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I. Introduction

Chairman Wyden, Ranking Member Hatch, Members of the Senate Finance Committee, thank you for the opportunity to testify today. My name is Peter Merrill. I am a Principal in the National Economics and Statistics group of PricewaterhouseCoopers LLP (PwC). As a Ph.D. economist, the focus of my practice is primarily on the economic effects of tax policy. I am appearing here today on my own behalf, expressing solely my own views, not those of PwC, its clients, or any other entity.

Taxation is one factor that affects the ability of U.S. multinational corporations ("multinationals") to compete in foreign markets. The U.S. tax system currently diverges in a number of important respects from the policies and practices of other major industrial countries—often to the competitive detriment of U.S. businesses with international operations. With the one-third decline in the share of U.S. companies in the Forbes Global Top 500 list, dropping from 200 in 1998 to 135 in 2013, it is clear that U.S. companies face a far more competitive global environment and thus the effects of U.S. international tax rules on the competitive position of U.S. companies has become even more important (see Figure 1).

I have been asked to provide an overview of how the U.S. rules for taxing international income compare with other advanced economies. This statement provides a brief summary of the key U.S. rules governing the taxation of foreign source income, compares these rules with the tax rules of other OECD member countries, describes recent international tax reforms in Japan, the United Kingdom (UK) and New Zealand, and discusses some of the economic effects of these U.S. tax policies.

II. Overview of U.S. Taxation of Corporate Foreign Source Income

A. Worldwide System of Taxation

The United States has a worldwide tax system under which U.S. domestic corporations are subject to U.S. income tax on both their domestic income and their foreign source income. Thus, a U.S. corporation is subject to taxation by the United States on all of its income regardless of where the income is earned. The top U.S. corporate income tax rate, including state income tax, is 39.1 percent, the highest rate among Organisation for Economic Co-operation and Development (OECD) countries.

B. Deferral

While the United States has a worldwide tax system, the tax law recognizes the separate legal status of foreign corporations and generally allows U.S. shareholders to defer paying U.S. tax on foreign income until such income is distributed. However, U.S. shareholders may be taxed on certain types of undistributed profits of a foreign corporation, in particular, under the so-called U.S. subpart F rules that apply to controlled foreign corporations (CFCs) and the passive foreign investment company (PFIC) rules.

The subpart F regime, enacted in 1962, applies to U.S. shareholders that own 10-percent or more of the voting stock of a CFC. Under this regime, 10-percent U.S. shareholders must include in their taxable income their respective shares of certain types of CFC income (collectively referred to as "subpart F income"), regardless of whether that income has been distributed. Assuming the ownership requirements are met, U.S. corporate shareholders of CFCs may claim a foreign tax credit for the underlying foreign income taxes incurred by the CFC on its subpart F income. When a CFC distributes income that has been taxed under subpart F, it is not taxed again by the United States.

Subpart F income has numerous components, the most important of which is foreign base company income. Foreign base company income includes foreign personal holding company income (which consists mainly of passive investment income) and foreign base company sales, services, and oil-related income (generally active business income).

Subpart F also requires a 10-percent U.S. shareholder to include in income its pro rata share of any investments in U.S. property by a CFC. For this purpose, a loan to a related U.S. corporation is considered an investment in U.S. property.

Unlike domestic subsidiaries, foreign subsidiaries, other than certain Mexican and Canadian subsidiaries, cannot be included in a U.S. consolidated return. Thus, any losses of foreign subsidiaries cannot be used to offset other profits of the U.S. group. Also, the dividends received deduction, which partially or completely relieves corporations from taxation on dividends from domestic subsidiaries, generally does not apply to dividends from foreign subsidiaries.

C. Mitigation of Double Taxation

If a U.S. corporation conducts business outside the United States, it generally will be subject to taxation by the country or countries in which it conducts business. Because the United States taxes worldwide income, a U.S. corporation's foreign income also is subject to U.S. income tax. To mitigate double taxation of income earned abroad, foreign income taxes generally may be credited against U.S. income tax, with allowable foreign tax credits limited to the U.S. tax on foreign source income.

Specific rules are prescribed for identifying the source (domestic or foreign) of various types of income, such as interest, dividends, rents and royalties, services, and sales of purchased and manufactured goods. Other rules allocate and apportion expenses between domestic and foreign source income for foreign tax credit purposes. Expenses that are not directly allocable to a particular item of income, in particular, interest, research and development (R&D), and stewardship expenditures are subject to special allocation rules.

III. Comparison of How Other Countries Tax Corporate Foreign Source Income

A. Statutory Corporate Tax Rate

The top U.S. statutory corporate tax rate, including state corporate income tax, is 39.1 percent. This is the highest rate among the 34 OECD member countries, more than 14 percentage points higher than the average for the other OECD countries (24.8 percent), and almost 10 percentage points higher than the average for the other G7 countries (29.4 percent) (see Table 1).

The United States has not always had the highest corporate tax income rate among OECD economies. In 1988, as a result of the rate reduction made by the Tax Reform Act of 1986, the U.S. corporate rate was more than five percentage points below the OECD average. Since then, the other OECD countries have reduced their corporate tax rates by an average of 19 percentage points, while the U.S. federal corporate tax rate has remained at 35 percent since 1993 (see Figure 2).

The high U.S. statutory corporate income tax rate has a number of adverse economic consequences in an increasingly global economy. First, it discourages both U.S. and foreign companies from locating their most profitable assets and operations inside the United States. Second, it encourages both U.S. and foreign companies to locate their borrowing in the United States, as the value of interest deductions is greater against a higher corporate tax rate. Third, it discourages U.S. multinationals from remitting foreign profits to the United States and being subjected to the higher U.S. corporate tax. As a result, a growing share of the foreign earnings of U.S. subsidiaries may be more effectively invested outside the United States.

Effective tax rates take into account both the statutory tax rate as well as the breadth of the tax base. There are a number of ways to calculate effective tax rates including economic measures, such as marginal and average effective tax rates, and financial accounting measures, such as cash and book tax rates. Using a variety of different measures, international comparisons of corporate effective tax rates generally find that the U.S. corporate tax rate is higher than average (see Figure 3).

