

Comments on
“Corporate Income Tax Burdens
at Home and Abroad”

by Kevin Markle and
Douglas A. Shackelford

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Tax Analysts
For
ITPF/Urban-Brookings Tax Policy Center Conference
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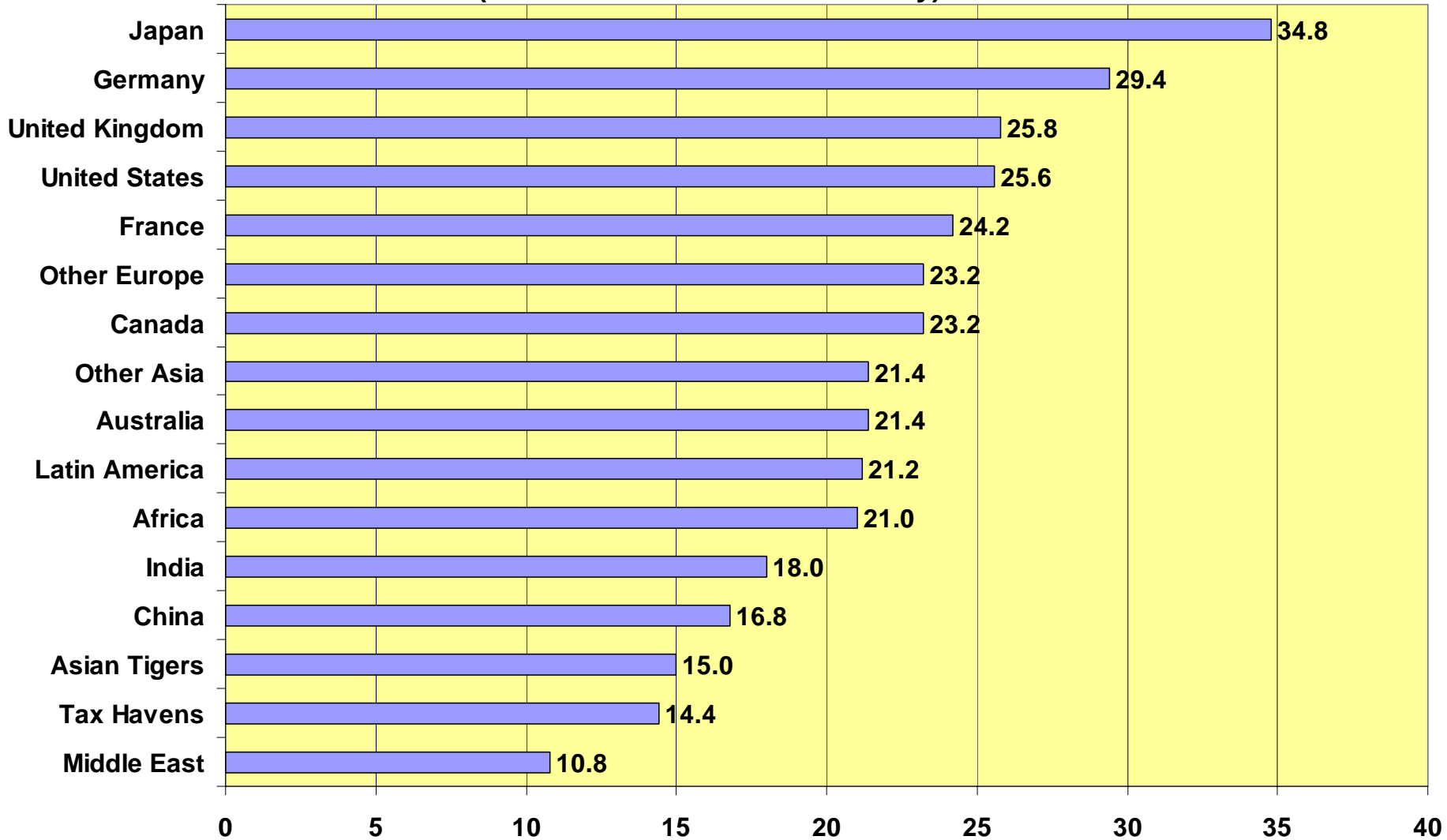
Distinguishing Feature of Paper

- **Comprehensive data set provides worldwide perspective, G-8 as well as developing economies**
- **Information on subsidiaries of multinationals, including domicile of subsidiaries**

