U.S. Tax Competitiveness

Key Points:

- The U.S. now has a more competitive tax system than the one which was in place prior to tax reform.
- The *International Tax Competitiveness Index* shows the U.S. jumped from 28th place to 21st after tax reform.
- The lower corporate tax rate is more in line with our peer countries but raising it would risk becoming uncompetitive.
- Tax reform improved the tax treatment of business investment, and permanently extending those provisions would boost GDP, jobs, and wages.
- The early economic signs from tax reform showed U.S. companies outpacing foreign-owned multinationals on growth in investment, employment, R&D spending, and value added.

Prior to the 2017 tax reform, the U.S. corporate tax was a competitive disadvantage to companies investing in the U.S. The corporate tax rate (federal and state combined) neared 40 percent, far above the average of rates in other OECD countries. The U.S. also had limited provisions for business investment.

The Tax Cuts and Jobs Act improved the standing of the U.S. on the Tax Foundation's *International Tax Competitiveness Index* from 28th place to 21st. If tax proposals like those introduced in President Biden's campaign were put in place, the U.S. would regress on competitiveness, dropping to 30th place out of 36 OECD countries.

The TCJA dramatically lowered the U.S. federal corporate rate from 35 percent to 21 percent. However, because of state-level corporate taxes, the U.S. combined corporate tax rate now stands at 25.8 percent. This is more in line with rates of our peer countries but still above the OECD average corporate tax rate of 23.5 percent (the average when weighted by GDP is 26.3 percent). Significant increases to the U.S. corporate tax rate would reintroduce competitive disadvantages for U.S. companies and businesses interested in investing in the U.S.
The TCJA also introduced full expensing for investments in items like equipment and machinery. This policy removes a bias in the tax code and hurts investment. Business investment is critical to the long-run health of the economy and taxes can deter investment if they do not allow businesses to deduct the full cost of their investments.

Because of the TCJA, companies can deduct more of their investment costs, but the U.S. still ranks poorly compared to other nations. If full expensing for equipment and machinery were to phase out and expire as provided in current law, the U.S. would become a less attractive place to start and grow a business. Permanently extending the full expensing treatment for business investments would grow the economy and lead to more jobs and higher wages.

Following Tax Reform, Growth in U.S. Parent Companies Outpaced Majority-owned Foreign Affiliates

Percent change from 2017 to 2018 and 20-year average annual percent change.

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Note: Majority-owned foreign affiliates are U.S. companies of which more than 50 percent is owned by foreign parent companies. Twenty-year averages do not include benchmark years (1999, 2004, 2009, 2014).

Following tax reform, U.S. companies grew faster than their foreign-owned competitors. This has shown up in economic data on growth in jobs, capital expenditure (business investment), spending on research and development (R&D), and value added. A low corporate tax rate and expensing for business investment helped to contribute to that growth and those policies will be valuable as businesses recover from the economic burdens of the pandemic.

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