B. Relief of Double International Taxation

Unlike the United States, 28 of the other 33 OECD member countries and all other G-7 countries, have adopted dividend exemption (so-called "territorial") tax systems (see Table 2).

Under these territorial tax systems, the active foreign income of foreign subsidiaries generally is taxed only by the country where it is earned, and it can be distributed to the parent company with little or no residual taxation. By contrast, under the U.S. worldwide system, foreign income is taxed by the country where it is earned and then by the United States (with a foreign tax credit) when the income is remitted to the United States.

There has been a pronounced shift over the last 25 years toward the use of territorial tax systems. In 1989, only 10 OECD member countries had territorial tax systems and just two of the G-7 countries (Canada and France) had such a system (see Figure 4). Today, 28 OECD countries and all other G-7 countries have adopted some form of territorial tax system. Notably, over this period, only two OECD countries switched from territorial to worldwide tax systems (Finland and New Zealand) and both countries subsequently switched back to territorial tax systems.[1]

As a result of these trends, U.S. multinationals now compete against foreign competitors that overwhelmingly are taxed under territorial systems. Within the OECD, 93 percent of the non-U.S. parented companies on the Global Fortune 500 list in 2012 were located in countries that use territorial tax systems (Figure 5).

C. Allocation of Indirect Expenses

The U.S. rules for determining the source of income are unusual among OECD member countries in allocating and apportioning indirect domestic expenses, most importantly interest and R&D expenses, against foreign source income. As a result, when a U.S. company borrows money or conducts R&D in the United States, its foreign tax credit may be reduced.

In lieu of apportioning indirect expenses, eight of the 28 OECD countries with territorial tax systems exempt slightly less than 100 percent of foreign dividends, typically 95 percent (97 percent in Norway).

D. Controlled Foreign Corporation Regimes

The U.S. subpart F regime was enacted in 1962, and as described above, treats certain unrepatriated income earned by a CFC as if distributed to its U.S. shareholders and subject to current U.S. taxation. While the Kennedy Administration had proposed including all foreign subsidiary income within the scope of subpart F (other than income earned in less developed countries), Congress retained the general principle of deferral and limited the scope of subpart F to certain passive and mobile income, with the goal to avoid unduly harming the competitive position of U.S. multinationals.[2]

Currently, 23 of the 34 OECD member countries have some form of CFC regime (see Table 3). In general, the scope of these CFC regimes is more limited than the U.S. CFC regime. Most countries restrict their CFC regimes to passive income and do not have provisions comparable to either the U.S. foreign base company sales, services, and oil-related income rules or the U.S. rules imposing current tax

[1] Source: PricewaterhouseCoopers, *Evolution of Territorial Tax Systems in the OECD*, The Technology CEO Council, April 2, 2013.
[2] National Foreign Trade Council, *International Tax Policy for the 21st Century*, December 15, 2001, pp. 37-57.

on foreign income invested in domestic property. Moreover, 12 of the 23 OECD member countries with CFC regimes are EU member states whose CFC rules (as they apply to EU corporations) are restricted by EU law to "wholly artificial arrangements."[3]

The potentially adverse competitive impacts of the relatively stringent U.S. CFC rules, however, have been mitigated by (1) the temporary enactment in 2006, and subsequent extensions, of the CFC look-through rules (which generally exclude from subpart F interest, dividends, rents, and royalties received from a related CFC and paid out of its active, non-subpart F income); (2) the temporary enactment in 1997 and subsequent extensions of the active financial services income exception from subpart F; and (3) the issuance by the IRS in 1996 of entity classification ("check the box") regulations that allow eligible entities (including foreign entities) to elect to be treated as corporations or as fiscally transparent.

IV. Recent Corporate Tax Reforms by Other Countries

A. United Kingdom

In 2009, the UK government replaced its worldwide tax system with a 100-percent dividend exemption (territorial) system.[4] Subsequently, HM Revenue and Customs and HM Treasury released the *Corporate Tax Road Map*, which set out a bold vision for a multi-year corporate tax reform package:

> "The Government wants to send out the signal loud and clear that Britain is open for business … . In recent years too many businesses have left the UK amid concerns over tax competitiveness. It's time to reverse this trend. Our tax system was once viewed as an asset. And it needs to be an asset again. That is why the Government is prioritising corporate tax reform. Responding to the concerns of business, the UK is headed for a more competitive, simpler, and more stable tax system in the future, creating the right conditions for business investment."[5]

Chancellor George Osborne's 2011 budget accelerated the reforms with the goal to "create the most competitive tax system in the G20."

Since 2009, the UK government has enhanced the competitiveness of its corporate tax system by:

- Lowering the corporate income tax rate seven percentage points, from 28 percent in 2010 to 21 percent in 2014, with a further reduction to 20 percent scheduled in 2015.
- Extending the territorial system to foreign branches in 2011.
- Revising the UK CFC rules, effective in 2013, to be consistent with the territorial tax regime and focus more narrowly on foreign profits artificially diverted from the UK.
- Enacting a "patent box" system, effective in 2013, that phases in a 10-percent rate on patent-related income.
- Adopting a new 10-percent, non-incremental, refundable R&D credit.

In response to these corporate tax reforms, some multinationals returned to the UK and a number of other multinationals relocated their legal headquarters to the UK.

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[3] See Judgment of the European Court of Justice, Cadbury Schweppes plc and Cadbury Schweppes Overseas Ltd v Commissioners of Inland Revenue, Case C-196/04, September 12, 2006.

[4] EU law restrictions on dividend taxation, CFC regimes, and on tax barriers to corporate expatriation were influential in shaping UK corporate tax reform.

[5] HM Revenue & Customs and HM Treasury, *Corporate Tax Reform: delivering a more competitive system*, November 2010, p. 7.

