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New tax would hurt U.S. firms

By Blake Christian
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We live in difficult times. In May, the national unemployment rate rose to 9.4 percent, coupled with a loss of 156,000 manufacturing jobs. Long Beach's unemployment rate is in the double digits. As our nation's economy continues to struggle, one would think that government and business leaders would be working together to improve America's competitiveness in the global marketplace and spur domestic job growth.

Unfortunately, government has moved to do exactly the opposite, potentially hurting American businesses at a time when we can least afford it. This year, Congress has proposed placing a new, $200billion tax burden on American corporations conducting business overseas that would take effect in 2011 - touted by economists and pundits alike as our year of recovery on the economic front. This is on top of California tax hikes totaling over $9 billion in the last eight months alone.

Currently, U.S. companies are given the ability to compete abroad with a deferral of taxes on the income of foreign subsidiaries. Although repealing this deferral is being proposed under the guise of "restoring fairness," it does exactly the opposite, giving foreign companies a leg up against U.S. companies operating abroad. Furthermore, it will result in U.S. companies cutting back foreign jobs which will further erode our international reputation.

Foundation of growth

American companies that conduct business overseas add $2.5 trillion to the U.S. economy, and these companies support more than 20 million good-paying, high-quality American-based jobs. Those jobs, in turn, are tied directly to millions more domestic jobs further down the supply chain. It's also estimated that for every dollar invested in foreign markets, we see $3.50 of additional investment in America. These companies with an international reach represent the foundation for past and future economic growth, ensuring that we have a presence in overseas markets.

U.S. businesses already pay the second-highest corporate tax rate in the world. Levying an additional tax on overseas operations when our foreign competitors have no such additional tax would create a barrier to achieving economic success, inhibit American companies from competing, and further damage our weakened economy. At a time when government should be enabling the expansion of American-based businesses to as many markets as possible, this short-sighted tax proposal would fly in the face of promoting job creation.

Lesson from the past

We have seen the consequences of eliminating tax deferral in the recent past - and it had disastrous consequences right here in Long Beach, one of the world's largest shipping ports and the gateway for goods movement for most of the country. In 1986, tax deferral was eliminated for the American shipping industry. This created a competitive imbalance which led to the contraction of the American shipping industry, as foreign carriers and international trade continued growing and ended up acquiring American subsidiaries. The shrinking of the American shipping industry led to fewer jobs and reduced tax revenue overall.

Fortunately, legislation in 2004 restored tax deferral for foreign shipping income, slowly reversing the decline in America's shipping industry. Neither Long Beach's nor California's economy can afford to have this case study repeated in today's challenging economic climate.

Sadly, a reduction in domestic operations would also result in a decline in corporate charitable giving right here at home. This downward spiral - full of unintended consequences - would result in a further decline in the overall quality of life in our community.

Both the potential and probable negative impacts of this proposal cannot be understated, and it's essential that we protect California's already vulnerable economy. The Chamber urges Congress to remove the repeal of international tax deferral from their tax program so that together we can get our economy back on track.

Blake Christian is chairman of the Board of Directors of the Long Beach Area Chamber of Commerce.