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What The New York Times Gets Wrong on Tax Inversions

By Alfredo Ortiz

Companies keep leaving the United States for greener pastures. Over the past decade, more than 50 U.S. companies have participated in so-called tax inversion and moved their corporate headquarters overseas.

And *The New York Times* has taken up the mantle in vilifying them.

The *Times* has applied a pro-regulation, pro-tax worldview to its coverage of recent high-profile inversions of American companies like Pfizer and Medtronic. After U.S. auto parts maker Johnson Controls recently announced its merger with Irish-based Tyco International to save money on its taxes, the newspaper's editorial board labeled the company a "brazen tax dodger" and slammed Congress for allowing American companies to pay less taxes abroad—Johnson Controls is expected to save $150 million a year.

One op-ed column recently published by the newspaper described tax inversion as "an enormous waste of resources and energy." Another piece called practitioners of it "corporate runaways...winning no good-American awards."

The Times' editorial board also argued that Congress should "deny investors the use of low capital gains tax rates when they sell stock in an inverted company."

But raising taxes on American investors doesn't address the root of the inversion problem: America's outdated and unfair corporate tax code. The U.S. has a corporate tax rate of 35 percent, which is the highest in the developed world—while Ireland, now home to Johnson Controls, boasts a 12.5 percent corporate tax rate.

The U.S. is also one of the few countries to tax companies on their foreign earnings. American companies doing business overseas are actually subject to double taxation, whereby they pay taxes on their profits in the foreign country and again in the United States. Requiring American companies to pay taxes twice puts them at an unfair disadvantage with their foreign competitors, which aren't subject to double taxation.

As a result, U.S. companies are holding an estimated $2.1 trillion of earnings offshore, limiting economic output and job creation. This money is not being reinvested in additional factories and products, nor is it matching up job-seekers with much-needed employment (and the valuable skills that come with it).

The editorial mentions that inverting companies "keep the protections on securities and patents provided by American law," but fails to acknowledge that foreign companies doing business in the U.S. also receive those same protections—only without the associated tax burden facing domestic companies.

Tax inverters are neither "corporate runaways" nor "unpatriotic" for saving money on their tax bills. They're simply fulfilling their duty to the customers, shareholders and employees relying on them to make prudent business decisions.

To address the tax inversion disease rather than just its symptoms, the corporate tax rate must be brought in line with international norms and only applied to domestic earnings—America's tax system should not accommodate double taxation. Even the *Times*' editorial board admitted that "corporate tax reform is needed."

Vilifying companies who are playing by the rules certainly isn't.

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