HM Revenue & Customs and HM Treasury (2013) used a computable general equilibrium model of the UK economy to simulate the long-term impacts of a reduction in the corporate tax rate from 28 percent in 2010 to a scheduled 20 percent in 2015. Relative to the baseline forecast, the study estimated that the rate reduction would increase GDP by between 0.65 percent and 0.82 percent after 20 years, and that these growth effects would offset between 45 percent and 60 percent of the static revenue cost of the tax rate reduction.[6]

Other researchers used data on 61,738 UK-owned foreign affiliates in 2008 and 2009 to estimate the impact of the UK territorial tax system, which took effect in 2009.[7] The authors found that UK parents of foreign affiliates responded to the adoption of the territorial tax system by increasing repatriations (by an average of over $2 million per affiliate) and reducing foreign affiliate investment.

B. Japan

Effective in 2009, Japan replaced its worldwide tax system with a 95-percent exemption for dividends received by Japanese corporations from foreign subsidiaries. The Japanese Ministry of Economy, Trade and Industry had advocated adoption of a territorial system to encourage repatriation of foreign earnings to Japan with a key goal of increasing domestic investment.[8]

In 2010, Japan liberalized and clarified its CFC rules, notably including within the scope of these rules only CFCs with an effective tax rate of less than 20 percent, as compared to 25 percent under prior law.

In 2011, Japan enacted a corporate rate reduction of five percentage points, but simultaneously enacted a temporary 2.5 percentage point surtax to aid in reconstruction work from the March 2011 earthquake. Both changes took effect in April 2012, resulting in the combined national and local corporate rate declining from 40.69 percent to 38.01 percent. The temporary surtax was to be in place for three years, but in 2014 was repealed one year early. As a result, beginning in April 2014, Japan's corporate tax rate declined to 35.64 percent. In June, Prime Minister Shinzo Abe's cabinet approved further reductions in the corporate tax rate to below 30 percent phased in over several years.

One report studied the effect of the adoption of territorial tax systems in Japan and the UK on cross-border mergers and acquisitions. The report estimates that elimination of the worldwide tax system in Japan increased the number of international mergers and acquisitions with a Japanese acquirer by 31.9 percent.[9]

Another report analyzed the effects of the UK and Japanese adoption of territorial tax systems in 2009.[10] The authors found that as a result of the adoption of territorial taxation, both UK and Japanese firms accumulated less cash, increased distributions to shareholders, and reduced foreign investment; however, they did not find a significant impact on domestic investment.[11]

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[6] HM Revenues & Customs and HM Treasury, *Analysis of the dynamic effects of corporation tax reductions,* December 5, 2013.

[7] Peter Egger, Valeria Merlo, Martin Ruf, and Georg Wamser, "Consequences of the New UK Tax Exemption System: Evidence from Micro-level Data," CESifo, Working Paper no. 3942, September 2012.

[8] Todd Landau, Takaaki Tokuhiro, Kinjun Muraoka, and Shuta Kobayashi, "Japan issues proposed 2009 tax reforms," *Journal of International Taxation,* March 2009, pp. 15-19.

[9] Lars P. Feld, Martin Ruf, Uwe Scheuering, Ulrich Schreiber, and Johannes Voget, "Effects of Territorial and Worldwide Corporation Tax Systems on Outbound M&As," Center for European Economic Research, Discussion paper no. 13-088, 2013.

[10] Matteo Arena and George Kutner, "Territorial Tax System Reform and Corporate Financial Policies," December 2013, available at: http://ssrn.com/abstract=2160954

[11] The global financial crisis, which occurred concurrently with the adoption of territorial tax systems in Japan and the UK, may have dampened domestic investment. Also, under the prior worldwide tax systems used in Japan and the UK, foreign subsidiary earnings could be lent to the parent company without triggering tax.

C. New Zealand

Prior to 1988, dividends received by a New Zealand company from a foreign company were exempt from New Zealand income tax. Beginning in 1988, New Zealand resident companies were taxed on all income earned by their CFCs on a current basis with credits for foreign taxes (i.e., a worldwide system without deferral). No other OECD country has adopted a similar tax system. Instead, other OECD countries generally limit their anti-deferral regimes to passive income.

The New Zealand government ultimately determined that taxing all foreign subsidiary earnings on a current basis had adverse effects on their domestic economy. A 2006 New Zealand government report noted the following concerns with such an international tax system:[12]

1. "Since New Zealand taxes the income of its CFCs more heavily than other countries, it can be attractive for innovative and dynamic firms to migrate from New Zealand, establish themselves in other countries or simply stay small and local." [p. 7]

2. "Migration of even one or two of New Zealand's large dynamic firms could have a substantial negative effect on the economy … Not only would migration lead to jobs within head offices being shifted offshore, so too would be the demand for associated professional services … Firm migration also reduces the extent to which New Zealand could benefit from cluster effects." [p. 11]

3. "A foreign tax credit system can provide incentives for domestic firms to channel offshore investment into higher-tax foreign countries in ways which are not in New Zealand's best interest." [p. 9]

4. "Finally, higher taxes on offshore income may also make it difficult for New Zealand-based firms to expand out of local markets …" [p. 12]

The 2006 report also noted that while the stock of outbound direct investment by New Zealand had remained relatively constant since the early 1990s, fluctuating between 10 and 15 percent of GDP, for the OECD as a whole, and Australia in particular, outbound direct investment increased from 10 percent of GDP to around 30 percent by 2004 (see Figure 6).

In response to the adverse economic effects of the change to a worldwide system without deferral, New Zealand switched back to a territorial system in 2009 (effective for tax years beginning after June 30, 2009). The New Zealand reform (1) restricted the scope of the CFC regime to passive income, and (2) exempted 100 percent of foreign subsidiary dividends.

V. Economic Effects of U.S. International Tax System

With the highest corporate tax rate among OECD countries and a worldwide tax regime, the U.S. corporate tax system falls far outside international norms for advanced economies, with possible adverse consequences for the U.S. economy. This section discusses the effects of U.S. tax policy on (A) foreign investment, (B) headquarters location, and (C) economic growth.