Four Key Findings

**#1 Ranking of Countries by Tax Rates
Fairly Constant over Time and over
Different Subsets of Data**

**Effective Tax Rates of Multinational Corporations,
2002-06 Average, By Country
(from Markle-Shackelford study)**

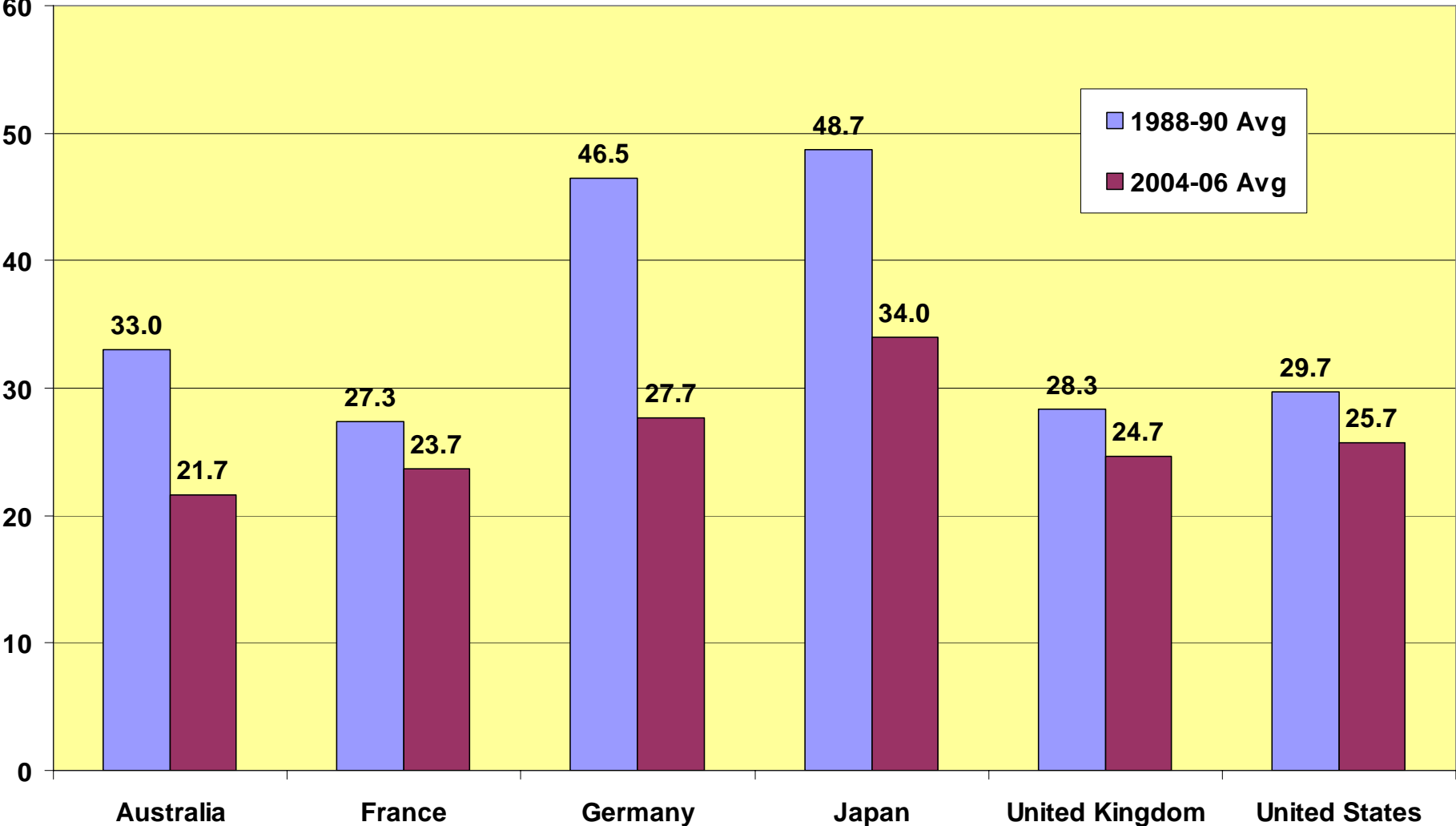


Four Key Findings

#1 Ranking of Countries by Tax Rates Fairly Constant over Time and over Different Subsets of Data

#2 Effective Tax Rates Declining Over Time

**Decline in Multinational Corporations' Effective Tax Rates,
1997-99 Compared to 2004-06
(from Markle-Shackelford study)**



