



## **THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG**

### **Tax Policy Impact on the International Competitiveness of the United States**

The American Chamber of Commerce in Hong Kong (AmCham HK) has long advocated that it is to the mutual advantage of all countries if the exchange of goods, capital, and services in international trade is not unduly hindered by taxation.

Even if other conditions are favorable, excessive taxation by a single country (or multiple taxation by two or more countries of the same income) will reduce the incentives to incur the risks involved in international business. Therefore, AmCham HK believes that the United States' current worldwide tax system should be replaced with a territorial system for the taxation of foreign source income to help U.S. businesses compete internationally as well as domestically against foreign firms.

In recent years, countries seeking to see their domestic companies succeed in global markets have recognized the myriad benefits of territorial systems of taxation. Recognizing these benefits, both Japan and the UK have reformed their tax codes away from worldwide tax systems to quasi-territorial tax systems. The United States suffers not only one of the highest corporate tax rates in the world but is the only major industrialized OECD country that continues to employ a worldwide system of taxation. If the United States wishes to keep its companies competitive and drive investment in the United States, it should move to a territorial system of tax. A territorial tax system will help allow American companies worldwide to build their global franchises while continuing to strengthen American operations and promote economic growth domestically.

AmCham HK notes that should Congress undertake fundamental tax reform but choose to retain a worldwide system of taxation, provisions that eliminate double taxation, such as deferral and foreign tax credits, must be included. These issues are unquestionably complex but must be addressed if the United States wishes to keep pace in the global economy.

AmCham HK believes that Congress should undertake comprehensive tax reform – both the individual and corporate tax codes should be reformed simultaneously. The individual and corporate codes are intertwined in such a manner that they should be reformed at the same time.

As with corporations, the United States has long taxed the foreign-earned income of its citizens residing abroad, resulting in double taxation and a disincentive to hire U.S. citizens. Studies have shown that U.S. expatriates employed as managers in foreign affiliates of American worldwide companies are a powerful driver of U.S. exports, so this practice significantly undermines the global competitiveness of U.S. exporters.

No other country taxes its citizens working abroad, and any transition to a territorial tax system should take this into consideration and end this damaging practice. Residence-based taxation is a fair, equitable, and efficient taxation of American citizens living overseas because it taxes their worldwide income only once in the country where they actually reside and receive government services.

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