AMERICANS FOR TaxFairness

# TAX CUTS FOR "INSOURCING" CORPORATIONS WOULD BE A COSTLY MISTAKE

The Trump Administration has floated the idea of cutting the corporate tax rate in half—from 21% to 10.5%—for companies that bring offshore production back to the U.S. This massive corporate tax cut would be a costly giveaway to the few corporations profiting during the pandemic. It would waste precious public revenue needed to respond to the coronavirus crisis, and make long-term investments in education, healthcare, and infrastructure even more difficult. If the U.S. is to have a strong economy, corporations and the wealthy who own most corporate stock must begin to pay their fair share of taxes.

- **Only profitable corporations pay taxes, so the firms most needing help would get no benefit from a tax cut.** Most corporations aren't earning profits right now and thus won't owe any tax. Faced with the steepest downturn since the Great Depression, American corporations will survive or fail based on the nature of their business, their skill at weathering the storm, and in some cases—like the airline industry—on receiving federal aid. Tax rates will play little or no role.

- **Recent history shows corporate tax cuts do not increase business investment, benefit workers, or "pay for themselves."** Supporters of the 2017 Trump-GOP tax law, which cut the corporate tax rate from 35% to 21% (and cut the rate even more for offshore profits), made exactly those claims. All proved false, even before the pandemic. Rather than climbing, business investment declined: After just one-quarter of modest growth in 2018 (rising from 8.4% at the end of 2017 to 8.8%), capital investment went negative during the last three quarters of 2019. Also, workers never received their promised $4,000 raise, and the federal deficit kept climbing upward, in large part due to the corporate tax cut.

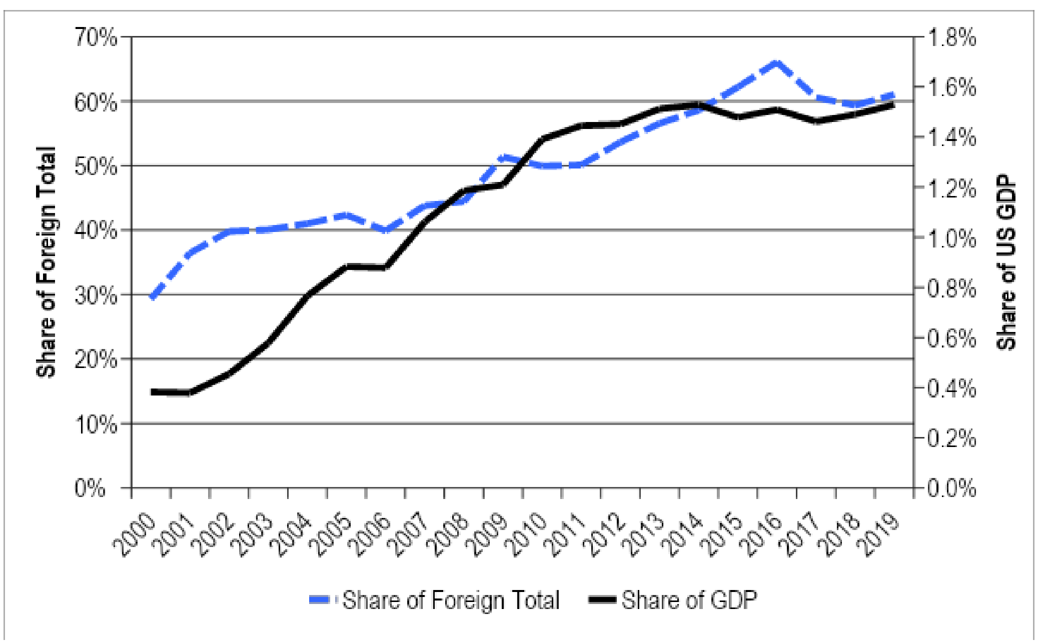
- **The country can't afford another big tax cut for profitable corporations, all of which got a 40% rate reduction just two years ago—one-third of which benefited foreigners who own that share of U.S. stock.** Despite near-record profits and stock prices, Corporate America successfully lobbied for the huge rate cut that is the centerpiece of the 2017 tax law. And many U.S. corporations are only paying half that 21% rate on their offshore profits, while still avoiding U.S. taxes on the bulk of their offshore income. In 2018 and 2019, U.S. corporations paid only about 1% of GDP in taxes, about one-third the corporate tax revenue of peer nations. OMB figures show that corporate income taxes comprised just 6.6% of all federal receipts in 2019, less than half their 14.7% share in 2006. In that same time period, the gap between revenue collected and federal spending has grown considerably—in 2006 federal revenue was 17.6% of GDP and spending was 19.5%, but in 2019 revenue was 16.3% of GDP and spending was 21%. A nation can't be great by starving its public sector of the resources needed to create an economy that works for everyone.

- **Slashing corporate tax rates now risks reigniting a trade war with our European allies.** France and the U.S. are already in a tenuous tax and trade policy stand-off as France has passed a law that will tax large U.S. multinationals on their digital revenues, and the administration has threatened to slap France with tariffs if the law is implemented. Tensions are temporarily in check as the U.S., France, and other countries seek to strike a multilateral deal this year on digital taxes as well as a global minimum tax (which will likely be higher than 10.5%). Providing tax incentives to move jobs from Europe to the U.S. could undermine the negotiations, jeopardize international cooperation, and result in a trade war.

- **The answer to outsourcing is to take away the tax incentives to go offshore, not to turn the U.S. into a corporate tax haven by reducing tax rates even further.** The 2017 tax law directly encourages companies to shift profits offshore by exempting some types of foreign income from U.S. tax, and taxing other foreign income at only half the U.S. rate. The law also invites corporations to move not only paper profits but actual production and jobs to foreign nations, because firms get tax breaks the more assets—such as plants and equipment—the firms have offshore. Promises that the law would reduce offshore profit shifting proved hollow (see figure below). The Congressional Budget Office projects that the 2017 tax law is only reducing profit shifting by about 20%—by $65 billion out of a total of $300 billion a year (p. 127). For more details see this explanation from the Institute on Taxation and Economic Policy.

  Close these loopholes and corporations will have strong incentives to bring production home. That is what the "No Tax Breaks for Outsourcing Act" before the House and Senate would do; the House bill authored by Rep. Lloyd Doggett already has 112 cosponsors.

**Share of U.S. Multinational Corporations Foreign Income in Seven Big Tax Havens, 2000-2019**




Source: Kimberly A. Clausing, Fixing Five Flaws of the Tax Cuts and Jobs Act, June 13, 2019.
Data are from the U.S. Bureau of Economic Analysis. Data for 2019 are based on the first three quarters of data scaled by (4/3). The big seven tax havens are: Bermuda, the Caymans, Ireland, Luxembourg, the Netherlands, Singapore, and Switzerland.