DENVER
INVESTMENT
ADVISORS LLC

Thomas B. Stevens
Fixed Income Group

While financial markets continue to be strained and repressed, economic conditions deteriorate at an accelerating rate. General Motors and Ford are on the verge of running out of cash within the next year. There are, of course in these days of generous lending practices by the U.S. Government, bailout packages and loans available. The authorities are even discussing Fiscal Economic Stimulus Package#2, the sequel to the $152 billion flop of the original package heralded as a top-hit last February. As a sidenote, my eldest daughter and son-in-law used that $1,200 to make their federal income tax payment.

I suppose my naivety is in the fact that with everything so glum, (not entirely true…oil and other commodity prices have fallen, inflation is lower, and short-term interest rates have declined globally) why do we not concentrate on long-term cures rather than short-term fixes which as medicine bottles direct "take every four to six hours?"

Specifically, to regenerate America, promote jobs and encourage investment, why should we not lower, yes that's *lower* corporate tax rates? My concern is that with the additional fiscal stimulus and most certainly more government intervention in the free market system, investment and the entrepreneurial spirit will dissipate. Corporate America will be disincented to reinvest if income continues to be taxed at the 2007 combined corporate income tax rate of 39.27%. Lower foreign tax rates should be a major reason for the next administration to address, tackle, and reform corporate tax law. Lower foreign tax rates siphon capital and productive resources away from American enterprise.

Exhibit. Countries' Effective Corporate Income Tax Rates- 2007

Country	2007 Combined Corporate Income Tax Rate [1]		1997 Combined Corporate Income Tax Rate	Increase/ (Decrease)
Japan	39.54		49.98	(10.4)
United States	39.27	2nd Highest!!	39.45	(0.2)
Germany	38.90		56.80	(17.9)
Canada	36.10		44.62	(8.5)
France	34.40		41.66	(7.3)
Belgium	33.99		40.17	(6.2)
Italy	33.00		53.20	(20.2)
New Zealand	33.00		33.00	0.0
Spain	32.50		35.00	(2.5)
Luxembourg	30.38		NA	NA
Australia	30.00		36.00	(6.0)
United Kingdom	30.00		31.00	(1.0)
Mexico	28.00		34.00	(6.0)
Norway	28.00		28.00	0.0
Sweden	28.00		28.00	0.0
Korea	27.50		NA	NA
Portugal	26.50		37.40	(10.9)
Finland	26.00		28.00	(2.0)
Netherlands	25.50		35.00	(9.5)
Austria	25.00		34.00	(9.0)
Denmark	25.00		34.00	(9.0)
Greece	25.00		35.00	(10.0)
Czech Republic	24.00		39.00	(15.0)
Switzerland	21.32		28.47	(7.1)
Hungary	20.00		18.00	2.0
Turkey	20.00		NA	NA
Poland	19.00		38.00	(19.0)
Slovak Republic	19.00		40.00	(21.0)
Iceland	18.00		NA	NA
Ireland	12.50		36.00	(23.5)

1. Includes combined federal, state, provincial taxes for an all-in corporate tax rate. U.K. Finance Act of 2007 reduces corporate tax rate from 30% to 28% for fiscal periods ending after 4/1/08.

Source: OECD.

While other countries have reduced their corporate income tax rates over the past decade, the U.S. corporate tax rate has remained virtually unchanged (35% federal marginal rate and approximately 5% state). In fact, according to data supplied by the *ISI Group*, the U.S. corporate tax rate is currently the second highest among developed nations at 39.27%, surpassed only by Japan at 39.54%, (an icon of economic growth and development over the past 18 years).

Io addition, over the past 10 years, according to *ISI*, other countries have implemented tax reforms with over 80% of countries lowering their corporate tax burdens by 1% point or more. It is no wonder the growing disparity between U.S./foreign corporate tax rate differential has further increased incentives to move production, whether manufacturing or service-related, abroad. If you want to increase employment at home, a good start would be to encourage U.S. businesses to stay at home. A long-range solution would be to hack away at that 39.27% effective corporate tax rate.

A parable to this story is that under current tax treatment, profits earned abroad generally escape U.S. corporate taxation until repatriated back to the U.S. in the form of a dividend. This misguided and misdirected policy results in most foreign profits which are converted to cash remaining overseas to be re-invested in fixed assets/working capital/acquisitions or to sit in foreign bank accounts to defer payment of U.S. taxes on those earnings.

In one respect I am somewhat surprised at the United States' second highest ranking. Given the penchant for a more socialistic, government-controlled and subsidized nation such as France or Sweden, I would have thought their corporate tax burdens would be higher, but this is not the case. France ranks number 5 on the list, and Sweden ranks 15th highest among the 30 countries listed.

Most other countries have adopted a "territorial" tax system to promote domestic growth and investment capital. Under this system, companies pay taxes only in the country in which the income was generated and not incremental tax in their home country upon repatriation.

Exhibit. Selected Countries' Tax Policies for Income Earned Abroad

Table 1.5: Territorial vs. Worldwide Treatment of Foreign Dividend Income by Country, 2005

Territorial (Exemption)	Worldwide (Foreign Tax Credit)
Australia*	Czech Republic
Austria	Ireland
Belgium	Japan
Canada*	Korea
Denmark	Mexico
Finland	New Zealand
France**	Poland
Germany	United Kingdom
Greece*	United States
Hungary	
Iceland	
Italy**	
Luxembourg	
Netherlands	
Norway	
Portugal*	
Slovak Republic	
Spain	
Sweden	
Switzerland	
Turkey	

These countries tax foreign earnings at the full domestic rate upon repatriation.

*Exemption by treaty agreement.
**Exemption of 95 percent.

Note: Territorial policy exempts foreign based income from additional income taxes. Worldwide policy uses a tax rate based on the home country with a credit for foreign paid taxes.

Source: Treasury Office of Tax Policy: "Approaches to Improve the Competitiveness of the US Business Tax System for the 21st Century".

As I understand, President-elect Obama opposes corporate tax cuts, but in my opinion this is what is needed to reinvigorate the economy. In lieu of bailing out individually-selected firms such as the AIG's, Bear Stearns, and GM's of the world, is there not a valid argument for diverting those billions of dollars spent by the government for general corporate tax relief? Loans to domestic automakers whose business models have been flawed for years makes no rational sense when those dollars could be better utilized via lower corporate taxes to firms who wish to expand capital expenditure programs.

It has been argued that large corporate tax rate reductions even with some sort of foreign expense elimination is politically unpalatable given its "cost" and the ballooning federal deficit. In a recessionary environment, with default rates on the rise, tax receipts will undoubtedly decline in any event. There are two ways to address fiscal policy. One is to spend, spend, spend, with the hope that by legislating additional monies prosperity will leak through to those below. The other is to legislate tax reform upon the providers of capital goods and services such that prosperity will find its way up and through every class that rests upon it. I favor the latter and would implore the new administration, Congress, and economic advisors to President-elect Obama to formulate significant, meaningful tax policies going forward.

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