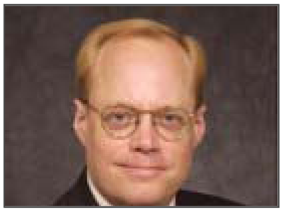
Forbes



Robert W. Wood

THE TAX LAWYER

TAXES 4/20/2014

U.S. Ranks 94th Of 100 Tax Systems; What Slovakia Could Teach IRS

Is our tax system competitive? Many global companies say no. Apple CEO Tim Cook lambasted the U.S. tax system in testimony before the Senate Permanent Investigation Subcommittee. Its report on Apple suggested tax avoidance, but Apple blamed our tax system. Many other companies are more aggressive than Apple. And they too say our tax system is at fault.

Individuals complain too. U.S. citizens and permanent residents must report their worldwide income, and that lands many in hot water. Americans living abroad and dual citizens are hit especially hard. Yet it's not our rates.

A recent report says single Americans pay 25 percent for income and social security-type taxes. That's lower than in many other high-income nations, The OECD says the U.S. ranks No. 25 out of the 34 developed nations. The U.S. average is a few points below the OECD, average of about 36 percent.

(Photo credit: Tax Credits)

But German economists Sara Keller and Deborah Schanz last year rated world tax systems, good, bad and ugly. Their Tax Attractiveness Index reflects the attractiveness of a country's tax environment and tax planning opportunities. Like a beauty pageant, their Tax Attractiveness Index covers 16 components of tax systems. See Measuring Tax Attractiveness Across Countries.

Tax rates, how dividends and capital gains are treated, withholding taxes, group tax regimes and more are considered. So are double tax treaties, thin capitalization rules, and controlled foreign company rules. Rather than achieving rankings via a Gestalt approach, the authors painstakingly quantified each tax factor.

The Tax Attractiveness Index embraces 100 countries and examines 2005 to 2009. By comparing the Tax Attractiveness Index with the statutory tax rate, the authors claim, they can show that even high tax countries can offer favorable tax conditions. There are many other factors besides rates.

How did the U.S. tax system stack up? 94th out of 100, just below Zimbabwe. Even Japan beat us, coming in at a rousing 92nd. On the brighter side, we might be mollified to know that we did beat a few. We beat Argentina and Venezuela.

And that ties in nicely to a recent story about the administration of the tax laws. Even in that department, our IRS might learn something from our overseas tax brethren. On the administrative front, harsh U.S. enforcement might take a page from the Slovak Republic's book.

As the New York Times reported, In Slovakia, Real Lottery Prize Goes to Tax Man, the government there cleverly enlisted average citizens to collect receipts from their purchases and register them with the government. It creates a paper trail for transactions and forces restaurant and shop owners to pay VAT. There are prizes for participating, and the government wins too via VAT receipts.

The Slovak Republic, incidentally, has a vastly higher ranked tax system than does the U.S. Of course, tax reform in the U.S. continues to be discussed, but no action seems likely in the near term. And while global businesses want to participate in the U.S. market, the number of U.S. companies keeping assets and income offshore is astounding.

Even individuals are impacted. Although the U.S. is still a magnet for immigrants, there are significant numbers of U.S. citizens and Green Card holders giving up their U.S. status. Taxes are usually not the motivator, but taxes usually do play a part in such decisions.

The U.S. requirement for worldwide tax reporting and asset disclosure, coupled with FATCA's harsh enforcement climate, makes some anxious to renounce. Big FATCA Wheel Keep On Turnin'.

You can reach 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.