



George Bush Wants More Tax Breaks for Companies That Ship Jobs Overseas

John Kerry and John Edwards Have a Plan to End Tax Breaks for Companies That Ship Jobs Overseas

George Bush and his administration believe that outsourcing creates jobs in America. Before he was Treasury Secretary, John Snow's company outsourced jobs to India and the Philippines. Last year, George Bush tried to appoint a Manufacturing Czar who had outsourced jobs. And now Bush economic officials consistently defend outsourcing as the central part of their economic plan.

Bush economic officials consistently defend tax breaks for companies that outsource jobs. And they have even pushed for more tax breaks for companies that export our jobs – to be paid for by raising taxes on companies that export our products and create American jobs. This is a failed plan for America that would take us in the wrong direction.

John Kerry and John Edwards have a different plan. They will end the tax breaks that encourage companies to ship jobs overseas and use the savings to reward companies that create jobs in America. Under their plan, 99 percent of companies will pay lower taxes – but no company will pay lower taxes just because it creates jobs overseas.

GEORGE BUSH'S PLAN TO ENCOURAGE OUTSOURCING

The Bush administration has appointed officials that outsource jobs and continue to defend the outsourcing of jobs as an important way to create jobs in America. They have never once considered ending these breaks. In fact, every time they consider any changes in international taxation, it is to give more tax breaks for companies that move jobs and investment overseas. And they have even said that we should consider paying for these new tax breaks by raising taxes on companies that export U.S. products.

GEORGE BUSH AND HIS ADVISERS PROMOTE OUTSOURCING:

John Snow outsourced jobs before he was Secretary of the Treasury. Sea-Land, a unit of CSX Corp., where current Treasury Secretary John Snow was CEO, announced in 1995 that it shut down its division in Elizabeth, N.J., and laid off most of the 325 employees and subcontracted the work to programmers in India and the Philippines. [South Bend Tribune, 8/25/95; SEC filing 10K for CSX Corporation, Filed 3/1/01]

Bush nearly named outsourcer to top manufacturing post. Six months after promising to create an office to help the nation's struggling manufacturers, President Bush settled on someone to head it, but the nomination was reconsidered after it was revealed that his candidate had opened a factory in China. Industry officials were told that Anthony F. Raimondo, chairman and chief executive of a Nebraska company that makes metal buildings and grain silos, would be named the next Assistant Secretary of Commerce for Manufacturing and Services. But news reports indicated that Raimondo's firm, Behlen Manufacturing Co. of Columbus, Neb., had laid



off 75 U.S. workers in 2002, four months after announcing plans for a \$3 million factory in northwest Beijing. As a result, the announcement was scuttled. [[Washington Post](#), 3/11/04]

“Chao: Outsourcing Creates Jobs in U.S.” Today, Secretary of Labor Elaine Chao spoke of the benefits of outsourcing. "People talk about (outsourcing) a lot," Chao said in an interview after appearing before Missouri delegates at the Republican convention. "The anxiety belies the numbers." ... While the movement of U.S. jobs to other countries has caused great public concern, Chao said, "I'm trying to get out the facts" without sounding "callous." [[Associated Press](#), 9/1/2004]

Bush called job protection measures a “barrier.” In a speech to the Women’s Entrepreneurship in the 21st Century Forum, George Bush defended the outsourcing of jobs overseas. Bush said, “We cannot expect to sell our goods and services, and create jobs, if America and our partners, trading partners, start raising barriers and closing off markets.” [George W. Bush, Women’s Entrepreneurship in the 21st Century Forum, 3/10/04]

Bush’s Chairman of the Council of Economic Advisers called job outsourcing, “a good thing.” N. Gregory Mankiw, President Bush’s Chairman of the Council of Economic Advisors, supported the recent trend of outsourcing of service jobs to foreign countries. Mankiw said, “Outsourcing is just a new way of doing international trade... More things are tradable than were tradable in the past. And that's a good thing.” [[Los Angeles Times](#), 2/10/04]

The *Economic Report of the President* said “it makes more sense to import [services] than to make or provide it domestically.” In the *Economic Report of the President*, the Council of Economic Advisors wrote, “The principal novelty of outsourcing services is the means by which foreign purchases are delivered. Whereas imported goods might arrive by ship, outsourced services are often delivered using telephone lines or the Internet. The basic economic forces behind the transactions are the same, however. When a good or service is produced more cheaply abroad, it makes more sense to import it than to make or provide it domestically.” [*Economic Report of the President 2004*, Council of Economic Advisors]

BUSH SUPPORTS MORE TAX BREAKS FOR PROFITS CREATED OVERSEAS:

The Bush Treasury Department believes that taxes are too high for foreign subsidiaries of American companies. According to the Treasury, “The U.S. international tax rules can operate to impose a burden on U.S.-based companies... on the foreign operations of their companies.” In other words, they are worried that US Companies pay too much in taxes on the profits they earn overseas. [Treasury, “General Explanations of the Administration’s Fiscal Year 2004 Revenue Proposals.”]

