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Let's Just Give Up on Taxing Big Corporations

OCT 8, 2015 1:29 PM EDT

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If Fortune 500 companies paid a mere 6 percent on their offshore profits -- about as much as they pay, on average, outside the U.S. -- they'd owe $620 billion in additional federal taxes, says a report published this week by Citizens for Tax Justice. That would be enough to finance the entire U.S. federal education expenditure for more than five years. Yet this is a political nonstarter in the U.S. and other jurisdictions where these companies operate. So here's a modest proposal: Why not cut out all the hypocritical noise about tax freeloaders and just declare big corporations' profits tax-free? The argument would run like this.

Here are the U.S. companies with the most money held offshore; they account for about two-thirds of the $2.1 trillion stashed outside the U.S. by the Fortune 500:

These companies are all household names, darlings of the U.S. corporate sector, producers of things we couldn't do without. Our lives wouldn't be the same without Apple, Google or Cisco, but also without Procter & Gamble, Coca-Cola or Wal-Mart. We wouldn't have the most potent drugs without the seven pharmaceutical companies on the list, and global finance would arguably be different without Goldman Sachs and Citigroup. The giants project American soft power -- which, as Andrew Rose of the University of California, Berkeley, showed in a recent paper, produces a quantifiable effect on the nation's exports. It could also be argued that they provide valuable public services, even though doing so is highly profitable.

This elite group employs millions of people in the U.S. and beyond. It provides training and invaluable experience to many of those workers, allowing them to set up new businesses and scale up smaller companies. They also bolster the service sector wherever they go. San Francisco residents may complain about the gentrification companies such as Google bring, but no town or national government would ever object to one of these companies setting up a presence.

The cash these industry leaders generate is often spent on life-changing innovations such as self-driving cars or medicines to treat formerly incurable diseases. Intel, Microsoft, Johnson & Johnson, Google and Merck are on the list of offshore cash hoarders, but also among the top 10 research and development spenders worldwide.

They might be spending even more to pay employees and finance research if they didn't have to maintain expensive tax optimization arrangements -- Pfizer, for example, has 151 tax haven subsidiaries, and PepsiCo has 132 -- and spend millions of dollars on lobbying to prevent a harsher tax climate from being imposed. Of the companies on the top cash hoarders list, four --

Google, United Technologies, General Electric and Dow Chemical, plus the Pharmaceutical Research and Manufacturers of America, which includes another seven -- are among the 20 top lobbying spenders in the U.S.

Citizens for Tax Justice, a Washington-based advocacy group for tax fairnesss, call for an end to U.S. companies' ability to accumulate untaxed earnings overseas, an end to corporate inversions, an end to shifting intellectual property to tax havens. President Barack Obama has called for a repatriation of the offshore profits, to be taxed at 14 percent rather than the full 35 percent corporate tax rate. None of this is likely to happen, at least while Republicans dominate Congress. Whatever they may say about it, they appear to be generally persuaded by arguments like those listed above. The lobbying dollars are apparently well-spent.

The European Union's fight against tax evasion in the form of sweetheart deals multinational companies have received from Ireland, the Netherlands and Luxembourg will probably force some of these companies to rejigger their tax structures, but European countries will not stop offering "innovation boxes," which allow companies to reduce tax on profits from new technology, and other enticements to keep multinationals operating there. It's better to charge them very little tax than to lose them.

In short, there's a lot of murmuring and indignation, but there are few results. The cash is still there, providing liquidity to financial markets as it's invested from the offshore accounts.

So why shouldn't the U.S. simply declare corporations greater than a certain size -- say, members of the Fortune 500 -- exempt from corporate tax? Sure, the U.S. government would lose some cash, and it would be a disaster for Bermuda and the Cayman Islands, where Fortune 500 companies supposedly earn high multiples of the local gross domestic product. Yet the absurdity and embarrassment of companies setting up obvious tax avoidance structures would be eliminated. Companies would strive harder to get into the Fortune 500 club; there would be an enormous incentive for businesses to innovate and grow.

Is it fair to reward companies that have already reached the pinnacle at the expense of those still struggling? Does it make sense to stop taxing a firm just because it has merged its way to the top? Doesn't the admission that big corporations are more equal than others just because of their size sound wrong? Aren't there better ways to use trillions of dollars than to have them invested in the financial markets on behalf of a few dozen firms' shareholders?

I bet you're wondering all of the above. And yet that's how the current system works, more or less, with a little cunning, a bit of deception and a lot of big-corporation arrogance. It only works because most people are somehow happy to pay more taxes than Apple or Coca-Cola does. There is simply not enough public outrage to produce serious pressure. It appears, then, that we're happy with a big corporation tax exemption.

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