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AN ARGUMENT FOR CORPORATE TAX AMNESTY

How a tax amnesty period will benefit everyone

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“THE TAX RATE OF 35 PERCENT IS IMPOSSIBLE TO PROVIDE AN INCENTIVE TO THE LARGE CORPORATIONS, THAT HAVE \$1.7 TRILLION OFFSHORE, TO PUT THEIR MONEY BACK IN THE UNITED STATES” – FREDERICK W. SMITH, CEO OF FEDEX CORPORATION

EXECUTIVE SUMMARY

According to a report by *Audit Analytics*, there is currently over 2 trillion dollars in profits overseas United States companies hold that cannot be taxed because the money does not touch our shore. This paper will argue that the United States government should implement a tax amnesty period to temporarily reduce the current overseas tax rate from 35% to 10%. There are a few reasons why this is an excellent business decision, such as:

- Even though businesses will have to pay taxes still, the benefits of the lower rate outweigh the cost of keeping it overseas.
- Businesses will be able to use the extra cash in the United States to help stimulate the economy here at home
- The extra taxes business pay will benefit everyone
- Once the money is in the United States, it will continue to make its way back to businesses here, rather than overseas.
- Once this is successfully implemented, businesses will be able to use it as an argument for a permanent reduction of the tax rate – the item that would truly benefit businesses.

Of course, there are often complaints from many different groups when a tax amnesty is discussed. Some of these are questions or arguments such as:

- Would a tax amnesty even help anyone?
- A tax amnesty only benefits the corporations.
- It makes corporations expect more tax amnesty periods to come in the future.

While these are all valid reasons, this report will show that they fail to adequately form an argument against tax amnesty. The benefits this report details are clearly a good decision for businesses and for society as a whole.

WHAT IS CORPORATE TAX AMNESTY?

Corporate tax amnesty is the idea that the government will temporarily reduce the taxes companies owe on overseas profits they wish to bring back into the United States. Currently, high tax rates dissuade these companies from bringing this money into the U.S. because they can keep it overseas without fear of penalty. There are several lines of

thought regarding this topic, ranging from removing the tax entirely to merely providing incentives without a tax reduction.

ARGUMENTS FOR CORPORATE TAX AMNESTY

MONEY OVER HERE IS BETTER THAN OVER THERE

To tell any business that being taxed is a good idea is a very hard thing to do, however that is exactly what needs to be done. It is actually a much better idea to bring the money back into the United States, for quite a few reasons:

- With a large corporate base as well as research and development base, profits in the United States can be used more effectively than if left overseas.

By using the money back home, more efficient use can be made of it than if it is left overseas with an unskilled workforce. With the cost of operations overseas usually much lower, these corporations have no real need to use the money there, they are simply trying to avoid losing it to taxes.

- Money overseas may be held in countries that are politically unstable or subject to seizure from foreign governments.

Many governments around the world are very unstable and change power rapidly. This applies in particular to oil companies, which often work in dangerous countries in the Middle East, or in socialist countries such as Venezuela which can seize property as well as any money kept there at any time. A report from *Chatham House* actually noted in reference to oil that “It is a sad reflection that the price of oil is dependent upon the behavior of [...] politicians” (Stevens and Hulbert). It is much safer to keep this money in the United States with a stable government and measures to keep unreasonable seizure of private property.

Overseas Asset Seizure

While it seems farfetched, there is real instances of it happening to countries all around the world. During the Cuban Revolution, approximately 7 billion dollars in U.S. owned property was seized and has not been returned since (Neyfakh).

Just last year, the Russian Federation passed a law allowing the government to seize foreign owned property in response to sanctions placed on the country (Hirst).

In 2011, Pakistan nationalized all privately owned shares of their airline, railway, and steel industries in order to prevent the money from leaving the country (Fazl-e-Haider).

- It follows the mantra that you have to help yourself before you can help others.

If this money is brought back, it will help businesses expand their operations in the United States – operations which are often the ones directing the business world-wide. With extra cash it allows them to refine their practices allowing them to develop more efficient operations to help grow their business here, as well as abroad.

IT'S AN ECONOMIC STIMULATOR

Any time large amounts of money enter the economy, it is a good thing for everyone. A tax amnesty period will allow companies to bring large amounts of cash back into the U.S. which will have a trickle-down effect on all aspects of society. Here is a few reasons this will stimulate the economy:

- Companies will be able to hire more employees to grow and expand their company.

