Business Roundtable

NEWS RELEASE

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Study Shows Uncompetitive Tax Code Contributes to Increased Foreign Acquisition of U.S. Companies

Analysis: Competitive Corporate Income Tax Rate Would Have Kept 4,700 Companies in the United States

Washington — A globally competitive U.S. corporate income tax rate of 20 percent would have kept 4,700 companies in the United States from 2004 to 2016, a new Business Roundtable study on cross-border mergers and acquisitions (M&A) concludes.

A 20 percent rate would have also led to U.S. companies acquiring $1,205 billion in cross-border assets during 2004-2016, the report found. Instead, the outdated tax code contributed to the United States losing $510 billion in business assets to foreign companies.

The analysis, conducted by the accounting firm EY, further reported that the rate of foreign acquisitions of U.S. companies has accelerated over the past three years.

From 2004 through 2013, U.S. companies were the acquirer in 18 percent of cross-border M&A transactions and the target in 20 percent of cross-border M&A transactions, as measured by value. From 2014 through 2016, the U.S. acquisition rate decreased to 16 percent, and the U.S. company target rate increased to 31 percent by value.

“The U.S. tax system continues to represent a serious disadvantage to U.S.-based companies and this country’s economy,” said Mark A. Weinberger, Global Chairman and CEO of EY and Chair of the Business Roundtable Tax and Fiscal Policy Committee. “The United States is

losing business headquarters along with good-paying jobs, assets and innovation because of its outdated, anti-competitive tax code. Cross-border transactions are not inherently bad, and capital should flow to the highest returns regardless of country borders. However, a country's tax system should not drive investment outside its borders.

"This study is more compelling evidence that Congress and the Administration must enact tax reform to keep and attract companies, jobs and investment."

The study, "Buying and Selling: Cross-border mergers and acquisitions and the U.S. corporate income tax," expanded on a 2015 EY analysis of how the U.S. tax code affects M&A. It examines the M&A market, considering the effects of different statutory corporate tax rates on more than 97,000 global M&A transactions across 68 countries.

Key findings from the study:

- U.S.-headquartered companies are at a competitive disadvantage due to an outdated tax code, which contributed to a $510 billion net drain of U.S. company assets in 2004-2016.

- With a 20 percent statutory corporate income tax rate:

    - U.S. companies would have acquired, on net, $1,205 billion in cross-border assets during 2004-2016 instead of losing $510 billion in assets to foreign buyers – a net shift of $1,715 billion in assets.
    - The United States would have kept 4,700 companies during the past 13 years.

- The U.S. corporate income tax also hinders foreign direct investment (FDI) into the United States. With a 20 percent U.S. corporate income tax rate, inward FDI would have been an estimated $195 billion more in 2004-2016, a 14 percent increase.

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"If the competitive disadvantages in the U.S. corporate tax system are allowed to persist, they will cause increasingly long-lasting damage to U.S. job creation, wages and living standards," said Joshua Bolten, Business Roundtable President & CEO.

"Multinational companies make an essential contribution to the U.S. economy and employment, and long-overdue tax reform would encourage them to invest even more in the United States."

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