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The changing landscape of headquarter locations and headquarter taxation of *Fortune* Global 500 companies

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Many analyses of international tax systems compare the US to the OECD countries. While being readily available, these comparisons necessarily include a number of small countries that are not headquarters to any major global competitors of US companies. In addition, these OECD-based comparisons omit some important emerging economies that are headquarters to significant global competitors.

Accelerating globalization is changing the competitive landscape for US companies, but that competition isn't from companies headquartered in Iceland, Slovak Republic or even Ireland.

Because global competition is typically a handful of global companies in an industry slugging it out in markets around the world, the tax treatment of a global company in its headquarter country is the key tax competitiveness issue. All global companies that do business in Poland pay the same Polish corporate tax rate of 19% on that local business; the competitive issue is whether any of that income is taxed currently or in the future by the company's headquarter country, and at what rate if it is taxed. A more informative comparison of international tax rules would focus on the headquarter countries of the major global competitors (e.g., the Fortune Global 500 companies).

Changes in the Fortune Global 500 companies over the past decade provide some insights into the global competition facing US multinationals, and a focal point for viewing the relative tax treatment of US global companies. Table 1 shows the top 10 countries headquartering Fortune Global 500 companies in 2009 ranked by total revenue of their global companies. The table compares the number and revenue of each country's headquartered global companies in 2000 and 2009. The table also shows the statutory corporate tax rates of those countries in 2000 and 2009, and their general tax treatment of foreign earnings of their global companies' controlled foreign corporations.

Headquarter locations of *Fortune* Global 500 companies and tax treatment, 2000 & 2009

	2000			2009			
Country	**Total revenue ($billions)**	**Number of companies**	**Statutory corporate tax rate[1]**	**Total revenue ($billions)**	**Number of companies**	**Statutory corporate tax rate[1]**	**Taxation of foreign source income 2009**
United States	4,681	179	39.2%	7,544	140	39.1%	Worldwide with deferral and FTC
Japan	2,931	107	43.3%	2,980	68	41.3%	95% dividend exemption enacted 2009
Germany	1,217	37	52.0%	2,259	39	33.0%	95% dividend exemption
France	922	37	37.8%	2,166	40	34.4%	95% dividend exemption
China	200	10	33.0%	1,661	37	25.0%	Worldwide with deferral and FTC
United Kingdom	765	38	30.0%	1,585	27	28.0%	100% dividend exemption enacted 2009
Netherlands	391	10	35.0%	1,044	12	25.5%	100% dividend exemption
Italy	264	10	39.5%	699	10	30.3%	95% dividend exemption
Korea	242	12	30.8%	603	14	24.2%	Worldwide with deferral and FTC
Switzerland	293	11	24.9%	566	15	21.2%	Proportional dividend exemption
Total Top 10[1]	11,904	451	39.8%	21,106	402	32.1%	
Other	792	49	35.7%	4,069	98	28.4%	
Total Global 500[1]	12,696	500	39.2%	25,175	500	31.1%	

[1] Average statutory tax rates weighted by number of Global 500 companies in the country excluding the US.
Source: Fortune Global 500, Ernst & Young LLP

The changes in the headquarters of the Fortune Global 500 since 2000 lead to several observations:

- Almost half of the Fortune Global 500 companies in 2009 were not in that list nine years earlier. The top 500 global companies are a dynamic group.
- Only 16% of the Fortune Global 500 companies were not headquartered in a G-7 country in 2000. Today, that percentage has doubled to 32%.
- The United States' share of Fortune Global 500 companies fell from 36% in 2000 to 28% in 2009. Its share of Global 500 sales fell from 37% to 30%.
- The world's two largest economies, the United States and Japan, represented 57% of the Global 500 companies in 2000, but fell to 42% in 2009. The fact that the United States and Japan also have the two highest statutory corporate income tax rates in the world may be one of the contributors to this decline. Moreover, until earlier this year both countries had worldwide tax systems, but now only the United States does.
- In 2000, the US combined (federal and state) statutory corporate tax rate was 39.2%, exactly the same as the average of the non-US Fortune Global 500 headquarter countries' tax rate. In 2009, the average tax rate of the other countries headquartering major global companies has fallen eight percentage points to 31.1%, while the US corporate rate has remained unchanged.
- When comparing the tax treatment of global companies based in the top 10 countries headquartering Fortune 500 companies, the United States is a global tax outlier with both a high corporate tax rate and tax on worldwide earnings. Seven of the top 10 countries have a dividend participation exemption system that generally exempts 95% or 100% of foreign source dividends. The other two countries with worldwide tax systems have corporate tax rates around 25%.
- Both Japan and the United Kingdom have adopted dividend exemption systems in the past six months to make their economies stronger. Japan principally enacted the dividend exemption to encourage repatriation of cash to Japan from its foreign subsidiaries, while the United Kingdom adopted dividend exemption to not disadvantage their UK headquartered companies in the global marketplace.

The dynamic nature of the Fortune 500 Global companies and the changing location of global competitors are instructive for policymakers. As the President's Economic Recovery Advisory Board tax reform task force considers recommendations to the President for corporate tax changes, the changing nature of global competition and the relative taxation of global activity of US companies compared to their global competitors should be a strong consideration.

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