CTJ

Citizens for Tax Justice

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Bush Administration Gets It Half Right on Corporate Tax Reform

After years of promoting or ignoring corporate loopholes and tax sheltering, President Bush announced yesterday that his administration has suddenly discovered that these corporate tax dodges are a drag on our economy. But while the President is right to call for closing corporate tax loopholes, he's wrong to suggest using all the resulting additional revenues to pay for a cut in the corporate tax rate.

Effective Corporate Tax Rate Relatively Low

On July 23, the Treasury Department released a report that suggested closing a wide array of corporate loopholes, including the research and development credit, the deduction for manufacturing (often called the Section 199 deduction) and deferral of taxes on foreign income. The report noted that our nominal federal and state corporate tax rate is similar to that of our major trading partners (39% in the U.S. versus 36% on average for the G7 countries). However, the report explains that because of all our special corporate tax breaks, our *effective* corporate tax rate is among the lowest in the developed world.

Corporate tax revenue data demonstrate this point. In 2005, the most recent year for which data are available, U.S. corporate tax revenue as a share of GDP was only 2.6 percent, lower than in all but two developed countries.

Facing Major Fiscal Problems, the United States Should Close Loopholes to Raise Revenue

Rather than lowering the corporate tax rate, we should be addressing the ongoing shortfall in federal revenues that threatens to affect public services and our economic future. Despite the President's claim that we can extend his tax breaks and still balance the budget within five years, there is no way we can avoid massive cuts in public spending on things like defense, health care, education and Social Security if we do not deal with our revenue problem.

Even the seemingly good news this week that the budget deficit is set to be "lower than expected" was highly misleading and overly optimistic. The Congressional Budget Office stated that the budget deficit could be "only" around $150 billion this year, but this excludes the billions of dollars being borrowed from Social Security, and which must be paid back as baby boomers retire and start receiving benefits in large numbers.

Tax Simplification Would Benefit America; Refusing to Return to Responsible Fiscal Policies Will Not

Simplifying the corporate tax could benefit our economy by ending the loopholes that distort investment decisions by shifting resources towards tax-favored investments and away from ones that are sound on their own merits. But continuing to ignore our fiscal problems will consign us to a future of paying ever higher interest payments on the national debt and eventually being forced to cut essential public services that all Americans rely on. The revenue raised from corporate tax reform should be used to reduce federal borrowing, not cut the corporate tax rate.