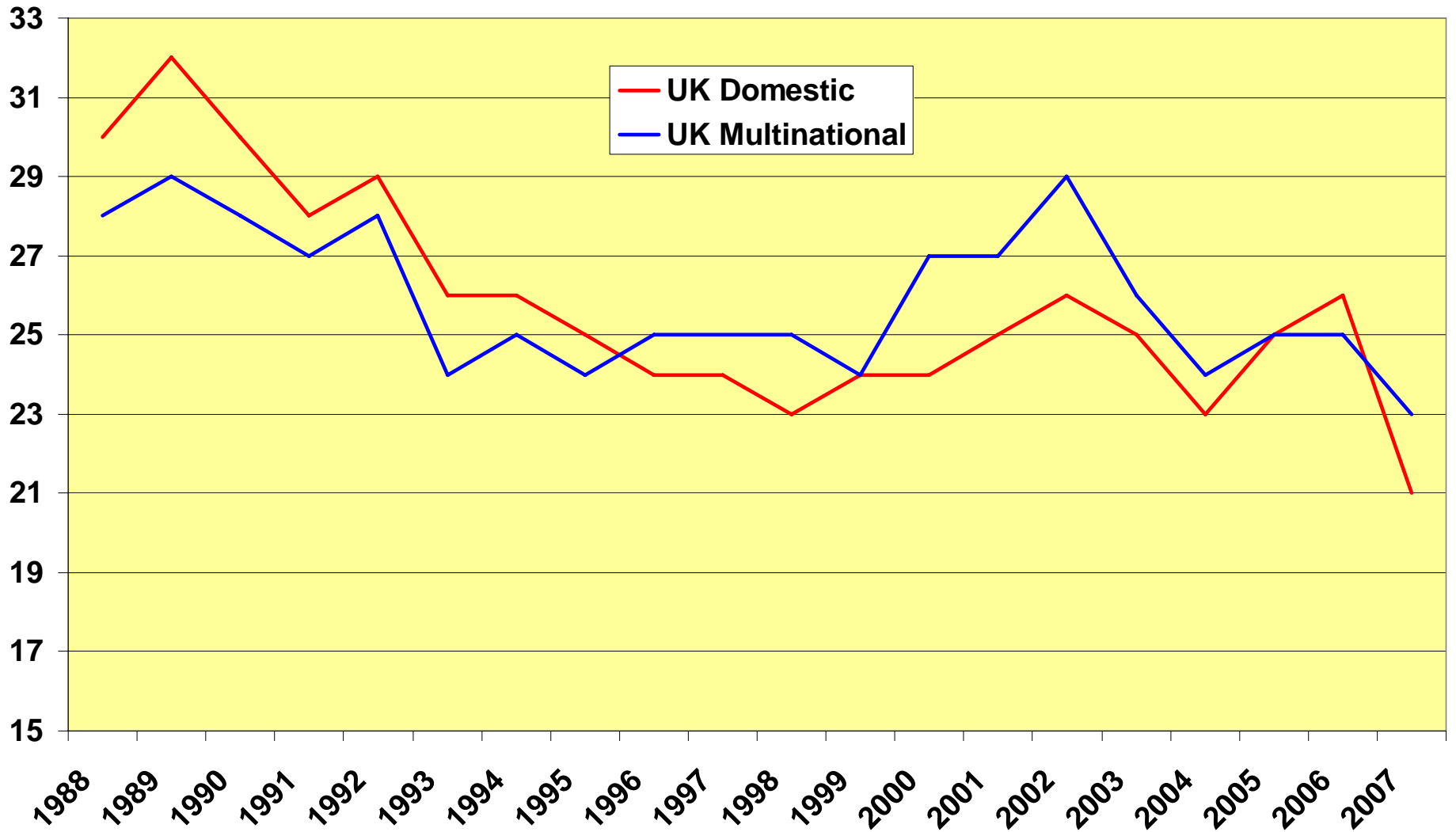
Four Key Findings

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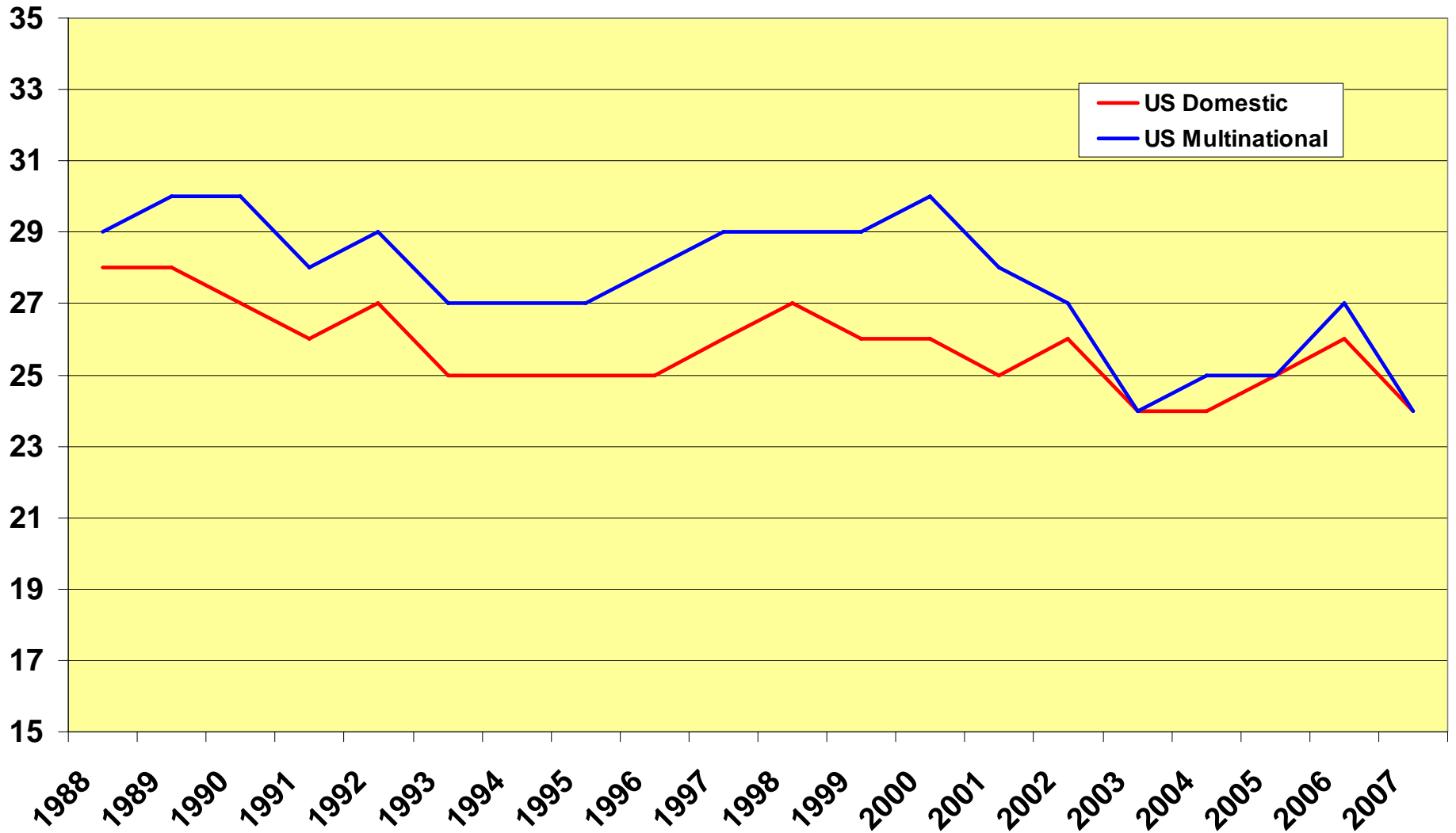
#2 Effective Tax Rates Declining Over Time

