

Does the U.S. Have One of the Highest Business Taxes?

Anti-tax, anti-public service forces claim that businesses in the United States have the second highest taxes in the world. Is this true?

In a word: **No.**

Let's be real clear. **Businesses located in the United States do not face the second highest level of taxes in the industrialized world.** That "second highest" claim is often repeated as evidence that businesses operating in the United States face higher taxes than they would in almost any other major nation and, therefore, they need a tax cut to remain competitive. What the people using that phrase almost never make clear is that they are speaking of only one tax, the corporate profits tax. That tax is only one of the many taxes paid by businesses both here and abroad. And, it is the one tax that the United States, in contrast with most of our major trading partners, relies on as its major source of revenue from corporations.

The obvious problem with this mono-tax approach to comparing taxes is pointed out by John Whiting, international tax expert and senior tax partner at PricewaterhouseCoopers. Mr. Whiting says, "There is room for confusion and misinterpretation over a company's tax bill, particularly if you just look at the corporation tax. Businesses face a huge array of taxes over and above the tax on their profits." In other words, Whiting warns anyone comparing international taxes not to look only at profit taxes, as they will be confused and misled.

Whiting's firm, PricewaterhouseCoopers, recently partnered with the World Bank to produce an extensive study, *Paying Taxes 2008: The Global Picture*, on international business taxation. The World Bank, unlike the mono-tax theists, takes into consideration the fact that businesses do, in fact, face a host of taxes in addition to the corporate profit tax.

Using this far more realistic approach, the World Bank finds that the U.S. tax rate on corporate profits is indeed comparatively high — 5th highest among the 24 industrial nations in their study. And by "rate" they mean what a business would actually pay, not simply the highest number on the table.

However, businesses in most nations incur employment-related taxes in amounts that turn out to be much higher as a share of profits than are the direct profit taxes themselves. Comparing taxes on labor and social contributions, the U.S. is 3rd lowest as a percentage of profits, ahead of only Denmark and New Zealand. In the U.S., taxes on labor and social contributions (here these are mainly the employer's share of social security taxes and state unemployment contributions) amount to 9.6% of profits. The average for those taxes in the industrialized world is 22.8%, more than double the U.S. level. In seven of the OECD nations, labor and social service taxes are more than 30% of profits, and in two of those, France and Belgium, they are over 50% of profits.

When the World Bank study adds up the total tax bill for businesses, they find that the rates vary from 28.9% and 27.2% in Ireland and Iceland, respectively, to 66.3% and 76.2% in France and Italy, respectively. World Bank data show the U.S. total business tax rate to be 46.2%, which happens to be exactly average for industrialized nations. Eleven of the 23 industrial nations have higher total tax rates, twelve have lower. You don't get much more average than that.

So it appears that Senator McCain's proposal, during his presidential campaign, that "the taxes we impose on American companies should be no higher than the average rate our major trading partners impose on theirs," has already been fulfilled. And with that, the principle argument being offered to support the need for a corporate tax cut vanishes.

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As a footnote, World Bank data present a prickly dilemma for anyone tempted to use the profit-tax-only rankings to argue that America’s business taxes are too high in comparison to our major trading partners: If you choose to ignore other taxes and take the position that these non-profit-based taxes don’t matter to business, then how do you respond to the suggestion that we simply raise these taxes, spend the money doing good things, and no one is harmed. Alternatively, if you believe those taxes do matter, then how do you argue against counting them in the international comparisons?

Doing Business: OECD Business Taxes as Percentage of Profits, 2008										
Economy	Profit tax (%)		Economy	Labor tax and contributions (%)		Economy	Other taxes (%)	Economy	Total tax rate (% profit)	
Japan	33.2	1	Belgium	57.1	1	United States	9.5	1	Italy	76.2
New Zealand	32.1	2	France	52.1	2	Canada	7.6	2	France	66.3
Italy	30.8	3	Italy	43.2	3	Germany	7.5	3	Belgium	64.3
Denmark	28.0	4	Spain	37.6	4	France	5.8	4	Spain	62.0
United States	27.1	5	Sweden	36.4	5	Iceland	5.4	5	Austria	54.6
Australia	26.9	6	Austria	34.5	6	Korea	5.2	6	Sweden	54.5
Canada	26.0	7	Greece	31.7	7	Austria	5.0	7	Japan	52.0
Netherlands	26.0	8	Finland	29.7	8	Japan	4.4	8	Germany	50.8
Norway	24.9	9	Portugal	26.8	9	Switzerland	3.6	9	Australia	50.6
Spain	23.7	10	Australia	22.2	10	United Kingdom	3.2	10	Greece	48.6
Germany	21.6	11	Germany	21.7	11	Portugal	2.8	11	Finland	47.8
United Kingdom	21.3	12	Switzerland	17.2	12	Denmark	2.7	12	United States	46.2
Korea	18.3	13	Luxembourg	16.7	13	Ireland	2.6	13	Canada	45.9
Finland	17.0	14	Norway	15.9	14	Italy	2.2	14	Portugal	44.8
Luxembourg	16.7	15	Netherlands	15.8	15	Greece	1.9	15	Netherlands	43.4
Sweden	16.5	16	Japan	14.5	16	Luxembourg	1.9	16	Norway	42.0
Portugal	15.2	17	Iceland	13.4	17	Belgium	1.8	17	United Kingdom	35.7
Austria	15.1	18	Canada	12.3	18	Sweden	1.7	18	Luxembourg	35.3
Greece	15.1	19	Ireland	12.1	19	Netherlands	1.6	19	New Zealand	35.1
Ireland	14.2	20	Korea	11.4	20	Australia	1.5	20	Korea	34.9
Iceland	8.4	21	United Kingdom	11.3	21	Norway	1.3	21	Denmark	33.3
Switzerland	8.4	22	United States	9.6	22	Finland	1.0	22	Switzerland	29.1
France	8.3	23	Denmark	2.5	23	Spain	0.8	23	Ireland	28.9
Belgium	5.4	24	New Zealand	2.4	24	New Zealand	0.6	24	Iceland	27.2
	<u>20.0</u>			<u>22.8</u>			<u>3.1</u>		<u>46.2</u>	

World Bank, 2008, *Paying Taxes 2008: The Global Picture*.
http://www.doingbusiness.org/documents/Paying_Taxes_2008.pdf

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