effect of further limitations on deferral would be to accelerate tax payments by American companies on their affiliates' foreign operations.
- Because the U.S. corporate tax rate is among the highest in the world (in 2012, the combined U.S. federal, state and local rate was the highest among all OECD countries), American companies would generally owe additional U.S. tax on their foreign earnings after netting foreign tax credits on the foreign income.
- U.S.-owned foreign subsidiaries would be significantly disadvantaged relative to their foreign competitors, because American companies would be immediately subject to additional U.S. tax on their foreign income while their foreign-based international competitors could continue to defer or be exempt from additional home-country tax.
- The tax advantage available to foreign-based competitors would permit them to reinvest more and sell their products at a lower price than their U.S.-owned competitors.

For a list of source documents and additional research, please see the Business Roundtable fact sheet, "Further Reading on International Tax Issues."

Let's maintain the foundation for sustained economic growth.
Business tax policy must promote U.S. international competitiveness.

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