Forbes published an article detailing three problems great companies stop growing. One of these reasons was money. “To grow to the next inflection point, your [...] funding model must be appropriate” (Comaford). Many of these companies have the cash needed to grow, but the taxes do not justify bringing it back. Another key item mentioned was people. If these businesses have the money they can hire the people needed.

- It will put more tax money into the system, benefiting businesses that provide goods and services to the government.

With all of the money being put to use in different ways such as hiring employees, and even the tax revenue from directly bringing the money back, this money will continue to benefit businesses. The government directly contracts with thousands of businesses every day for purchasing as well as services. This has the direct effect of benefiting the businesses that deal with the government.

- The more cash companies have on hand, the more they are able to borrow.

Banks know that they can safely borrow against overseas assets, but only 65% of them. This reduces the amount that corporations can borrow because their assets are not as

high. If the tax rate was reduced, companies would be able to bring back these profits at a lower rate, borrow more from the banks, and stimulate the banking industry as well.

LOWER TAXES BENEFIT EVERYONE

With such a large amount of money coming in, there is sure to be benefits for not just business, but for people as well. The idea that it is an economic stimulator that benefits all aspects of society is true, but there is more to it than just stimulating the economy. In fact, there are many other aspects on how something like this will benefit the nation such as:

- It encourages bipartisanship in our government, something everyone can get behind

In fact, to show just how much cooperation this encourages, the *Wall Street Journal* recently reported that both Rand Paul who is a libertarian, has allied with Barbara Boxer a liberal democrat, to propose a measure very similar to this with a tax rate of 6.5% (McKinnon). If both a staunch libertarian and a liberal democrat can get behind a measure like this, it shows that everyone is a winner.

- It stops manipulation of the current system and encourages honesty.

Many citizens currently lack faith in the tax system that is in place. If citizens do not feel that companies are paying their fair share, they lose faith in the system. This can cause things such as the bank runs which involve masses of people withdrawing money from their bank accounts. In addition, the corporations lose the incentive to manipulate the system to try and get every last cent possible untaxed.

- Tax cuts encourage spending, which is directly related to a healthy economy.

Keynesian economics – the belief that in the short term economic health is related to spending has been a hallmark of advanced nations over the past century, and for a good reason: it works. With businesses spending more money it gives confidence in the economy to the overall population and spending goes up. Evidence of this concept can be witnessed in small talk between people in which they generally associate financial

problems with “the economy”. Perception in a healthy economy contributes to a healthy economy.

ONCE THE CASH IS HERE, IT STAYS

The clear problem is that profits overseas are staying overseas. This exact logic applies to why this is such a good idea. If the money is brought back into the United States, the vast majority will stay within the country for quite some time. This is excellent news for a few reasons:

- The more money that is in the United States, the more it has a chance to move around the economy.

As an offshoot to stimulating the economy, more cash directly affects the velocity of money – the speed in which cash moves from one person to the next. Once money is in a country, it is much less likely to leave, instead moving from business to business within the country.

- United States currency was designed for a market at home, not abroad.

One of the primary purposes of the Federal Reserve System is to provide a currency for our nation’s economy, not others. When large portions of the overall supply of money are tied up overseas, it makes it difficult for the market to move and hurts businesses.

- It is difficult for corporations to move large amounts of money overseas.

The attempt to dodge high taxes has been such a problem in fact that a process called

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Just how does the cash stay?

A recent study in Applied Economics was able to correlate a 10% reduction in the corporate income tax rate with an overall increase of 2.2% of a country’s gross domestic product (GDP) from foreign sources.

The plan proposed in this paper makes the argument for a 25% reduction temporarily. With this 25% reduction in corporate taxes it would make for a 5.5% increase in the GDP. The current U.S. GDP stands at 16.77 trillion dollars.

Given those numbers, this would result in a GDP increase of

\$918,500,000,000.

That’s **nine hundred eighteen billion and five hundred million dollars**. All of that money would be coming from foreign investment sources.

Not only would this plan bring back money already belonging to U.S. companies, it would bring increased foreign investment.

“inversion” has been slowly gaining traction in companies. It involves merging with another company outside the United States, allowing them to shift funds overseas without them being taxed. If there was a tax amnesty period, it would reduce the incentive to resort to the drastic measures of merging with an overseas company merely to reduce a tax bill.