Treasury Secretary John Snow defended companies that use tax breaks to create jobs and shield profits overseas. “It is not the Administration’s view that every time a company goes offshore, that that is an abusive tax shelter.” [John Snow Testimony, House Ways and Means Committee, 2/3/2004]

The Bush administration has defended tax breaks for companies that ship jobs overseas and called efforts to reduce them “stupid.” Commerce Undersecretary Grant Aldonas said that Kerry’s proposal to end tax breaks for companies that shift jobs overseas: “It’s a tax system that’s calculated to drive manufacturers offshore, rather than to keep [them] here... It’s the single



stupidest idea since the Smoot-Hawley tariffs in terms of penalizing our manufacturing sector.”
[National Journal's Congress Daily, 4/13/04]

BUSH EVEN WANTS TO RAISE TAXES ON AMERICAN COMPANIES THAT EXPORT PRODUCTS IN ORDER TO CUT TAXES FOR OUTSOURCING:

George Bush has proposed a plan to eliminate a tax break for companies that export American products, raising taxes on exporters by \$58 billion over ten years. Currently exporters get tax subsidies to encourage them to create jobs in America and export our products. These subsidies (so-called FSC/ETI) were ruled illegal by the World Trade Organization (WTO). John Kerry and John Edwards support replacing this subsidy with tax cuts for companies that create jobs in the United States.

George Bush proposed using the taxes raised by eliminating the export break to cut taxes on companies that create jobs overseas. Instead of using the money saved by ending the WTO-illegal export subsidy for incentives to create jobs in America, George Bush has proposed using these savings to cut taxes on foreign operations of U.S. companies. Although his budget did not make specific proposals, it said “We intend to work closely with the Congress to develop and enact the reforms needed to rationalize our international tax rules.” All of the suggestions in Bush’s FY 2004 budget (and many of the suggestions in Bush’s FY 2005 budget) would lower taxes on foreign operations of U.S. companies. Here are some examples:

- George Bush wants to make it easier for companies to defer paying taxes until they bring their profits back to the United States. Currently most companies do not pay taxes on the income they earn from foreign operations until they bring their profits back to America. But current law proposes some limits on what taxes can be deferred. George Bush’s Treasury wanted to loosen those rules and extend the types of income that can defer or avoid paying U.S. taxes: “the reach of the subpart F rules [that limit deferral] extends beyond passive income to encompass some forms of income from active foreign business operations.” [Treasury, “General Explanations of the Administration’s Fiscal Year 2004 Revenue Proposals.”]
- George Bush wants to make it easier for companies to set up bogus overseas operations just to avoid paying taxes. Currently, American companies are limited in their ability to use foreign tax shelters by a system of income “baskets” that reduce their ability to eliminate their taxes by using complicated cross-border transactions. But the Treasury wants to use some of the \$58 billion in taxes raised in taxes from exporters to weaken these rules. [Treasury, “General Explanations of the Administration’s Fiscal Year 2004 Revenue Proposals,” page 148]

THE KERRY-EDWARDS PLAN

John Kerry and John Edwards have a simple plan to create jobs in America: end tax breaks for companies that ship jobs overseas and cut taxes for companies that create jobs in America. This is a key part of their broader economic plan which includes enforcing our trade agreements, cutting the budget deficit, reining in the spiraling costs of health care, moving America towards energy independence, and investing in education and technology.



(1) End Tax Breaks for Companies That Ship Jobs Overseas

Current tax laws allow companies to defer paying U.S. taxes on income earned by their foreign subsidiaries, providing a substantial tax break for companies that move investment and jobs overseas. Today, under U.S. tax law, a company that is trying to decide between locating production or services in the United States or in a foreign low-tax haven is actually given a substantial tax incentive not only to move jobs overseas, but to re-invest profits permanently, as opposed to bring them back and re-invest in the United States.

John Kerry and John Edwards do not believe that we should force a U.S. company that chooses to create jobs in the United States to pay higher taxes and suffer a competitive disadvantage with a company that chooses to move jobs to a tax haven and keep profits there permanently.

- **Eliminate special breaks so companies are taxed the same whether they invest abroad or at home.** John Kerry will eliminate all the rules that allow companies to “defer” paying taxes until they bring the profits back to the United States. This will ensure that American companies will be taxed on their foreign subsidiaries’ profits just like they are taxed on their domestic profits. The new system will apply to profits earned in future years – it will not be applied retroactively to profits already earned abroad.
- **Promoting America’s competitiveness in a global economy.** Kerry’s plan will allow companies to defer the income they earn when they locate production in a foreign country that serves that foreign country’s markets. This will ensure American companies can compete in international markets.
- **Close abusive international tax loopholes.** John Kerry is proposing to end abuses that allow American companies to escape taxes by taking advantage of complicated international tax rules. These abuses include “corporate inversion” where an American company moves its headquarters to a tax haven like Bermuda to avoid taxes, certain types of cross-crediting that encourage companies to shift income and jobs to low-tax havens, restricting tax avoidance through hybrid structures, and other abuses.

