POLITICO

Obama must refine export tax policies

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March 22, 2010 05:03 AM EDT

On March 11, President Barack Obama called for doubling U.S. exports over the next five years. This is a goal worth achieving, because opening markets to U.S. products would help our nation climb out of this severe economic downturn over the short term, provide more opportunities for our next generation of entrepreneurs and, above all, create millions of jobs. Our information technology sector alone, which employs millions of Americans, would be able to add hundreds of thousands to its payrolls if it could sell more products in countries around the world.

However, with favorable tax policies and increasingly sophisticated infrastructure, developing nations are becoming viable alternatives to U.S. high-tech research and manufacturing. These changes threaten our global leadership and export growth unless we act — and act soon.

If we are to maintain our competitive edge in the global market, Washington must ensure that tax policies work in concert with this goal of doubling exports. Unfortunately, Obama's tax proposals go in a different direction.

First, let's consider research and development, a vital element of exports. For decades, the United States has been the world leader in R&D, which is critical for next-generation technology to flourish. Now, that dominance is beginning to wane.

One reason is that the research tax credit, our principal tax incentive to keep research activities at home, has become less attractive compared with what other nations offer. America's research tax credit now ranks 17th among the 30 countries of the Organization for Economic Cooperation and Development in terms of attractiveness — down from first place 30 years ago and seventh in 1996. It could drop to dead last because the federal government allowed the credit to expire at the end of last year.

While the Obama administration has called for a permanent credit, we must do more. We must extend the credit permanently and expand it so it remains among the most attractive incentives for R&D in the world. If we are serious about doubling exports, then we must ensure that U.S. companies are encouraged to invest in innovation.

Second, let’s look at our tax rate in comparison with that of our trading partners. Tax rates are important, because economic decisions are made in terms of after-tax returns. Unfortunately, the U.S. corporate tax rate is now the second highest among OECD countries.

A few decades ago, our corporate tax rate was among the lowest. But other countries correctly decided that they could attract business by lowering rates, while we kept ours the same.

It is time that U.S. policymakers realize we live in a globally competitive environment and that our corporate tax rate is putting U.S. companies at a tremendous disadvantage. Low tax rates encourage investment and job creation and will result in higher revenues and more exports over time.

Finally, we must realize that many U.S. exporters are multinationals — meaning that, for business or marketing reasons, they have operations in other countries. However, under our current tax law, U.S.-based multinational firms find themselves taxed by the United States on their worldwide income, while almost all their foreign-based competitors are taxed only by the nation in which their businesses are located.

The potential double taxation that can occur because of this policy puts U.S. firms at a significant disadvantage. Even worse, the Obama administration has put forth proposals that would go in exactly the wrong direction, leading to more double taxation.

Academic studies show that the U.S. economy benefits when U.S.-based firms expand abroad. More investment and employment in other countries is strongly associated with more investment and employment in American parent companies, and with more U.S. exports.

Doubling U.S. exports over the next five years is a worthy and critical goal, especially to our high-tech sector. If we are going to achieve it, however, we need to ensure our tax laws will help and not hinder this effort.

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