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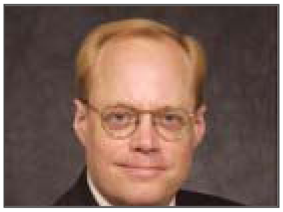

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Forget Zimbabwe, U.S. Tax System Ranks At Bottom, Just Better Than Portugal

Remember the study last year that ranked our tax code right below Zimbabwe? Now, a new study by the Tax Foundation still ranks us near last. Zimbabwe wasn't a part of this contest, since the new study looked only at the 34 countries making up the OECD. Still, we have work to do.

The study ranked countries based on the competitiveness of their tax regimes. Based on those criteria, Estonia comes out on top and France at the bottom. Ranking top five over all for most competitive, were Estonia, New Zealand, Switzerland, Sweden and Australia. At the bottom of 34 nations was France, just below Portugal, the U.S., Italy and Spain.

The ranking actually looks at a mix of taxes. That means even a last place finisher could be first in one or more categories. More than forty variables were reflected across Corporate Taxes, Consumption Taxes, Property Taxes, Individual Taxes, and International Tax Rules. You mush together those five tax categories and voila, you have tax competitiveness.

The Tax Foundation calls it their International Tax Competitiveness Index (ITCI). They say it ranks the 34 OECD countries' tax systems and how each one encourages competitiveness. The study asks which countries provide the best tax environment for investment and to start and grow a business. Among other findings, the study says:

Estonia has the *most* competitive tax system in the OECD. It's corporate tax rate is 21%, and there's no double taxation on dividend income. Plus, there's a nearly flat 21% income tax rate, and property taxes only on land (not on buildings and structures).

France has the *least* competitive tax system. It has one of the highest corporate tax rates in the OECD at 34.4%, high property taxes including an annual wealth tax, and high, progressive individual taxes. The latter even applies to capital gains and dividend income.

The U.S. at 32 out of 34 nations didn't fare well, One big minus is our 35% corporate tax rate, the highest in the developed world. Not only that, but we are only one of six remaining countries in the OECD with a worldwide system of taxation. But for America, the hits just keep on coming.

The U.S. ranks poorly on property taxes given our estate tax, and our state and local property taxes. Individuals also face high personal tax rates topping out at 39.6% and the double taxation of capital gains and dividend income.

It's not a bad counterpoint to today's inversion discussion. Many global companies say America's tax system doesn't need a study to say what is wrong. High corporate tax rates and a global tax system make American unfriendly as a place for business. And it isn't just companies.

Individuals complain too. U.S. citizens and permanent residents must report their worldwide income. Americans living abroad and dual citizens are hit especially hard. Some are voting with their feet.

Perhaps it's bad enough that the U.S. tax system is 32nd out of 34 in the OECD. German economists Sara Keller and Deborah Schanz used their own tax ranking terminology in their study measuring tax attractiveness across countries. It ranked the U.S. 94th of 100 nations. We were right below Zimbabwe.

In their version of a tax beauty pageant, a kind of tax system swimsuit competition, we came out close to last. We aren't even Miss Congeniality.

Contact me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.