REVIEW & OUTLOOK
Obama's Corporate Exodus

Shhh. Please don't mention tax rates when moving to Ireland.

Updated June 18, 2014 12:26 a.m. ET

What kind of country does this to itself? With Medtronic's planned acquisition of Covidien and the announcement that the combined company will be domiciled in Ireland, U.S. tax policy has encouraged one more business to spend its money overseas. Medtronic, famous for its high-tech cardiac and spinal devices, will pay $42.9 billion for Dublin-based Covidien, which makes surgical tools and other medical supplies.

Medtronic is making a business case for the deal, promising to find at least $850 million in annual cost savings by 2018. Some analysts see a combined company that will have more leverage to defend prices when negotiating with consolidating hospital and physician groups. Medtronic adds that its technology, when combined with Covidien's overseas manufacturing, research and development assets, will give the combined firm an edge in emerging markets. Such markets also don't have the 3.8% [ObamaCare] tax on medical devices.

Perhaps learning from companies that have highlighted the tax benefits of moving offshore only to be ridiculed by the same politicians who created the incentives to move, Medtronic isn't talking much about taxes as it sells the deal to shareholders. What Medtronic is talking about are the promises it is making to U.S. politicians. The company pledges to continue investing in the U.S.—$10 billion over the next decade. And while its "principal executive offices" will be in Ireland, Medtronic says it will keep its "operational headquarters" in Minneapolis.

Over the last year or so Sen. Carl Levin's investigations subcommittee has been busy conducting show trials against companies that legally seek to minimize tax bills. So we understand if corporate officials have drawn the lesson that it's best not to discuss such topics in polite political company.

But shareholders of all companies—including employees who care about where economic growth will occur in the future—should know that America's federal corporate tax rate is 35%, which when combined with state and local levies rises to an average of nearly 40%. Ireland, where politicians evidently care about economic growth and as far as we know don't seek to stifle free speech on the topic, has a corporate tax rate of 12.5%.

Almost alone among civilized nations, Washington also demands to be paid on a company's world-wide earnings, rather than on money earned in the U.S. This tax is due whenever a company's overseas earnings are returned to America. Medtronic has about $14 billion overseas and rather than bringing it home and triggering the tax, the company will use the money to fund most of the cash portion of its $42.9 billion purchase.

After Monday's market close, Medtronic spokesman Rob Clark told us via email that "a benefit of the inversion structure is that it provides us access to the cash of Covidien" and its foreign-generated "free cash flow into the future. Being domiciled as an Irish company puts us into a territorial tax system that provides us the most
efficient access to our cash meaning that we achieve tremendous balance sheet flexibility to deploy that cash as necessary. In this case, we made it very clear that one use of this cash is to invest in U.S. based technology and innovation in the form of venture investment, acquisitions, R&D."

It seems that to have the cash to invest in U.S. businesses—as opposed to being forced to invest in the U.S. government—the company needs to move out of the U.S.

Ireland isn't the only place with a more competitive tax policy. The near-40% U.S. average rate is almost double the 21% average in the European Union, or the 22% in Asia, according to KPMG. As we noted recently, about the only place outside of captive Marxist countries with a higher corporate tax rate than the U.S. is the United Arab Emirates. But its top rate of 55% is generally applied only to foreign oil companies.

A big reason why the U.S. economy isn't growing as fast as it used to is that politicians not only don't want economic growth at the top of the agenda. They don't even want anyone to talk about it.