The Daily Dish

# Tax Hikes Versus Tax Policy

DOUGLAS HOLTZ-EAKIN | APRIL 12, 2021

**Eakinomics: Tax Hikes Versus Tax Policy**

As is now well understood, the Biden Administration is dead set on raising taxes on U.S. corporations. Usually this is explained by the need to pay for its pricey "infrastructure" proposals, but there are days when it appears simply punitive (similar to the sentiment behind Senators Sanders and Warren's confiscatory wealth destruction taxes). According to Gordon Gray, the tax proposals will raise roughly $1.8 trillion over the next 10 years.

Now, if one were to follow the tenets of efficient tax policy, one would seek to raise this sum first by broadening the base and raising rates only as a last resort – and at all moments keeping an eye on U.S. tax competitiveness. This is hardly the approach. Gray points out that the top two revenue-raisers are to raise the corporate rate from 21 percent to 28 percent and to impose a minimum tax of 21 percent on all global income.

Recall that in the years prior to the Tax Cuts and Jobs Act (TCJA), the United States had the highest corporate tax rate in the developed world and clung to taxing global income, but only when repatriated to the United States. Recall that those years were also characterized by the absence of repatriation, accumulation of U.S. profits overseas, annual exits of U.S.-headquartered companies in favor of relocating in more amenable tax climates, and pitched political battles about the "Benedict Arnold" firms. Raising the corporate rate to 28 percent with a 21 percent global minimum tax is a recipe to return to the worst aspects of those years.

But it gets worse. The TCJA also had a tax preference for income earned from intellectual property (IP), as long as the IP was kept in the United States. The Biden proposal ignores the reality that such capital is mobile. One can foresee the firms and their innovation heading over the horizon.

Fear not, however. The Biden folks have a plan. First, if a firm rationally evaluates the plan of inefficient taxes and faux infrastructure spending, and chooses to leave, they propose to simply disallow their move! As a final backstop, Secretary Yellen has announced her desire to have other countries make themselves less attractive by joining the United States in self-destructive taxation.

All in all, a highly punitive and not-very-pretty tax picture. But, and this is the key point, who really suffers? Rest assured it will not be U.S. global corporations. Every dollar of those taxes will be raised by increasing prices, cutting back on raises and benefits, and reducing dividends to pension plans and other shareholders. That is America's middle-class square in the crosshairs.