#3 Effective Tax Rates of Multinational and Domestic Corporations About the Same

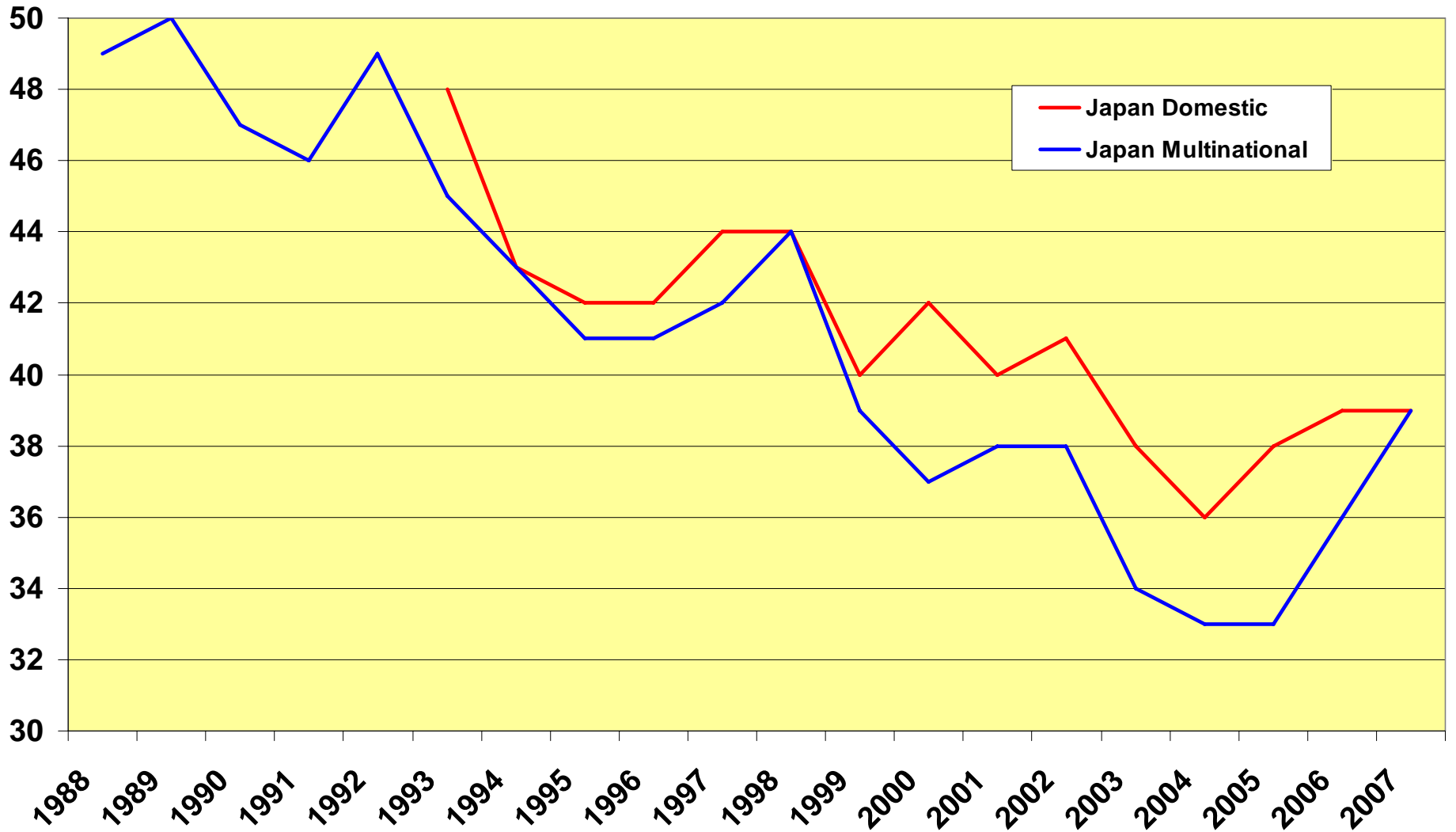
Domestic and Multinational Effective Tax Rates Basically the Same: United Kingdom



Domestic and Multinational Effective Tax Rates Basically the Same: United States



Domestic and Multinational Effective Tax Rates Basically the Same: Japan



Four Key Findings

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#3 Effective Tax Rates of Multinational and Domestic Corporations About the Same

#4 Effective Tax Rates of Multinationals with Subsidiaries in Tax Havens are Lower

