THE TAXONOMIST

# Reality Check

Bush's Treasury Department regurgitates blatant corporate nonsense about taxes

**By Robert S. McIntyre**

Something I've drummed into my staff over the years is that no analysis is complete until it's passed a "reality check." By that, I mean that everything we do must be recalculated using alternative approaches to assure we haven't made some silly mistake. Unfortunately, this lesson doesn't seem to be taught at the Bush Treasury Department.

On November 19, Treasury's assistant secretary for tax policy Pamela Olson informed the National Foreign Trade Council that in her view, America's tax laws are far too tough on corporations compared to how businesses are taxed in other countries. "It is time for us to revisit our tax rules to function in the world in which we live," she told the assembled representatives of big multinational corporations and their accountants. "Our tax rules appear outmoded at best and anticompetitive at worst."

It's possible that Olson has actually swallowed this fantastic piece of corporate propaganda. But it's inconceivable that she did any reality checking before she repeated it.

Olson might have had second thoughts about her speech had she simply read the newspapers, where she would have found countless stories about big American corporations slashing their taxes to little or nothing through various tax shelters and loopholes.

Or if Olson doesn't believe what she reads in the popular press, she could have asked her staff to dig up the kind of information that Martin Sullivan recently reported in the trade journal *Tax Notes*. Based on government data, Sullivan points out that from 1983 to 1999, the profits that the largest 10,000 U.S. corporations claimed they "earned" in tax havens jumped by 735 percent. In 1999 alone, that meant that these firms artificially shifted $92 billion in otherwise taxable profits to tax-haven countries such as Bermuda—a figure that is undoubtably much higher by now.

As another alternative, Olson, who previously chaired the American Bar Association's Section on Taxation, might have consulted a few of the many international tax lawyers she must know. One of them, Richard E. Anderson of Arnold & Porter, was happy to explain to the *New York Times* how American multinational corporations "routinely place ownership of patents, corporate logos and other valuable property in tax havens." The American corporations then pretend to pay their tax-haven operations big, tax-deductible royalties to use those assets, and huge amounts of profits magically disappear from their U.S. tax returns. "International Tax Planning 101," Anderson called this tax-dodging strategy.

Finally, in the ultimate—and easiest—reality check, Olson could have asked a simple question: Are U.S. corporate taxes really higher than those of our foreign competitors?

Helpfully, in October the Organisation for Economic Co-operation and Development issued its latest comparison of federal, state and local taxes in its member nations (which include most of Europe, North America and the major free-market Pacific Rim democracies). As has long been the case, overall U.S. taxes came in near the bottom for 2001, ranking 27$^{th}$ out of the 30 OECD countries as a share of gross domestic product. In fact, as the Bush tax cuts have began to take effect, total U.S. taxes have fallen to only 26.3 percent of our GDP—probably above only Mexico.

But are our corporate income taxes an exception to this rule?

Actually, they used to be. Back in 1965, U.S. federal and state corporate taxes, at 4.1 percent of our GDP, ranked third among all OECD nations. But today that's only a distant memory. By 2000, the latest year with complete OECD data, our corporate income taxes were down to only 2.5 percent of GDP. Meanwhile, in the other OECD countries, corporate income taxes went in the opposite direction, jumping from 2.4 percent of GDP in 1965 to 3.4 percent in 2000.

As a result, by 2000, U.S. corporate taxes had dropped to 22$^{nd}$ among the 29 reporting OECD countries. And lately, with the ever-growing torrent of offshore tax shelters and President Bush's huge corporate loophole package enacted last January, our corporate taxes have fallen even further—to only 1.5 percent of our GDP in the just completed fiscal year. That's below the most recent corporate tax level reported by any other OECD country except Iceland.

Although Bush's tax policy staff is woefully out of touch with the real world, they're certainly right that our corporate tax laws are "outmoded." It's only their conclusion—that we're harsh on our corporations—that's exactly backwards.

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