PROOF OF CONCEPT FOR PERMANENT REDUCTION


The strongest point of why a tax amnesty period is a good business idea is it will provide skeptics with a clear idea that a long-term reduction in taxes on overseas profits is a good idea. This will benefit businesses in the long run because they will not have to fear high taxes or wait for an amnesty period to occur – they can simply bring the money back into the U.S. at a new lower permanent tax rate. There’s a few ideas that support why this would be a proof of concept including:

- A permanent lower tax rate would further enhance the benefits gained by an amnesty period.

Most people will agree that trying to reform the current tax system is a difficult task. This will show that there is tangible benefits to be gained by reducing the tax rate permanently. It will also gradually increase the benefits, rather than having the whiplash effect that amnesty periods do on the economy.

- It will encourage business that operate mainly overseas to use their profits here – it would now be more cost prohibitive to take their cash back home.

The problem we have now would be reversed with this situation. Businesses based overseas would start keeping their money here. The government would even be able to provide incentives to use the money rather than just let it sit. This makes the U.S. appear even more business friendly than it already is, attracting more entrepreneurs. This stimulates the economy even more and increases the likeliness of keeping the money here.



“IT’S NOT COINCIDENCE THAT THE U.S. IS IN LAST PLACE IN THE WORLD IN TERMS OF CORPORATE TAX RATE. IT’S BECAUSE OUR SYSTEM IS SETUP TO BLOCK TAX REFORM”

DAVID MALPASS, PRESIDENT OF ENCIMA GLOBAL LLC, AN ECONOMIC RESEARCH FIRM

- This will protect businesses from future increases in taxes.

The one thing many businesses fear is tax increases. Considering the speed at which the government and political parties change, new taxes are always a looming threat. This plan will show the government that increasing taxes are a bad idea. If the government ever attempts to raise taxes again on overseas profits, the businesses will be able to point to the success of this measure and how it would not be a good idea to repeat history.

REFUTING ARGUMENTS AGAINST TAX AMNESTY

There are a few different arguments or complaints about a tax amnesty. Most however, fail to take into account different issues or do not look at the entire picture. Below are several commonly used arguments and statements that people against it have and why they are not accurate.

WILL IT EVEN HELP AT ALL?

After the past tax amnesty periods, most people continue to ask if it would even help, citing studies that they did very little. While this is a valid concern, in today's economy and from a business perspective, this is false.

- If a conservative 10% of profits are brought back that would be an immediate cash infusion of 200 billion dollars to the economy. A tax rate of 10% would see the government capturing 20 billion dollars from that – An amount that could fund the Transportation Department for an entire year!
- Even if companies hold onto the cash once it is in the United States as some suggest, the increased liquidity in assets will allow these companies to borrow at lower interest rates, which still stimulates the economy.
- There are many intangible benefits that are brought about by this such as increasing confidence in the economy, encouraging spending, and raising awareness about the current tax system that cannot be quantified.

IT ONLY BENEFITS THE CORPORATIONS!

The idea that it only benefits the corporations is partially true in theory. However in reality, this is actually the opposite. Almost every use of money that is brought back to the United States benefits everyone. In fact, here's just a few of the reasons it will help others:

- Most retirement funds in the U.S. are a portfolio of mutual funds. These are made up of stocks from individual companies. If the value of these companies increase from having extra cash in the U.S. so will the retirement funds of the middle class.
- As businesses continue to grow using this money, they would continue to get taxed on the profits, which because of the growth results in higher tax revenue for the government.
- Because businesses make the products and services we use, when they expand it benefits everyone. In fact, one of the biggest beneficiaries of the 2004 tax amnesty period was Pfizer, a major pharmaceutical company that makes prescription drugs for many different diseases and conditions.

THIS JUST MAKES THEM EXPECT IT TO HAPPEN AGAIN!

This is a 100% valid concern, however the only reason there is so much cash stored overseas that companies don't bring back is because this doesn't happen. There is several points why worrying about this is a non-issue:

- Most companies will not base their operations on something that they cannot predict will happen again, it would be bad business.
- The current system clearly does not work since profits are not being brought back regardless, so giving a small window encourages businesses to take it.
- Even if they do expect it, there is nothing wrong about since it will produce tangible benefits.

CONCLUSION

Because this is an issue which has received bipartisan support in congress from parties that are at odds, it shows that this is a plan that just makes good business sense. Put simply this plan not only makes business sense, but it:

- Helps grow the economy.
- Benefits businesses, private citizens and the government.
- Encourages everyone to work together.
- Provides a meaningful path to tax reform.

The United States is a society built on capitalist values that appreciate the contribution businesses make. What benefits the businesses benefits society, and that's why an amnesty period works.

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