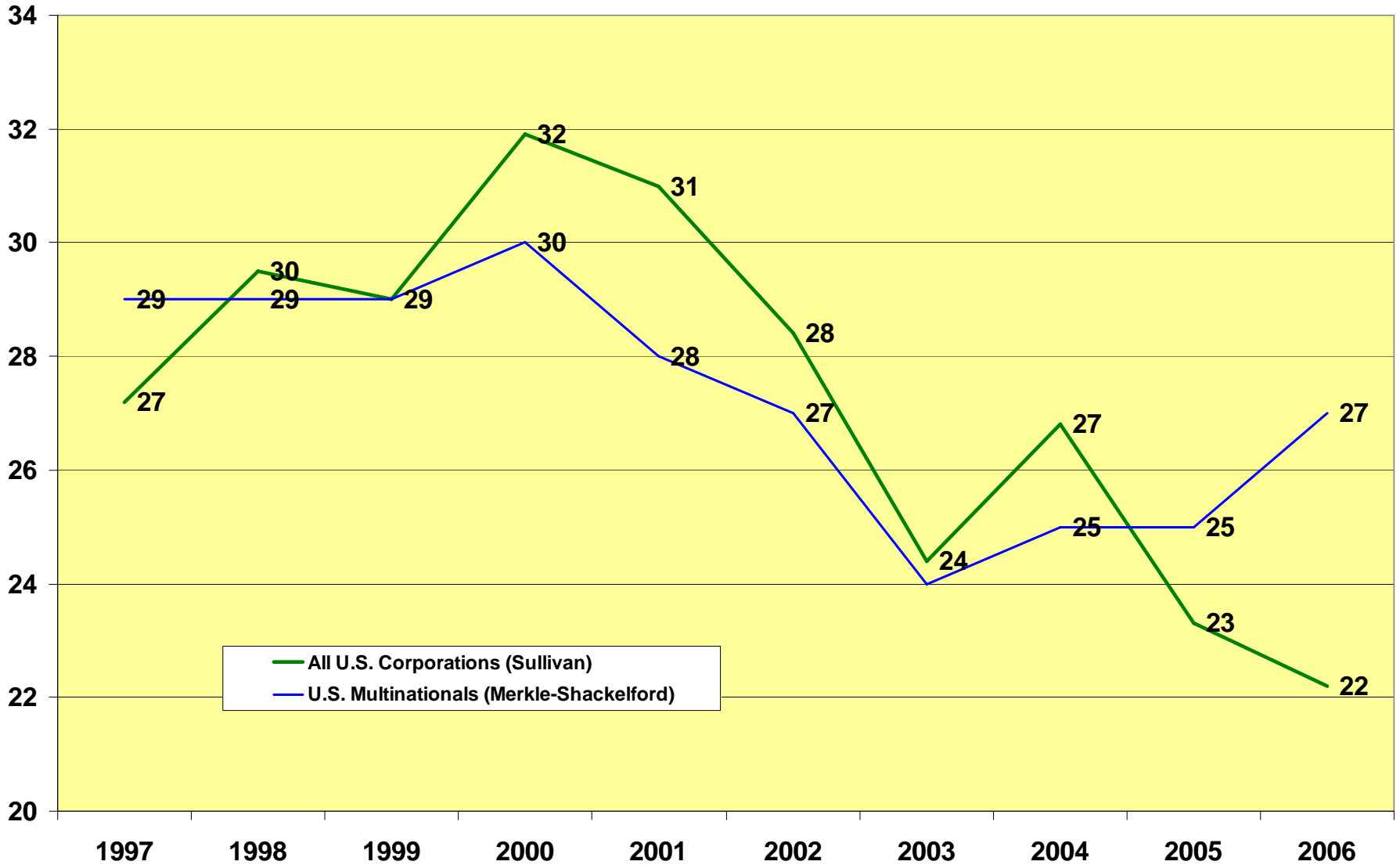
**Simplified Version of Table 5 of
Markle-Shackelford Paper
*Effect of Foreign Subsidiaries on Parents’
Effective Tax Rate***

Parent	Japan sub	U.S. sub	Tax Haven sub	Other Asia sub
France	2.1	-0.9	-3.8	-10.5
Germany	7.6	3.3	-1.2	-9.3
Japan		4.8	0	-4.1
United Kingdom	4.1	4.5	-2.5	-3
United States	1.7		-1.6	-4.3

