CENTER FOR FREEDOM & PROSPERITY

Facts About Tax Competition

Since the historic Thatcher/Reagan tax rate reductions, individual and corporate income tax rates have fallen dramatically. Corporate rates have across the industrialized world have fallen by nearly 20 percentage points and top personal tax rates in industrialized countries have also been reduced, dropping by about 25 percentage points. There's little evidence that politicians reduced tax rates because of a sudden change of heart in favor of more economic freedom. Rather, they understood that tax rates had to be lowered in order to prevent the flow of jobs and investment to nations with better tax policy. The tax revolution currently unfolding in Eastern Europe is further evidence of the positive impact of tax competition.

FACT: Since lower tax rates attract investment, a high-tax jurisdiction is at a competitive disadvantage. Therefore, there's a great incentive for governments to reduce tax rates in order to encourage investment, improve economic performance, and create jobs.

FACT: Tax competition exists when people can reduce tax burdens by shifting capital and/or labor from high-tax jurisdictions to low-tax jurisdictions.

FACT: By forcing governments to lower fiscal burdens, tax competition may promote limited government and efficiency in the public sector.

FACT: Politicians from high-tax nations dislike tax competition because fiscal rivalry restricts their ability to overtax (and therefore overspend).

FACT: Relatively unfettered cross-border movement—a symptom of the global economy and free trade—makes it difficult to maintain high tax rates or to impose discriminatory taxes on income that is saved and invested.

FACT: In a direct assault on tax competition, the Organization of Economic Cooperation and Development (OECD) is threatening low-tax jurisdictions with financial protectionism if they do not agree to weaken their tax and privacy laws so that high-tax nations could more easily track- and tax-flight capital.

FACT: The OECD and other international bureaucracies have pushed for various tax-harmonization schemes in an effort to emasculate tax competition and enable higher global tax rates.

FACT: Upset that their citizens are immigrating to low-tax jurisdictions, some high-tax governments have introduced proposals that would give them permanent taxing authority over their citizens no matter where they live. This indirect form of tax harmonization punishes investors, entrepreneurs, and anyone else seeking relief from exuberant taxation, while insulating governments from market discipline.

More Information on back of page…

For More Information:

The Heritage Foundation's 2004 Index of Economic Freedom, by Daniel J. Mitchell, Chapter 2: The Economics of Tax Competition: Harmonization vs. Liberalization
http://www.heritage.org/research/features/index/chapters/pdfs/Index2004_Chap2.pdf

Links to more than 50 letters from current and past Senators and Congressmen praising Tax Competition
http://www.freedomandprosperity.org/congress/congress.shtml

November 2001, CF&P Foundation Prosperitas, "The Adverse Impact of Tax Harmonization and Information Exchange on the U.S. Economy,' by Daniel Mitchell
http://www.freedomandprosperity.org/press/p11-27-01/p11-27-01.shtml

July 20, 2001, The Heritage Foundation, "A Tax Competition Primer: Why Tax Harmonization and Information Exchange Undermine America's Competitive Advantage in the Global Economy"
http://www.heritage.org/Research/Taxes/BG1460.cfm

Center for Freedom and Prosperity
P.O. Box 10882
Alexandria, Virginia
202-285-0244
cfp@freedomandprosperity.org
www.freedomandprosperity.org