A. Foreign Investment

With the rapid growth in emerging market economies, the foreign share of U.S. multinational company earnings has increased. For all U.S. public companies, domestic and multinational, 48 percent of 2012

[12] Hon. Dr. Michael Cullen (Minister of Finance) and Hon. Peter Dunne (Minister of Revenue), *New Zealand's International Tax Review: a direction for change*, 2006.

pre-tax book earnings was reported as coming from foreign sources.[13] The effect of U.S. tax law is to discourage companies from remitting these foreign earnings to, or investing it in, the United States, because doing so would result in imposition of U.S. tax at a federal rate of 35 percent, with an offset for associated foreign income taxes. As foreign income tax rates have fallen, the U.S. tax that would be incurred by repatriating foreign earnings has increased, in effect discouraging the repatriation of foreign income that is not currently needed for business purposes abroad.

One measure of the amount of earnings accumulated abroad that companies do not intend to repatriate or invest in the United States is the amount of income recorded on their financial statements as permanently or indefinitely reinvested abroad. Some of these earnings are reinvested abroad in active business assets, such as plant, property, and equipment, and some is invested in cash and equivalents.[14] Audit Analytics estimates that for the companies in the Russell 1000, permanently reinvested earnings reached $2.1 trillion in 2013, an increase of $1 trillion over the prior five years.[15]

One consequence of the U.S. tax rules with respect to repatriated foreign earnings is that it is more attractive for U.S. multinationals to invest abroad than at home. For example, if a foreign subsidiary earns $100 million and distributes $80 million of earnings, after paying $20 million of foreign tax, to its U.S. parent, there would be just $65 million available to invest after paying $15 million of U.S. corporate tax (35 percent of $100 million less a credit for the $20 million of foreign tax). By contrast, the entire $80 million would be available to invest if used to expand abroad or acquire a foreign company. In this example, the U.S. tax system effectively provides a $15 million tax incentive for investing *outside* the United States.

Walter Galvin, the retired Vice Chairman of Emerson, testified about a real-life example of how the U.S. tax system encouraged foreign investment:

> "Last year, Emerson bought a company in the U.K. called Chloride for about $1.5 billion with cash we had earned abroad and kept abroad. We considered other options for that cash, such as bringing it to the U.S., but the U.S. tax code would charge us an extra 10 to 15 cents in taxes on every dollar. Where is our return higher? A dollar invested in the U.K. or 85 cents in the United States?"[16]

Academic research confirms that U.S companies with foreign profits that would be subject to U.S. tax if repatriated are more like to invest abroad. Across a large sample of U.S. multinationals, one report found that both the probability and the number of foreign (but not domestic) acquisitions increases with the amount of foreign cash. [17] The authors also found that the stock market reaction to announced foreign acquisitions is more negative for firms with more locked out cash, suggesting that, "firms are both stockpiling cash and (poorly) investing overseas because U.S. policy hinders repatriation."

B. Headquarters Location

The combination of a high U.S. corporate tax rate and a worldwide regime which taxes foreign income when remitted to the United States is an important disadvantage to the selection of the United States as headquarters. If the United States is chosen as the tax home of the merged entity, distributions to the ultimate parent company of foreign income would be subject to the U.S. repatriation tax – a tax that does

[13] PwC calculations based on Compustat data.
[14] Ben Casselman and Justin Lahart, "Companies shun investment, hoard cash," Wall Street Journal, Sept. 17, 2011.
[15] Audit Analytics, available at: http://www.auditanalytics.com/blog/wp-content/uploads/2014/04/IRE-April-2014-Picture-1.png
[16] Testimony of Mr. Walter J. Galvin before the Committee on Ways & Means, U.S. House of Representatives, Hearing on "How Business Tax Reform Can Encourage Job Creation," June 2, 2011.
[17] Hanlon, Michelle and Lester, Rebecca and Verdi, Rodrigo S., "The Effect of Repatriation Tax Costs on U.S. Multinational Investment," May 23, 2014 (Journal of Financial Economics, forthcoming). Available at SSRN: http://ssrn.com/abstract=2441529 or http://dx.doi.org/10.2139/ssrn.2441529

not apply if the parent company is headquartered in a country with a territorial tax system. Moreover, by establishing legal headquarters in a country with a territorial tax system, the company will be better positioned as an acquirer of businesses. This can be observed in a number of cross border merger and acquisition transactions in which the combined company has chosen to be legally headquartered outside of the United States.

Based on the experience of the UK and Japan, one study estimated that if the United States were to switch from a worldwide to a territorial tax system, the number of cross-border mergers and acquisitions in which the U.S. company was acquirer would increase by 17.1 percent.[18]

C. Economic Growth

A recent report by Laura D'Andrea Tyson and colleagues at the Berkeley Research Group analyzed the macroeconomic effects of eliminating most of the U.S. repatriation tax by adopting a 95-percent exemption for active foreign subsidiary earnings. The report estimated that such a territorial tax system (at the current U.S. corporate tax rate) would, on an ongoing basis, increase repatriations by $114 billion per year, increase U.S. GDP by $22 billion annually, and create an estimated 154,000 new jobs per year, with even larger effects during an initial transition from the current U.S. worldwide tax system.[19]

VI. Conclusion

U.S. companies are increasingly competing in foreign markets, which account for over 95 percent of the world's population and over 75 percent of global purchasing power. In many cases, a U.S. company's sales of goods and services overseas creates jobs and growth in the United States. For U.S. companies to succeed in the global marketplace, they must be able to provide goods and services that are competitive in terms of quality, innovation, and price.

Since the last major reform of the U.S. corporate income tax in 1986, the importance of foreign markets to the success of U.S. business has grown and international competition from foreign-based companies has increased. Over this same period, other advanced economies have reduced their corporate tax rates and moved from worldwide to territorial tax systems. As a result, the U.S. corporate tax system has become an outlier among OECD countries. Reform of the U.S. tax system to bring it more in line with international norms would enhance the ability of U.S. multinationals to continue to compete and succeed in global markets.

[18] Feld et al. (2013), *op cit*.

[19] Eric Drabkin, Kenneth Serwin, Laura D'Andrea Tyson, "Implications of a Switch to a Territorial Tax System in the United States: A Critical Comparison to the Current System," Berkeley Research Group, October 2013.

Figure 1

Source: Forbes 500s List, 1999-2003; International 800 List, 1999-2000; International 500 List, 2001-2003; Global 2000 List, 2004-2014.