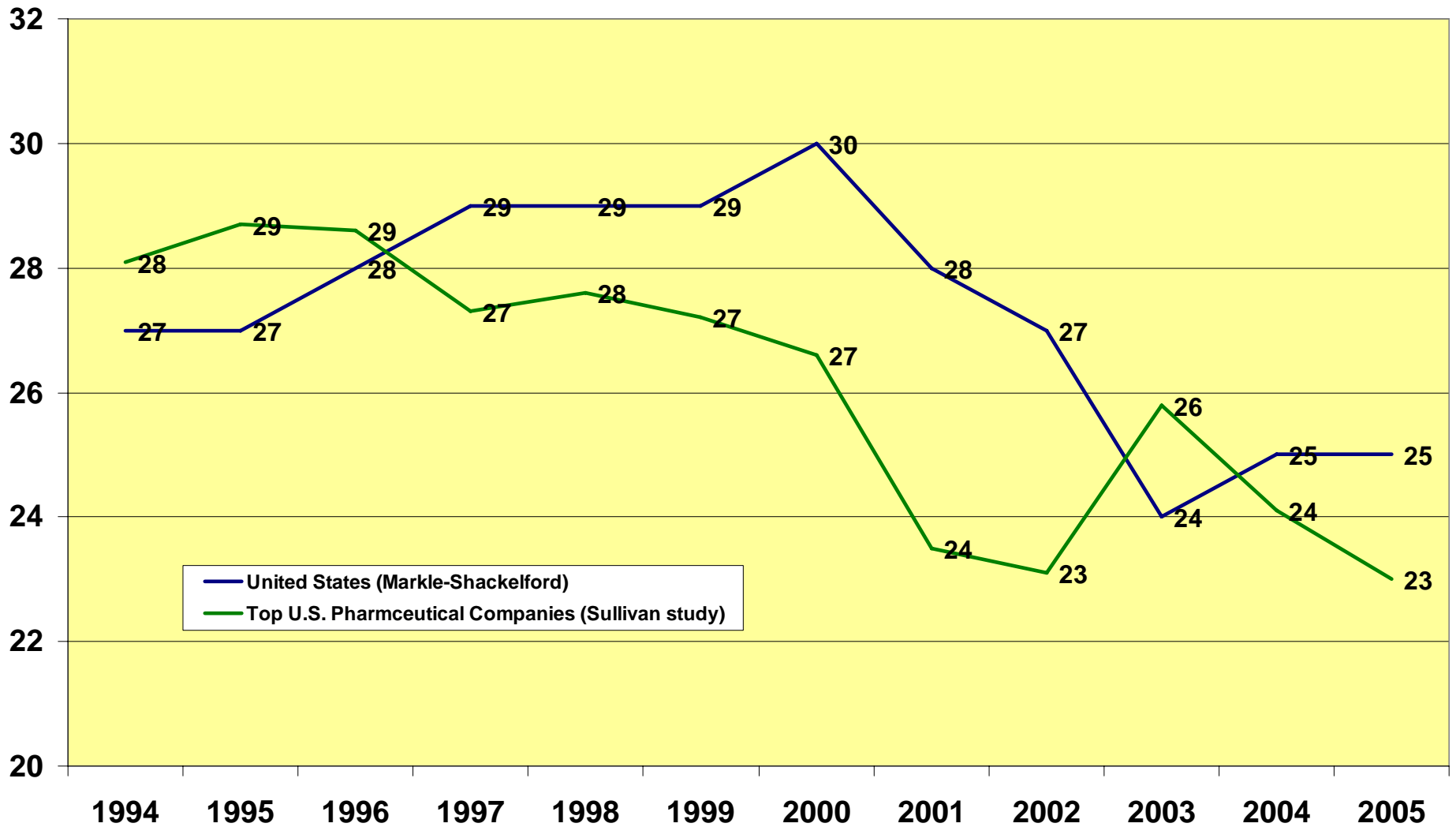
Comment #1

- Marike-Shackelford study supports prior research showing significant decline in effective tax rates of U.S. multinational corporations over the last decade

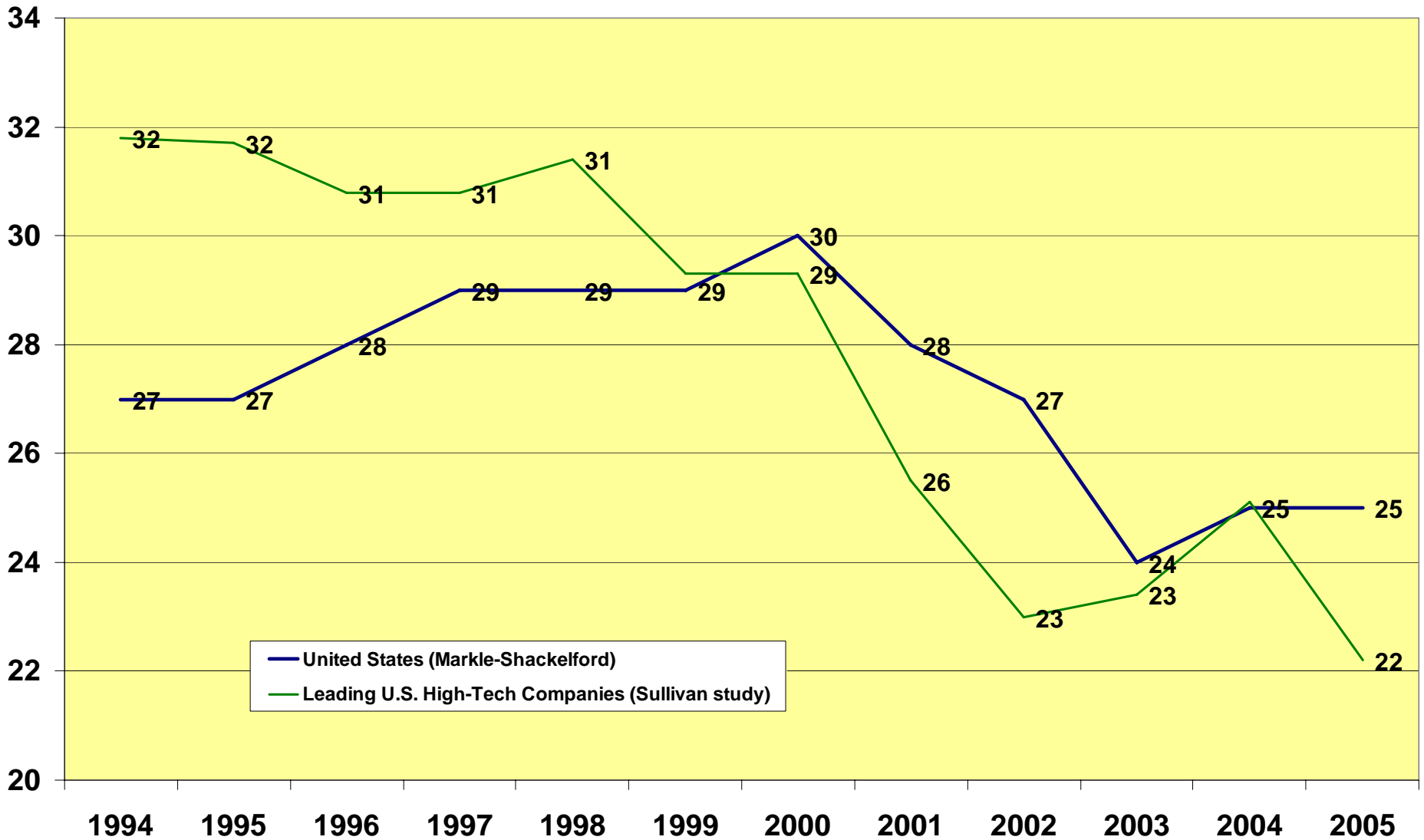
Effective Tax Rate Comparison of U.S. Multinationals (Merkle-Shackelford) and All U.S. Corporations (Sullivan, using adjusted NIPA data)



