



## ANALYSIS OF PRESIDENT OBAMA'S CORPORATE TAX REFORM PLAN

[President Obama's plan](#) would lower the overall corporate income tax rate from 35 percent to 28 percent and lower the effective corporate tax rate for manufacturers to 25 percent.<sup>1</sup> He wants to fund those lower rates by eliminating loopholes, including ones that encourage sending jobs overseas. He also proposes a minimum tax on corporate foreign earnings – almost like a Buffett Rule for multinational corporations. He has provided no details about how this proposal would work, what the tax rate would be or how much revenue it would raise.

The president also proposes using one-time revenue-raisers to support new “investments such as modernizing our infrastructure; creating new manufacturing hubs; and training our workers. ...” Although it is not clear in [the White House fact sheet](#), a recent story in [The Washington Post](#) suggests that the funding mechanism would be a temporary tax during the transition to a new business tax system on the \$2 trillion in U.S. corporate profits that are offshore and untaxed by the federal government until brought back home.<sup>2</sup>

ATF has four primary objections with the president's plan:

- 1) [In the long-term, the plan is revenue-neutral – savings from closing some corporate tax loopholes will benefit corporations in the form of lower tax rates and increased tax subsidies.](#) This means corporations overall will pay nothing to help strengthen the nation's fiscal standing. Instead, unless other revenue sources are agreed upon, deficit reduction will continue to take place entirely through deep cuts in government spending, further eroding programs that provide essential services to American families and create the infrastructure for a robust economy. The president has effectively accepted the Republican frame of the debate; he will accept cuts in numerous programs and services as long as taxes don't increase on America's most profitable corporations.

This [ATF fact sheet describes the tax plan outlined in the president's fiscal year 2014 budget](#). The president proposes raising \$398 billion from corporations over 10 years, but would give back that money to corporations through \$291 billion in tax cuts and other incentives and \$94 billion in lower corporate tax rates.<sup>3</sup>

ATF believes the first goal of tax reform should not be to lower corporate tax rates or increase corporate tax subsidies. Instead, it should be to raise revenues that deal with our long-term fiscal needs, help meet the pressing needs of American families, and make new investments to grow the economy and create jobs. To reduce the deficit, President Obama and Congress already have [cut \\$1.8 trillion in spending \(including interest\) and raised just](#)

[\\$620 billion in new tax revenues](#) on the wealthy.<sup>4</sup> That is \$3 in cuts for every \$1 in new revenue, an outcome neither balanced nor fair.

As the editors of the [New York Times](#) recently noted in their criticism of the president's corporate tax plan: "Yet what the nation needs, going forward, is more revenue — to care for the aged, improve education and infrastructure, develop clean energy and tackle the deficit. If corporate tax increases are off the table, those needs will go unmet or a disproportionate share of needed revenue will have to come from individual taxpayers."<sup>5</sup>

- 2) [The 28 percent corporate income tax rate the president proposes is neither practical nor achievable.](#) The Congressional Joint Committee on Taxation estimated in 2011 that reducing the corporate income tax rate from 35 percent to 28 percent would require [finding nearly \\$1 trillion over 10 years in additional revenue](#) by eliminating major corporate tax loopholes, which is unlikely to be achieved.<sup>6</sup> Making up for this loss would require elimination of major corporate tax loopholes like accelerated depreciation and the research and development tax credit, which also are unlikely to be achieved given the enormous power of the interest groups behind them. This sum is more than double the \$400 billion the president's 2014 budget proposed raising by closing corporate tax loopholes. Republican lawmakers have been silent about which loopholes they will close to raise revenue to pay for lower rates.
- 3) [The president's proposal to fund new investments by raising revenue during the transition period to a new corporate tax system by levying a tax on the \\$2 trillion in profits that U.S. companies have offshore could be a huge giveaway.](#) Currently, those profits are not taxed until they are "repatriated" to the United States. If the tax rate is set low during this transition, as it was during the repatriation tax holiday in 2004 at 5.25 percent and as [Rep. Camp has proposed](#),<sup>7</sup> it would result in a huge loss to the Treasury, according to the [Center on Budget and Policy Priorities](#).<sup>8</sup> As the [Economic Policy Institute noted](#): "Giving a tax break to multinational corporations that have moved jobs and profits offshore is a bad bargain. It may raise some revenue today, but it also encourages multinationals to engage in tax avoidance behavior in the expectation of getting another tax break in the future."<sup>9</sup>
- 4) [The president's rationale for reducing the corporate tax rate is exaggerated. In his recent announcement, the president accepts the Republican position that the corporate tax rate should be lowered from 35 percent to 28 percent in order to make the United States more "globally competitive." However, two recent analyses suggest that this argument is significantly overblown.](#)

