

COALITION FOR TAX COMPETITION

April 24, 2002

The Honorable Charles Rangel
United States House of Representatives
2354 Rayburn House Office Building
Washington, DC 20515

Dear Representative Rangel:

American-based companies must pay tax to the IRS on income earned in other nations. This "worldwide" system of taxing corporate income is very anti-competitive, causing many companies to give up their U.S. charters and instead become foreign-based companies. These "expatriations" are legal, but have become controversial. Lawmakers likely will choose from two options in deciding how best to respond to this development.

One option is tax reform. Lawmakers could take a number of steps to make the internal revenue code more competitive. The U.S. corporate income tax rate, for instance, is the fourth highest in the developed world. Lower tax rates would make America more attractive. Policy makers also could eliminate the corporate alternative minimum tax. Another option is to reduce the tax bias against investment by shifting from "depreciation" to "expensing." Last but not least, Congress could junk "worldwide" taxation and instead shift to a "territorial" system that would tax companies only on their U.S. income.

The other option is to preserve "worldwide" taxation and instead impose restrictions on the ability of companies to re-charter in other jurisdictions.

The first option – tax reform – is the correct answer. If bad tax law is driving companies to re-charter in other jurisdictions, the obvious solution is to improve U.S. tax law. This market-based approach will make America more competitive. Fiscal protectionism, by contrast, is bad policy. We all understand that high-tax California should not be allowed to stop companies from moving to low-tax Nevada. We also should understand that the federal government should not be able to stop companies from escaping bad U.S. tax law.

This issue already has been clouded by demagoguery. Some assert that companies choosing to re-charter in other jurisdictions will evade or avoid U.S. tax. This is not true. All corporations, regardless of where they are based, pay tax to the IRS on all profits they earn in the United States. Some also claim that "expatriation" is unpatriotic and hurts America. This is nonsense. Re-chartering helps U.S. workers and U.S. shareholders since the newly formed company still maintains its U.S. operations, but now is able to more effectively compete with businesses that operate overseas.

Corporate relocation is yet another reason why lawmakers should fix the internal revenue code. Companies are relocating because excessive tax burdens and worldwide taxation make it very difficult for U.S.-chartered firms to compete. Instead of making a bad system even worse by imposing more burdens on U.S.-based companies, lawmakers should reform the tax system. Lower tax rates and territorial taxation are just two of many options that would improve the internal revenue code.

Sincerely,

Andrew F. Quinlan -- President, Center for Freedom and Prosperity
Daniel Mitchell -- Senior Fellow, The Heritage Foundation
Veronique de Rugy -- Fiscal Policy Analyst, The Cato Institute
Paul Beckner -- President, Citizens for a Sound Economy
David R. Burton -- Senior Fellow, Prosperity Institute
James Cox -- Executive Director, Association of Concerned Taxpayers
Stephen J. Entin -- President, Institute for Research on the Economics of Taxation
Tom Giovanetti -- President, Institute for Policy Innovation
Kevin Hassett -- Resident Scholar, American Enterprise Institute
Lawrence Hunter -- Chief Economist, Empower America
Charles W. Jarvis -- Chairman, United Seniors Association
Karen Kerrigan -- Chairman, Small Business Survival Committee
James L. Martin -- President, 60 Plus Association
Edwin Moore -- President, The James Madison Institute
Steve Moore -- President, The Club for Growth
Grover Glenn Norquist -- President, Americans for Tax Reform
John Pugsley -- Chairman, The Sovereign Society
Richard Rahn -- Senior Fellow, Discovery Institute
Gary and Aldona Robbins -- Fiscal Associates, Inc.
Tom Schatz -- President, Council for Citizens Against Government Waste
Eric Schlecht -- Director of Congressional Relations, National Taxpayers Union
Fred L. Smith -- President, Competitive Enterprise Institute
Lewis K. Uhler -- President, National Tax Limitation Committee
Paul M. Weyrich -- National Chairman, Coalitions for America
Christopher Whalen -- The Whalen Consulting Group

* Organizational affiliations are included for identification purposes only.

cc: Senate Minority Leader Trent Lott
Senator Max Baucus
Senator Charles Grassley
House Majority Leader Richard Armey
Representative William Thomas
Secretary Paul O'Neill
Dr. Glenn Hubbard
Dr. Larry Lindsey