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Engineering the Future

By reading hundreds of annual reports a year, I see many trends. One interesting trend is the globalization of revenue. Over the last few decades, US-based businesses have steadily grown their revenue overseas. In fact, the largest 500 US businesses now generate about half of their sales overseas.

The growth of overseas sales combined with US tax law has produced a peculiar situation. When a US business generates a profit overseas, it is first taxed by the country where the revenue was generated. When the business finally decides to bring the cash it has generated back to the US, the US government slaps it with a 35% tax.

CEOs are not stupid. When faced with the 35% repatriation tax, they decide to create factories and hire employees overseas. Furthermore, US businesses have been migrating headquarters to countries with lower corporate tax rates. As an example, a recent merger of a US and an Italian business placed the headquarters in England in order to minimize the combined businesses' tax rate.

In a world with easy travel and fast communications, taxation becomes yet another variable to tweak in order to optimize a business's profitability. Unfortunately, the incentives created by the current US tax law move economic and job growth from the US to countries with more favorable tax treatment. Future US economic and job growth is being engineered, either for the good or bad, by our tax law.

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