**A Tax on Growth**
by John Burns
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Prior to Japan's tragic earthquake, its government planned to lower corporate tax rates in an effort to alleviate the burden they place on an economy's ability to grow. The country has been economically stagnant for decades, and had it followed through, the United States would have claimed the highest corporate tax rate in the developed world. But now Japan is facing a massive rebuilding effort, and it appears they will scrap the lower rates in order to maintain tax revenues.

While the United States remains only the second highest corporate taxer, our rates are still astronomically high and represent an impediment to growth.

Currently, federal corporate taxes exist on a tiered system. A business in the highest bracket – grossing $18.3 million per year or more – must fork over 35 percent, or more than one-third of profits. That may not seem exorbitant, as the business would keep all but $6.2 million.

But then it owes Oklahoma a cut. Though many states mimic the federal government's tiered structure, Oklahoma has a flat 6 percent rate regardless of revenue levels. For every $100 a business makes, Oklahoma lets it keep $94. By the time the business satisfies its federal tax obligation it may only have $59 left.

Some argue that, given current economic conditions and huge federal, state and local deficits, giving a sizeable percentage of company profits to the government is necessary.

But high corporate taxes have a profoundly negative impact on economic growth. Consider the many companies (i.e. AOL, Apple and Home Depot) that have outsourced portions or all of their operations to avoid paying our tax rates. When companies take business overseas, not only do they fail to pay taxes – they take American jobs, which are desperately needed during this delicate recovery.

These businesses then also fail to repatriate revenues, which remain stuck overseas and create an incentive to reinvest in jobs and factories in countries where they can pay less tax. Just like businesses need to be competitive, countries are in constant competition for the jobs and tax revenues that companies provide. They are sensitive to the corporate profit motive, and in order to attract them they have systematically lowered tax rates in a race to the bottom.

Other countries have realized what we still need to act upon: By allowing corporations to keep more profits, they can more effectively stimulate the economy than they would via taxes. A business owner could take profits and reinvest them, purchasing more equipment or space to expand. By pumping money back into the economy, a business can have a profound multiplier effect on growth without requiring government involvement.

Better yet, a business could hire more employees to expand and increase productivity. With unemployment hovering around 9 percent, it would be a welcomed move. Those employees could, in turn, open their wallets to spend on themselves and their families, purchasing groceries, clothes, a home and even discretionary items neglected during the Great Recession.

This is not just a theoretical exercise. In 2005, the U.S. temporarily reduced its corporate tax rate on overseas profits to 5.25 percent and witnessed the repatriation of more than $350 billion. Not only did this create a healthy private sector stimulus, but it also represented a nice increase in tax revenues.

To be fair, some very profitable companies end up paying little or no federal income taxes. Our tax code is overwhelmed with subsidies and loopholes for certain industries, and even specific companies, which enable them to avoid shouldering their share of the tax burden. This is especially problematic because it attracts businesses to our soil that want subsidies and drives away those forced to pay the top rate.

The smartest change Oklahoma and the Federal government could make to promote economic growth would be to encourage businesses to reinvest profits at home. The best way to accomplish this would be to eliminate our high corporate tax rate, close the loopholes and allow businesses to compete on even footing.