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Another Democrat Campaign Tax Bill

President Obama has decided to make a campaign issue out of "outsourcing." The Democrats' latest attempt to use the Senate floor to campaign for the President's reelection is a bill on the subject sponsored by Senator Stabenow. Her bill, if it became law, would have less monetary impact this year than the amount the President is likely to spend on campaign commercials about outsourcing.

The Obama-Biden campaign made outsourcing an issue in 2008 as well, with independent fact checkers calling their claims "false" and "misleading." One fact checker wrote: "It sounds so simple and so outrageous. 'Tax breaks for companies that ship jobs overseas.'" And concluded, "The world is far more complicated than Biden's catchphrase makes it seem."

Recycling the issue in this election year, Senator Stabenow has introduced S. 3364, which would provide preferential treatment for "insourcing" – moving operations into the U.S. from overseas – and a tax penalty for outsourcing. This proposal would corrupt the tax neutrality that allows the free market to work and would make the tax code more complex.

Significantly, the bill's insourcing incentive will only decrease revenue by $21 million next year. That is far too small to lead to many companies moving operations back to the U.S. The issues that are driving businesses overseas are things like the U.S. having the highest corporate tax rate in the world, an incoherent tax code, and job-killing regulations.

Current tax treatment is neutral between insourcing and outsourcing

According to the Joint Committee on Taxation: "Under present law, there are no specific tax credits or disallowances of deductions solely for locating jobs in the United States or overseas. Deductions generally are allowed for all ordinary and necessary expenses paid or incurred by the taxpayer during the taxable year in carrying on any trade or business, which includes the relocation of business units."

This means current tax law is neutral with regard to the location an employer chooses to produce products and provide services.

This is the exact opposite of what President Obama has asserted. He said, “My plan will stop giving tax breaks to businesses that ship jobs and factories overseas, and start rewarding companies that create jobs and manufacturing right here in the United States of America.” Appropriately, the White House website reports that these remarks were made “at a campaign event.”

The President’s rhetoric misleads Americans into believing that there is a “Shipping Jobs Overseas Tax Credit.” Businesses in the U.S. get no such benefit. The fact is that the current tax code appropriately allows a business to deduct its business expenses, but there are no tax breaks specifically for outsourcing business operations.

Another tax expenditure to increase complexity

This bill would add more complexity to the tax code by adding yet another tax expenditure by creating the insourcing credit. This contradicts the President’s statement that “the whole concept of corporate tax reform is to simplify, eliminate loopholes, treat everybody fairly.” Even worse than increasing complexity, this bill would discourage global businesses from locating their headquarters in the U.S. by making it more difficult for U.S.-based companies to expand overseas.

Harming neutrality will lower standards of living

We all want businesses to locate in America and hire American workers. The best way to allow that to happen is by letting the free market work within a neutral tax code. Under that system, each country has a comparative advantage in producing what it is best at making. Countries that follow this approach by allowing free trade to thrive have higher standards of living.

Americans have shown that their comparative advantage lies in high-skill, high-wage jobs. If a company can produce a product or service more cheaply in the U.S. than in a foreign country, our current tax code already provides the neutral playing field to let it do so.

The way to get companies to bring jobs to the U.S. is not to impose financial penalties by tilting the tax code to pick winners and losers. The answer is to decrease regulation and lower tax rates to make the U.S. a more attractive location for those jobs that may be on the verge of being outsourced.