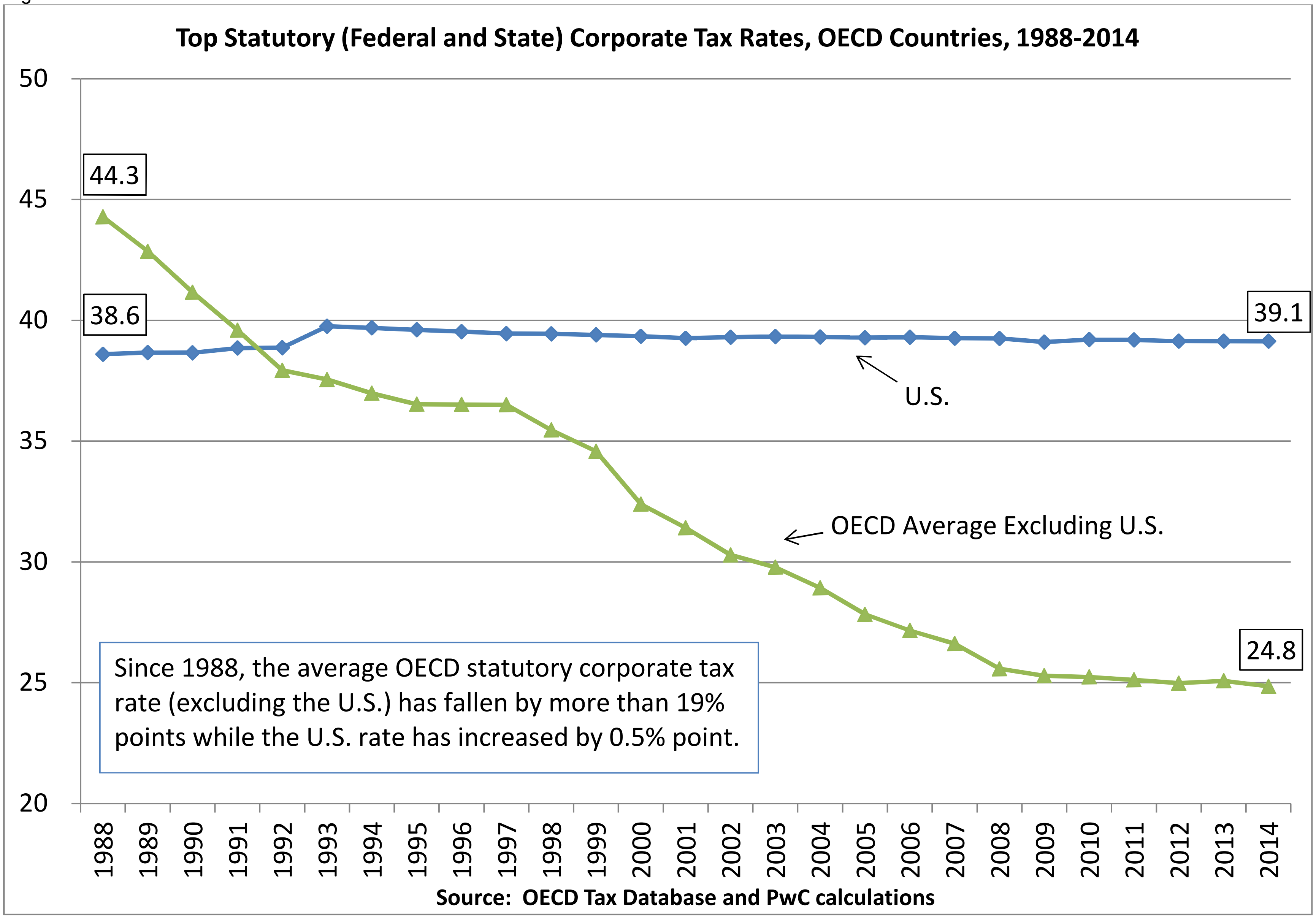
Table 1

Top Corporate Tax Rate (Federal plus State), OECD Countries, 2014

Rank	Country	Rate
1.	**United States**	**39.1**
2.	Japan	37.0
3.	France	34.4
4.	Belgium	34.0
5.	Portugal	31.5
6.	Germany	30.2
7.	Australia	30.0
8.	Mexico	30.0
9.	Spain	30.0
10.	Luxembourg	29.2
11.	New Zealand	28.0
12.	Italy	27.5
13.	Norway	27.0
14.	Israel	26.5
15.	Canada	26.3
16.	Greece	26.0
17.	Austria	25.0
18.	Netherlands	25.0
19.	Denmark	24.5
20.	Korea	24.2
21.	Slovak Republic	22.0
22.	Sweden	22.0
23.	Switzerland	21.1
24.	Estonia*	21.0
25.	United Kingdom	21.0
26.	Chile	20.0
27.	Finland	20.0
28.	Iceland	20.0
29.	Turkey	20.0
30.	Czech Republic	19.0
31.	Hungary	19.0
32.	Poland	19.0
33.	Slovenia	17.0
34.	Ireland	12.5
G-7 average excluding U.S.		**29.4**
OECD average excluding U.S.		**24.8**

