

I understand why CEOs of public corporations take advantage of every opportunity to condemn taxes. The lower the tax rate, the greater the after tax profit. The greater the after tax profit, the greater the share price. The greater the share price, the closer they come to or exceed "their number". You know, the number. The share price times the number of shares they effectively own when everything is awarded and vested. It is the number they need to be able to live the life they want to become accustomed to. After all, the ONLY reason you take the job as CEO of a company you were not a founder of is for the money. Period end of story. Lower taxes puts more money in your pocket. If you want an example of how corporate tax rates are important to CEO wealth, just look at how often public companies manage their effective tax rates to move their earnings per share numbers.

I can tell you with complete confidence that when a company's stock is moving, for whatever reason, the CEO (and most employees with a lot of effective stock ownership) is marking to market his/her holdings and calculating his net worth AT LEAST once a week if not more. Stock is up 10pct, big smile. Stock is down 10pct, don't let your dog near him/her.

So we know why every CEO claims that lower tax rates are critical. But does it really impact how their companies are run ?

1. Competition has a far greater impact on operating a business than the tax rate

Does the tax rate have anything to do with the business's ability to compete ? Some may argue that if the tax rate is lower, the company may have some more cash to compete with. But then so would the competition. So that argument doesn't hold up.

The reality is that most industries are a dog fight. You have competition and you crush your brain and those of everyone around you looking for ways to get an edge. If you find a way to better compete, you are going to leverage whatever resources you have available to you in order to do so. You are not going to look at your tax rate first. You are not going to avoid making a decision because your taxes are TOO DAMN HIGH. You are going to do what you can to compete. Taxes be damned. Rule #1 of business is to stay in business.

2. Companies hire because they need people to compete and keep customers happy, not because of lower tax rates

The same principle applies to hiring. It is incredibly expensive to hire people. You hire people because you need them. You don't hire them because your taxes are lower. You don't hire them because you just repatriated cash from a foreign country. You hire them because you have a specific need for them. They are going to help you become more profitable, more productive, more competitive, whatever the reason. No one hires people simply because they have some more cash in the bank.

3. Companies invest their cash because its strategic

I wonder if Amazon hesitated in developing and releasing the Fire because they were concerned about corporate tax rates ? I wonder if Dish looked at corporate tax rates before they determined the strategic value of buying spectrum. Think Apple looked at tax rates before it decided to open their stores ? Did McDonalds bring back McRibs because the tax rate was low enough ? Companies make strategic decisions every day. They invest because they want to grow the company. They invest because they are competitive and they want to win. They invest because they want to make more money. They don't invest because they just had their tax rates lowered.

4. The exception that proves the rule

Not all capital allocation is strategic. Some is purely financial. There are those that look to buy and invest in companies on purely a financial basis. These are the financial engineers. There is a place in the country for financial engineers. There is a place for those who invest in companies and try to make them more efficient and productive in hopes of getting a sufficient return on their investment either through the return of capital from the company or from the sale or IPO of a company. Nothing wrong with this. And every single financial engineer will also tell you that tax rates are important. The tax rate impacts their cash returns. While these guys may have big pockets to lobby for lower taxes, the reality is that they are a tiny, tiny percentage of companies and jobs. And trust me, they are not going to use lower taxes to increase employment. They are there merely to goose returns.

Bottomline is that while CEOs of public companies and financial engineers have good reasons to ask for lower taxes, I don't see lower taxes creating jobs. I am not suggesting that increasing taxes is a good thing for companies. That is a topic for another day.