The Daily Dish

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The majority staff of the Senate Energy and Natural Works Committee have released a white paper advising other nations on how the U.S. can export crude oil without a change in current law. The Obama Administration can approve exports on an individual basis to certain countries. According to the paper, "Exempting certain countries on a case-by-case basis, as the statutes and regulations currently allow, would be a partial and helpful step toward the modernization of U.S. energy policy."

New economic indicators by the Organization for Economic Cooperation and Development show that the U.S. economy may not be rebounding as strong as the administration claims. The economy's poor start to the year, contracting by 0.7 percent, and other factors have lead the OECD to project just 2 percent growth for the U.S. this year. Its main indicator has fallen each of the first four months, now to the point where the U.S. is expected to grow below it's trend line.

Eakinomics: Radical Tax Reform — Abolish the Corporate Tax

Let's review the bill of indictments against the U.S. corporation income tax:

(1) It is a special tax on equity (not debt, since interest payments are deductible) investments made in C corporations. No such tax is paid on equity investments in S corporations or pass-thru entities (partnerships, limited liability corporations, etc.) even if they employ, produce, and sell exactly the same way. Why discriminate against C corporations?

(2) It raises the overall tax on investment, especially at a time when the U.S. has poor productivity growth and a diminished growth outlook.

(3) It distorts financial decisions. Firms have an incentive to overuse debt as interest is deductible. International firms have a incentive to keep earnings locked out of America because taxes are due upon repatriation.

(4) Its rate is much too high. At 35 percent, the rate is well above competitor countries, making it hard for U.S. corporations to be competitive.

(5) It is increasingly hurting the average worker. Corporations don't really pay the tax in deep economic terms. Sure, they send in the check but the money for the tax bill comes from higher prices, lower dividends and other returns to shareholders, or reduced hiring, pay and benefits. In a global economy, it is hard to push prices up or pay shareholders less than competitors. Instead, the demise (or failure to create) of good jobs is the chief impact of the tax.

(6) It raises only $320 billion annually, roughly 10 percent of federal revenues.

So, rather than the recent focus on tax reform as a route to better economic performance, why not get rid of it entirely? The first impact would be a much stronger economy, with one estimate indicating that the domestic capital stock would increase from 23 percent to 37 percent, real wages would rise 12-13 percent, and GDP would rise 8-10 percent. A side benefit would be increased federal revenues that would offset as much as one-third of the revenue loss.

But who would be paying those taxes? Individuals. When an individual received a dividend check — their share of corporate profits — it would be taxable. When he or she got a corporate interest payment, it would be taxable. If they were taxed at ordinary income tax rates, this would be treatment identical to the pass-thru entities. Investment would flow to firms based on economic merit; not the tax system. Corporations would have no reason to manipulate their borrowing or leverage for tax purposes. They would have no reason to keep earnings out of the United States; funds could support domestic hiring and investment.

The major policy concern that would remain is that corporations would have an incentive to retain earnings. Building up cash stockpiles would raise share values, but shareholders would pay capital gain taxes only when they sell their shares. Taken at face value, this would lock funds inside firms. There is a limit to this however, as there would be a clear incentive to merge or buy with firms using cash inefficiently and thereby shift the funds to a more productive use in the economy. A secondary concern is that it would eliminate the ability to use the corporate tax system for other policy objectives; e.g., using the research and development tax credit to spur innovation.

How would the politics play? Simply announcing "no more taxes for big corporations" would likely be demagogued to death. But pairing the elimination of the corporate tax with taxation of dividends and interest as ordinary income could reduce the cheap attacks. The key to success would be to make clear that the tax is damaging middle America and its needs are paramount in this era.

Getting rid of the corporation income tax is good policy. Has the time come for this to also be good politics?

From the Forum

Micromanaged Care: The CMS Medicaid Rule by Tara O'Neill, AAF Health Care Policy Analyst

A Return to User-Pays by Gordon Gray, AAF Director of Fiscal Policy