BREITBART

December 12, 2015

How to Actually Stop Tax Inversions

By Alfredo Ortiz

What's the current solution being proposed to stop U.S. companies from fleeing our borders to free themselves from this country's oppressive corporate taxation? More taxes, of course.

This week, one presidential contender laid out a plan to stem the steady process of U.S. companies moving abroad. It doubles down on existing regulatory proposals and includes an "exit tax" on earnings held overseas and new regulations that require 50 percent foreign ownership to expatriate – up from the current threshold of 20 percent.

Stopping the flow of American businesses moving abroad has taken on increased prominence with the increased rate of American companies expatriating. Last year, for example, the U.S. company Medtronic, the world's largest medical technology developer, acquired an Irish health care product company and relocated its headquarters to Ireland, taking advantage of its 12.5 percent tax rate, saving itself billions of dollars in the process.

These savings can be used to expand, invest in new products, hire new employees, or be returned to shareholders, many of whom are pensioners and retirees. Medtronic's move is just one of a string of high-profile mergers and relocations, known as tax inversions, to take place in recent years.

There are numerous problems with these new proposals to stop inversions, the most obvious being that an exit tax *already exists* for expatriating companies. As American Action Forum President Douglas Holtz-Eakin explains: Shareholders already pay taxes on existing profits when companies invert, and that hasn't been effective in solving the problem.

Erecting new walls to keep companies in the U.S. isn't the answer to this problem because job creators will always find a way to do what's best for their employees, customers, and shareholders.

The only effective way to truly address this problem is to pursue corporate tax reform that fixes the two main disadvantages of the American tax system: very high rates and worldwide application.

Tax reform should dramatically lower the American corporate tax rate of 35 percent to bring it in line with developed-world standards. It should also change it to a territorial system – also in line with other developed-world countries — that only taxes profits earned domestically, bringing home billions of dollars foreign income earned abroad. These reforms would eliminate the main incentives for companies to move abroad, saving millions of American jobs and billions of dollars of economic activity in the process.

The biggest objection to the solution of tax relief (beyond class-based warfare against anything involving "big" business) is the fear that it would blow a hole in the budget. But this isn't necessarily true. Paradoxically, there is little correlation between tax rates and tax revenues because higher rates often lead to less investment, hiring, and economic activity — the drivers of tax revenues. Also, as these tax inversions show, high rates can even push companies abroad, completely eliminating some streams of revenue in the process.

In other words, to stop inversions and create billions of dollars' worth of economic opportunity in the process, policymakers must invert their thinking on this issue. Sensible tax reform, not more taxes and regulations, is the answer.

Alfredo Ortiz is president and CEO of the Job Creators Network.