The Congressional Research Service, the nonpartisan research branch serving the U.S. Congress, [states in a recent report](#) that the benefits of corporate tax cuts are modest, whereas the revenue costs of such cuts are extremely high:

"Because of the factors that constrain capital flows, estimates for a rate cut from 35% to 25% suggest a modest positive effect on wages and output: an

eventual one-time increase of less than two-tenths of 1% of output. Most of this output gain is not an increase in national income because returns to capital imported from abroad belong to foreigners and the returns to U.S. investment abroad that come back to the United States are already owned by U.S. firms. ... The revenue cost of such a rate cut is estimated at between \$1.2 trillion and \$1.5 trillion over the next 10 years.”<sup>10</sup>

In a separate study, the [Economic Policy Institute](#) concludes that the effective tax rates on U.S. corporations are not markedly different than the effective tax rates on corporations in other countries:

“Claims that the United States’ corporate tax rate is uniquely burdensome to U.S. business when compared with the corporate tax rates of its industrial peers are incorrect. While the United States has one of the highest statutory corporate income-tax rates among advanced countries, the effective corporate income-tax rate (27.7 percent) is quite close to the average of rich countries (27.2 percent, weighted by GDP).<sup>11</sup>

Moreover, EPI’s study reinforces the Congressional Research Service’s conclusions:

“Lowering the corporate income-tax rate would not spur economic growth. The analysis finds no evidence that high corporate tax rates have a negative impact on economic growth (i.e., it finds no evidence that changes in either the statutory corporate tax rate or the effective marginal tax rate on capital income are correlated with economic growth).”

<sup>1</sup> The White House, “FACT SHEET: A Better Bargain for the Middle Class: Jobs” (July 30, 2013). <http://www.whitehouse.gov/the-press-office/2013/07/30/fact-sheet-better-bargain-middle-class-jobs>

<sup>2</sup> The Washington Post, “This Weird Little Policy is the Key to Obama’s Grand Bargain on Jobs” (July 30, 2013). <http://www.washingtonpost.com/blogs/wonkblog/wp/2013/07/30/this-weird-little-policy-is-the-key-to-obamas-grand-bargain-on-jobs/>

<sup>3</sup> Americans for Tax Fairness, “President Obama’s 2014 Tax Revenue Plan” (April 2013). <http://www.americansfortaxfairness.org/files/ATF-Obamas-2014-Tax-Revenue-Plan1.doc>

<sup>4</sup> U.S. Senate Budget Committee, “Foundation for Growth: Restoring the Promise of American Opportunity” (March 2013), p. 2. [http://www.budget.senate.gov/democratic/index.cfm/files/serve?File\\_id=ee2613d9-cf20-402c-8a65-e1b670b21fa0](http://www.budget.senate.gov/democratic/index.cfm/files/serve?File_id=ee2613d9-cf20-402c-8a65-e1b670b21fa0)

<sup>5</sup> The New York Times, “Jobs and Taxes” (Aug 1, 2013). <http://www.nytimes.com/2013/08/02/opinion/jobs-and-taxes.html?smid=pl-share&r=0>

<sup>6</sup> Joint Committee on Taxation, “Revenue Estimates” (Oct 27, 2011), p. 7. <http://democrats.waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/media/pdf/112/JCTRevenueestimatesFinal.pdf>

<sup>7</sup> Bloomberg, “Obama Urges Business Tax Rewrite to Spur New Jobs” (July 30, 2013). <http://www.bloomberg.com/news/2013-07-30/obama-to-call-for-business-tax-rewrite-in-grand-bargain.html>

<sup>8</sup> Center on Budget and Policy Priorities, “Repatriation Tax Holiday Would Increase Deficits and Push Investment Overseas” (Oct. 12, 2011), pp. 4-6. <http://www.cbpp.org/cms/?fa=view&id=3593>

<sup>9</sup> Economic Policy Institute, “Does a Grand Bargain Have to Include a Bad Bargain?” (July 30, 2013). <http://www.epi.org/blog/grand-bargain-include-bad-bargain/>

<sup>10</sup> Congressional Research Service, “International Corporate Tax Rate Comparisons and Policy Implications” (Dec. 28, 2012), Summary page. <http://www.fas.org/sgp/crs/misc/R41743.pdf>

<sup>11</sup> Economic Policy Institute, “Corporate Tax Rates and Economic Growth Since 1947” (June 4, 2013). <http://www.epi.org/publication/ib364-corporate-tax-rates-and-economic-growth/>