(2) Cut Taxes For Companies That Create Jobs in America

The Kerry-Edwards plan will use the \$12 billion in annual savings from ending tax breaks for companies that ship jobs overseas to create tax cuts for companies that create jobs in America.

- **Cut the corporate tax rate by 5 percent.** Kerry’s proposal will not increase the deficit or corporate taxes by one dime. All of the savings from ending tax breaks will go towards lowering the corporate tax rate from 35 percent today to 33.25 percent – a 5 percent reduction.
- **Cutting taxes for more than 99 percent of taxpaying companies.** By ending tax incentives to move jobs overseas and using those funds to lower the corporate tax rate the Kerry international tax reform will increase investment and hiring by American companies. An analysis of IRS data shows that more than 99 percent of corporations paying corporate income taxes would see their taxes reduced by Kerry’s proposal.



- **A one-time tax holiday to encourage companies to reinvest their foreign profits in America.** The Kerry-Edwards plan will encourage companies to bring back the more than \$639 billion in profits that are currently being kept overseas by giving them a one-time, 10 percent tax holiday on any money that is brought back to America and reinvested here. This would increase investment in America if it were done as part of a comprehensive plan to end that eliminates deferral and thus all future incentives to keep profits overseas.

THE EXPERTS SUPPORT THE KERRY APPROACH

Taxes Provide an Incentive to Send Jobs Overseas According To Everyone From Conservative Economists to the Congressional Research Service

Conservative economist Kevin Hassett of the American Enterprise Institute: “The U.S. tax code definitely provides a strong incentive for sending jobs overseas.” [WSJ, 3/12/2004]

Former Reagan tax official Stephen Shay: “When this value reduction is combined with certain other features of the U.S. international tax regime (i.e., cross-crediting foreign taxes and certain source rules that overstate foreign-source income), well-advised U.S. multinationals can frequently reduce the U.S. residual tax on their repatriated foreign-source income to zero... the current incentives to locate investment outside the United States.” [“Statement of Stephen Shay to the Committee on Finance, United States Senate,” 7/15/2003]

Congressional Research Service: “Economic theory is relatively clear on the basic incentive impact of the system: it encourages U.S. firms to invest more capital than they otherwise would in overseas locations where local taxes are low... Accordingly, deferral poses an incentive for U.S. firms to invest abroad in countries with low tax rates over investment in the United States.” [“Tax Exemption for Repatriated Foreign Earnings,” 10/22/2003]

Martin Sullivan, Tax Analyst. “The U.S. tax system is set up, unfortunately, in a manner that it is far more profitable to set up an operation in Ireland or in Singapore than it is in Des Moines, Iowa.” [Kudlow & Kramer Transcript, 3/12/2004]

Steve Liesman, Senior Economics Reporter for CNBC. “Turns out there really are provisions in the tax code that seem to encourage sending jobs offshore... One of the most important is through the ability to defer and often never pay taxes on foreign-earned profits. The result: foreign profits of U.S. companies end up taxed at a lower rate than their U.S. income, creating an incentive to invest overseas in factories. The jobs are where the factories are.” [“U.S. Tax Code Provisions Encourage Offshore Jobs,” *Wall Street Journal*, 3/12/04]

Bush Economic Adviser Harvey Rosen: “Profits earned by a foreign subsidiary are taxed only if returned (repatriated). Thus, for as long as a subsidiary exists, earnings retained abroad can be kept out of reach of the US tax system... to the extent that a foreign country taxes corporate income less heavily than it does the United States, deferral makes the country attractive to US firms as a ‘tax haven.’” [*Public Finance*, McGraw-Hill/Irwin]



Ending Tax Breaks For Shipping Jobs Overseas Is Good for the Economy According To Everyone from Former Republican Officials to the Treasury to the Congressional Research Service

Congressional Research Service: “According to traditional economic theory, deferral thus reduces economic welfare by encouraging firms to undertake overseas investments that are less productive — before taxes are considered — than alternative investments in the United States.” [“Tax Exemption for Repatriated Foreign Earnings,” 10/22/2003]

Department of the Treasury: “Among all of the options considered, ending deferral would also be likely to have the most positive long-term effect on economic efficiency and welfare because it would do the most to eliminate tax considerations from decisions regarding the location of investment.” [“The Deferral of Income Earned Through U.S. Controlled Foreign Corporations,” 12/2000]

Reagan Treasury Official Stephen Shay: “If the ETI is repealed, as a logical matter the Committee also should consider decreasing the tax advantages to earning low taxed foreign income through foreign corporations.” [“Statement of Stephen Shay to the Committee on Finance, United States Senate,” 7/15/2003]

George Bush’s Economic Adviser Harvey Rosen (Member of the Council of Economic Advisors): “The maximization of world income requires that the before-tax rate of return on the last dollar invested – the marginal rate of return – be equated.” [*Public Finance*, McGraw-Hill/Irwin]

Jane Gravelle, Tax Expert: “If the objective is to move in the direction of conforming U.,S. tax more closely to capital export neutrality, certain revisions that would move in that direction would be appropriate. These revisions include current taxation of earnings of controlled foreign corporations.” [*Taxation of Capital Income*, MIT Press]