Source: OECD Tax Database

Figure 2


Top Statutory (Federal and State) Corporate Tax Rates, OECD Countries, 1988-2014
50
45
40
35
30
25
20
44.3
38.6
39.1
24.8
U.S.
OECD Average Excluding U.S.
Since 1988, the average OECD statutory corporate tax rate (excluding the U.S.) has fallen by more than 19% points while the U.S. rate has increased by 0.5% point.
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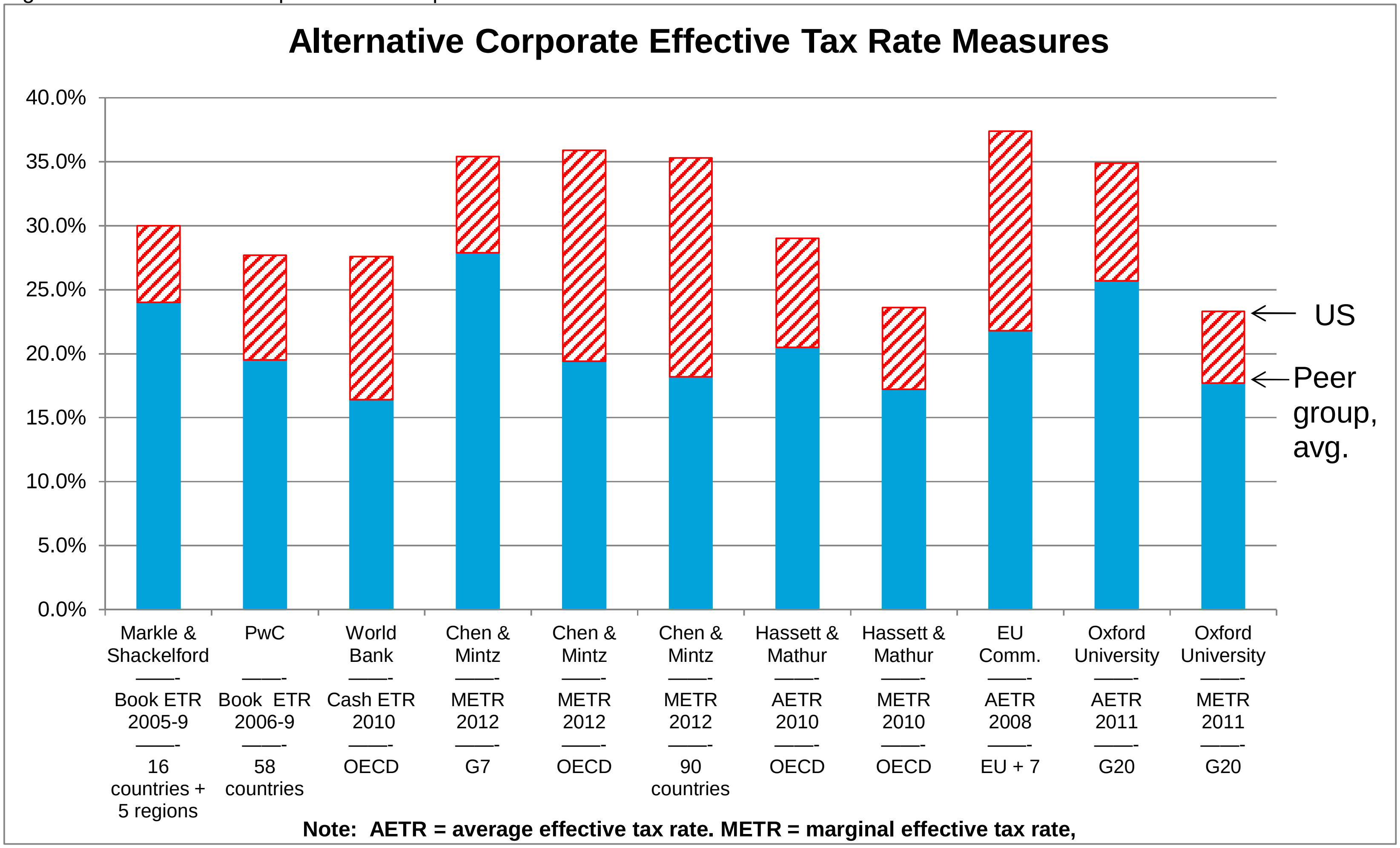
Source: OECD Tax Database and PwC calculations

Table 2.— OECD Countries with Territorial and Worldwide Tax Systems, 2014

Taxation of foreign subsidiary income	OECD Member Countries	Dividend exemption percentage
Territorial tax systems	Australia, Austria, Canada, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Iceland, Luxembourg, Netherlands, New Zealand, Poland, Portugal, Slovak Republic, Spain, Sweden, Turkey, United Kingdom	100%
	Norway	97%
	Belgium, France, Germany, Italy, Japan, Slovenia, Switzerland	95%
Worldwide tax systems	Chile, Ireland, Israel, Korea, Mexico, United States	none

Source: PricewaterhouseCoopers, *Evolution of Territorial Tax Systems in the OECD*, The Technology CEO Council, April 2, 2013.

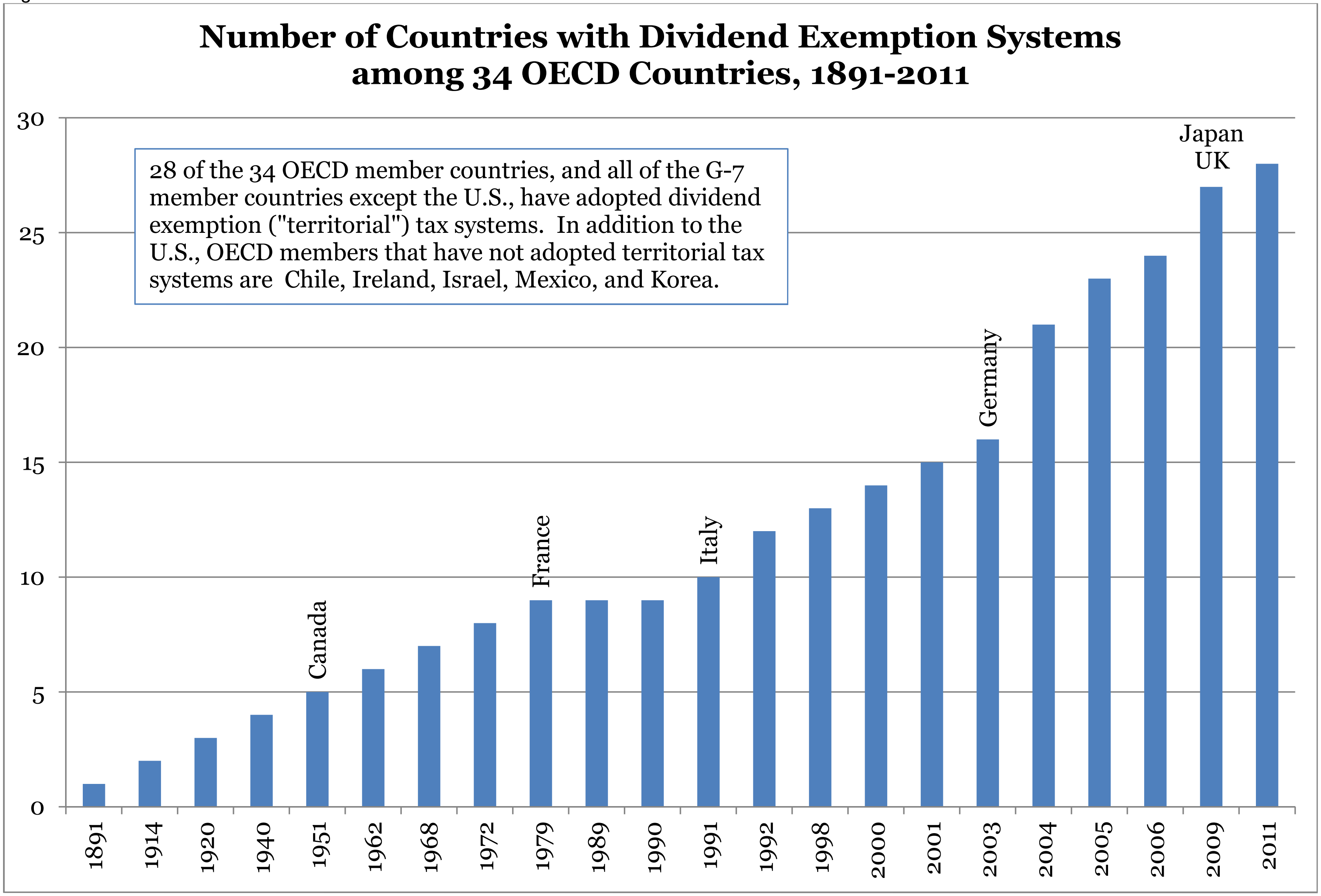
Figure 3 International Comparisons of Corporate Effective Tax Rates



