Corporate Tax Reform: Big Questions for Congress

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Overview

While temporary, targeted corporate tax breaks have benefited U.S. businesses in recent years, policy experts argue that only long term reforms encourage long range investment and sustainable economic growth. Leaders from President Obama to Speaker Boehner have endorsed the idea of long term tax reforms that both lower the tax rate and eliminate costly tax loopholes. As Members of Congress consider advancing comprehensive tax reform, they will face three fundamental questions.

How much should we lower the corporate tax rate?

The United States' effective corporate tax rate—the rate businesses actually pay—corporate income tax rate is 27.1 percent, the sixth highest rate among industrialized countries. Although tax burden isn't the only consideration for a business making a major investment, in many cases it can be a deciding factor. As the U.S. looks to become more competitive, Congress is expected to aim for a cut larger than the one to two percent rate cuts enacted recently by a number of industrialized countries, including the United Kingdom, Canada, and Japan. In 2012, Republicans in Congress have endorsed a cut of at least 10%, and President Obama has proposed a seven percent cut.

How should we pay for lowering the tax rate?

The Congressional Research Service (CRS) estimates that a 10 percent reduction in the corporate tax rate would cost up to $1.5 trillion over ten years. Policymakers have generally agreed to offset the revenue lost in a rate cut by reducing or eliminating special provisions—usually referred to as "loopholes" or "tax expenditures"—that businesses use to reduce the taxes they owe. Of course, all loopholes are not created equal. Some tax deductions and credits are used by almost every business in America, and limiting them can raise large sums of money in both the short term and the long term. While closing these largest loopholes can offset large rate cuts, it could negatively impact companies who have traditionally used them to make ends meet and finance their efforts to expand their business.

Should we change to another type of tax system?

Today, the U.S. uses a hybrid corporate tax system based on a "worldwide" framework, which requires companies to pay taxes on what they earn in America as well as what they earn abroad. At the same time, the U.S. also allows companies to defer paying taxes on income earned abroad, until the company brings that money back into the U.S. (a process called "repatriation"). In an effort to avoid paying the high statutory rate, firms choose to hold their earnings overseas indefinitely to avoid paying the U.S. tax rate. Critics of this system have argued that a "territorial" system, in which companies don't pay tax on income earned outside U.S. borders, would simplify compliance, increase government revenues, and make American businesses more competitive. At the same time, such a significant transformation could create new incentives to shelter corporate income abroad.

Key Facts

- U.S. Corporate Tax Rate:
  - Statutory (2010): **39.2%**
  - Effective (2008): **27.1%**
- Recent Corporate Tax Rate Cuts:
  - UK: **-2.0%**
  - Canada: **-1.5%**
  - Japan: **-1.49%**
- Total US Corporation Foreign Profits Being Held Abroad: **$1.5 trillion**
- Company Profits Held Abroad (2011):
  - Microsoft: **$29 billion**
  - Google: **$17 billion**
  - Apple: **$12 billion**

Other Resources

- Congressional Research Service —
  - Corporate Tax Reform: Issues for Congress (RL34229)
  - Tax Reform: An Overview of Proposals in the 112th Congress (R41591)
- Congressional Budget Office (CBO) — Corporate Income Tax Rates: International Comparisons
- Brookings Institute — Obama's Proposed Minimum Tax on Foreign Earnings
- US Chamber of Commerce – Tax Reform
- Center for Budget & Policy Priorities — Six Tests for Corporate Tax Reform
- Center for American Progress Action Fund – Tax Reform & the US Manufacturing Sector

Links to Other Resources

- Congressional Research Service (CRS) — Corporate Tax Reform: Issues for Congress (RL34229)
  http://www.policyarchive.org/handle/10207/bitstreams/18686_Previous_Version_2007-10-31.pdf

- Congressional Research Service (CRS) — Tax Reform: An Overview of Proposals in the 112th Congress (R41591)
  http://www.nationalaglawcenter.org/assets/crs/R41591.pdf

- Congressional Budget Office (CBO) – Corporate Income Tax Rates: International Comparisons
  http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/69xx/doc6902/11-28-corporatetax.pdf

- Brookings Institute – Obama's Proposed Minimum Tax on Foreign Earnings
  http://www.brookings.edu/research/opinions/2012/02/20-foreign-earnings-pozen

- US Chamber of Commerce – Tax Reform
  http://www.uschamber.com/issues/econtax/tax-reform

- Center for Budget & Policy Priorities (CBPP) – Six Tests for Corporate Tax Reform
  http://www.cbpp.org/cms/index.cfm?fa=view&id=3411

- Center for American Progress Action Fund – Tax Reform & the US Manufacturing Sector
  http://www.americanprogressaction.org/issues/2012/07/boushey_manufacturing.html