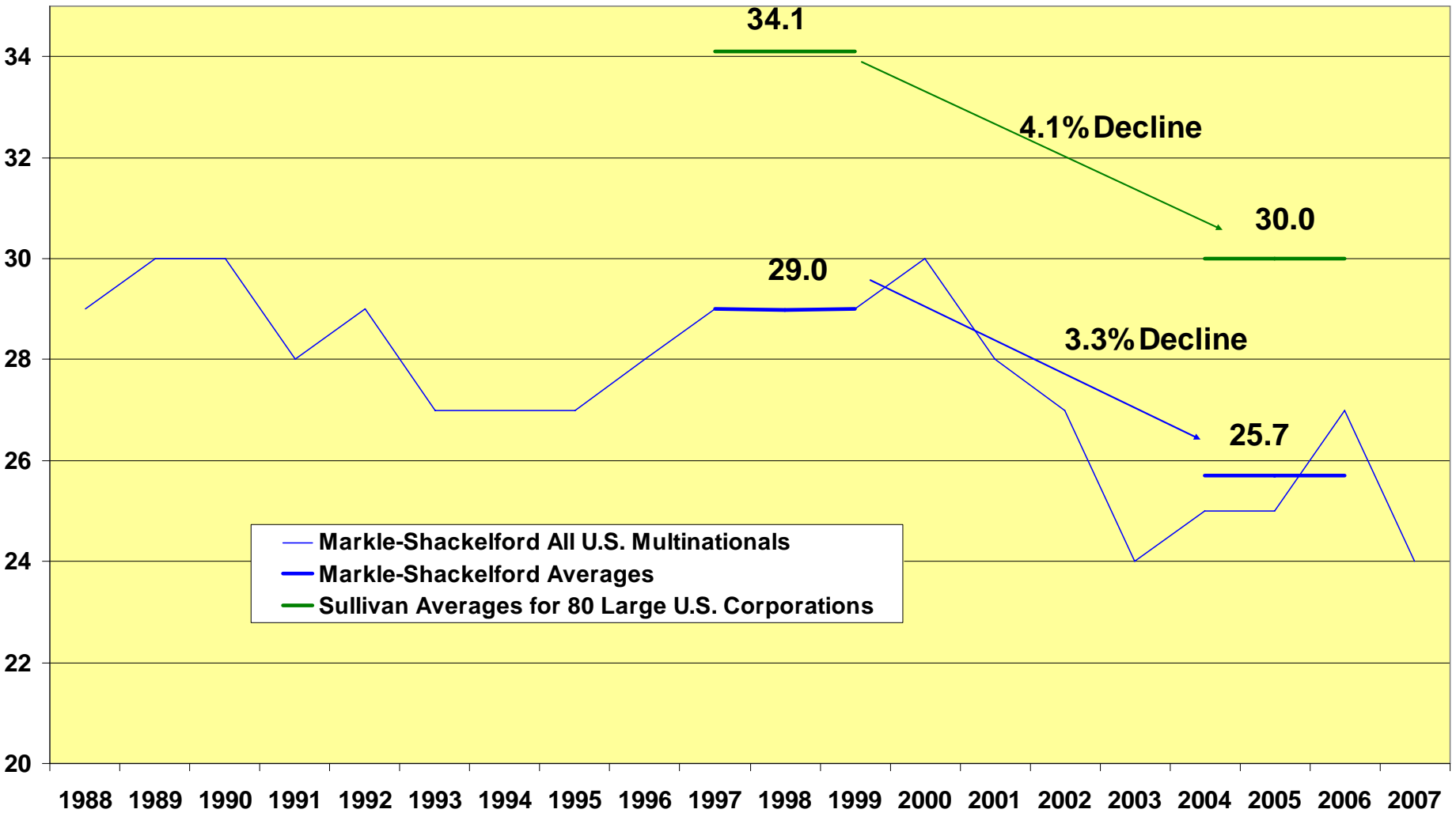
Comparison of Merkle-Shakelford Effective Tax Rates to Pharmaceutical Companies Effective Tax Rates, 1994-2005