Sources:

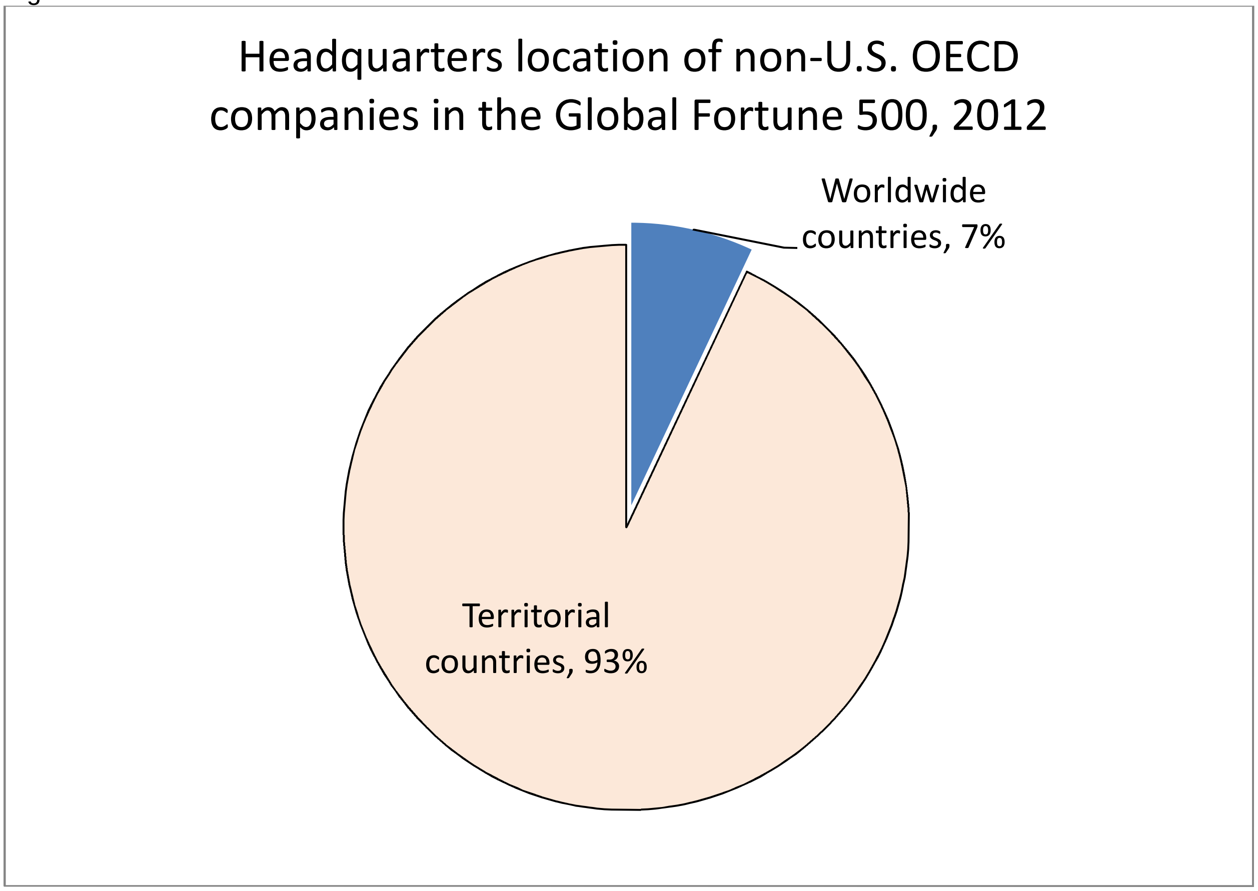
K. Bilicka, M. Devereux and C. Fuest, “G20 Corporate Tax Ranking 2011” Oxford University, Centre for Business Taxation, July 2011.
D. Chen and J. Mintz, “Corporate Tax Competitiveness Rankings for 2012.” Cato Institute, September 2012.
M. Devereux., C. Elschner, D. Endres, and C. Spengel, “Effective Tax Levels Using the Devereux/Griffith Methodology.” Centre for European Economic Research, October 2009 (Report prepared for the EU Commission).
K. Hassett and A. Mathur, “Report Card on Effective Corporate Tax Rates: United States Gets an F.” AEI, February 2011.
K. Markle and D. Shackelford, “Cross-Country Comparisons of Corporate Income Taxes.” NBER working paper 16839, February 2011.
PwC, “Global Effective Tax Rates.” April 14, 2011 (Report prepared for Business Roundtable).
PwC, “Paying Taxes 2011: The Global Pictures,” prepared for the World Bank and IFC Doing Business 2011 report.