Comparison of Merkle-Shackekford Effective Tax Rates to High-Tech Companies' Effective Tax Rates, 1994-2005



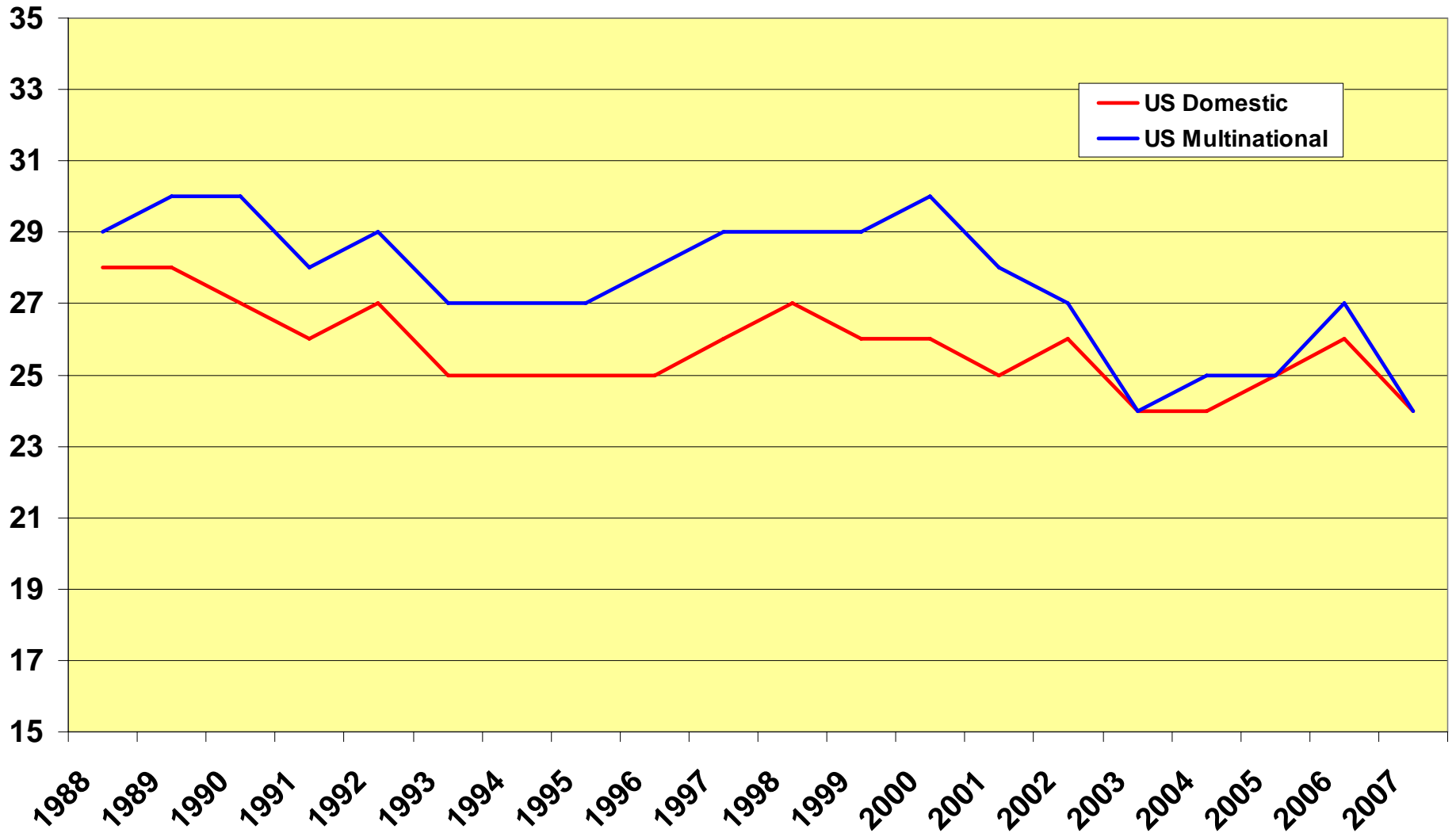
Comparison of 1997-99 and 2004-06 Average Effective Tax Rates: Markle-Shackelford All U.S. Multinationals vs. Sullivan 80 Large U.S. Corporations



Comment #2

- Markle-Shackelford study provides some clues to what is behind lower tax rates
- Simply being a multinational is not enough
- But **WHERE** subsidiaries are located does matter

Domestic and Multinational Effective Tax Rates Basically the Same: United States



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Comment #3

Other research shows that the decline in ETRs is attributable to foreign operations, which in turn is due to:

1. Foreign countries lowering tax rates
2. More “real” foreign business activity
3. More income shifting abroad; and more shifting from high-tax to low-tax countries

Comment #4

To help reduce shifting of real business activity and paper profits to foreign locations, United States needs to reduce its statutory corporate tax rate.

Democrats cannot ignore this trend with claims about U.S. AVERAGE corporate tax rates being relatively low.

REFERENCES

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Martin A. Sullivan, "The Effective Corporate Tax Rate Is Falling," *Tax Notes*, Jan. 22, 2007, p. 280.

Martin A. Sullivan, "High-Tech Companies' Tax Rates Falling," *Tax Notes*, Sept. 4, 2006, p. 818.

Martin A. Sullivan, "Drug Firms Move Profits to Save Billions," *Tax Notes*, Aug. 7, 2006, p. 472.