Figure 4



Source: Source: PricewaterhouseCoopers, *Evolution of Territorial Tax Systems in the OECD*, The Technology CEO Council, April 2, 2013.

Figure 5



Source: Business Roundtable, *Corporate Tax Reform – The Time is Now*, April 15, 2013

Table 3. Controlled Foreign Corporation Regimes in OECD Countries, January 2014

Country	CFC Regime	EU member
Australia	Yes	
Austria[1]	Alternate	Yes
Belgium	None	Yes
Canada	Yes	
Chile	None	
Czech Republic	None	Yes
Denmark	Yes	yes
Estonia	Yes	Yes
Finland	Yes	Yes
France	Yes	Yes
Germany	Yes	Yes
Greece	Yes	Yes
Hungary	Yes	Yes
Iceland	Yes	
Ireland	None	Yes
Israel	Yes	
Italy	Yes	Yes
Japan	Yes	
Korea	Yes	
Luxembourg	None	Yes
Mexico	Yes	
Netherlands[2]	Alternate	Yes
New Zealand	Yes	
Norway	Yes	
Poland	None	Yes
Portugal	Yes	Yes
Slovak Republic	None	Yes
Slovenia[3]	Alternate	Yes
Spain	Yes	Yes
Sweden	Yes	Yes
Switzerland	None	
Turkey	Yes	
United Kingdom	Yes	Yes
United States	Yes	
OECD member countries		**34**
No CFC regime		11
EU member with CFC regime		12
Non-EU member with CFC regime		11

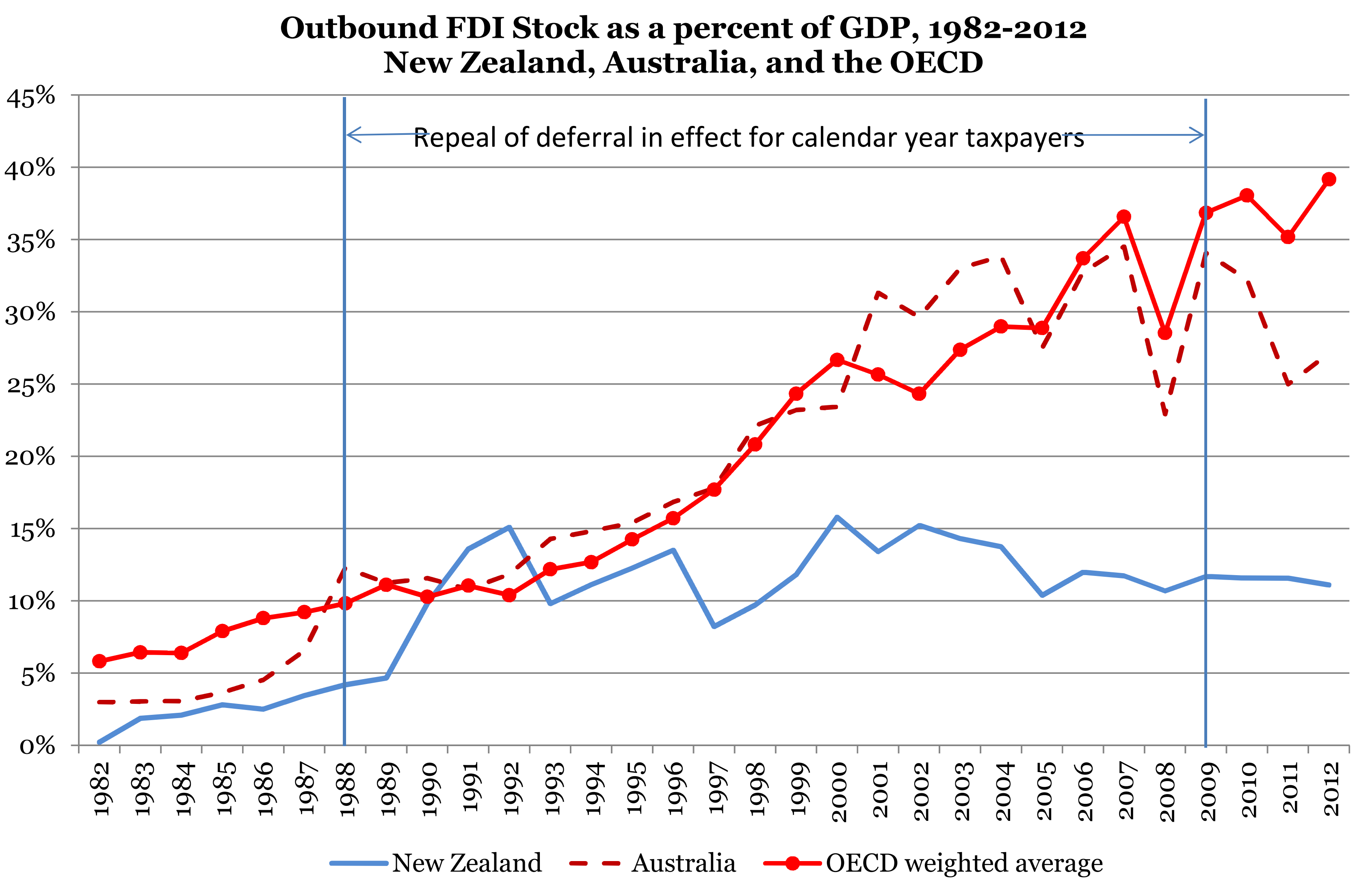
[1] Austria's dividend exemption system excludes certain passive income.

[2] The Netherlands has a passive foreign investment company regime.

[3] Slovenia imposes withholding tax on payments for certain services and interest to persons established in certain low-tax jurisdictions.

Source: Deloitte, *Guide to Controlled Foreign Company Regimes* , January 2014

Figure 6



Source: UNCTAD (downloaded July 2014). Weighted average based on 2012 GDP from the IMF, *World Economic Outlook*, April 2014.