

Let's Cut the Corporate Income Tax

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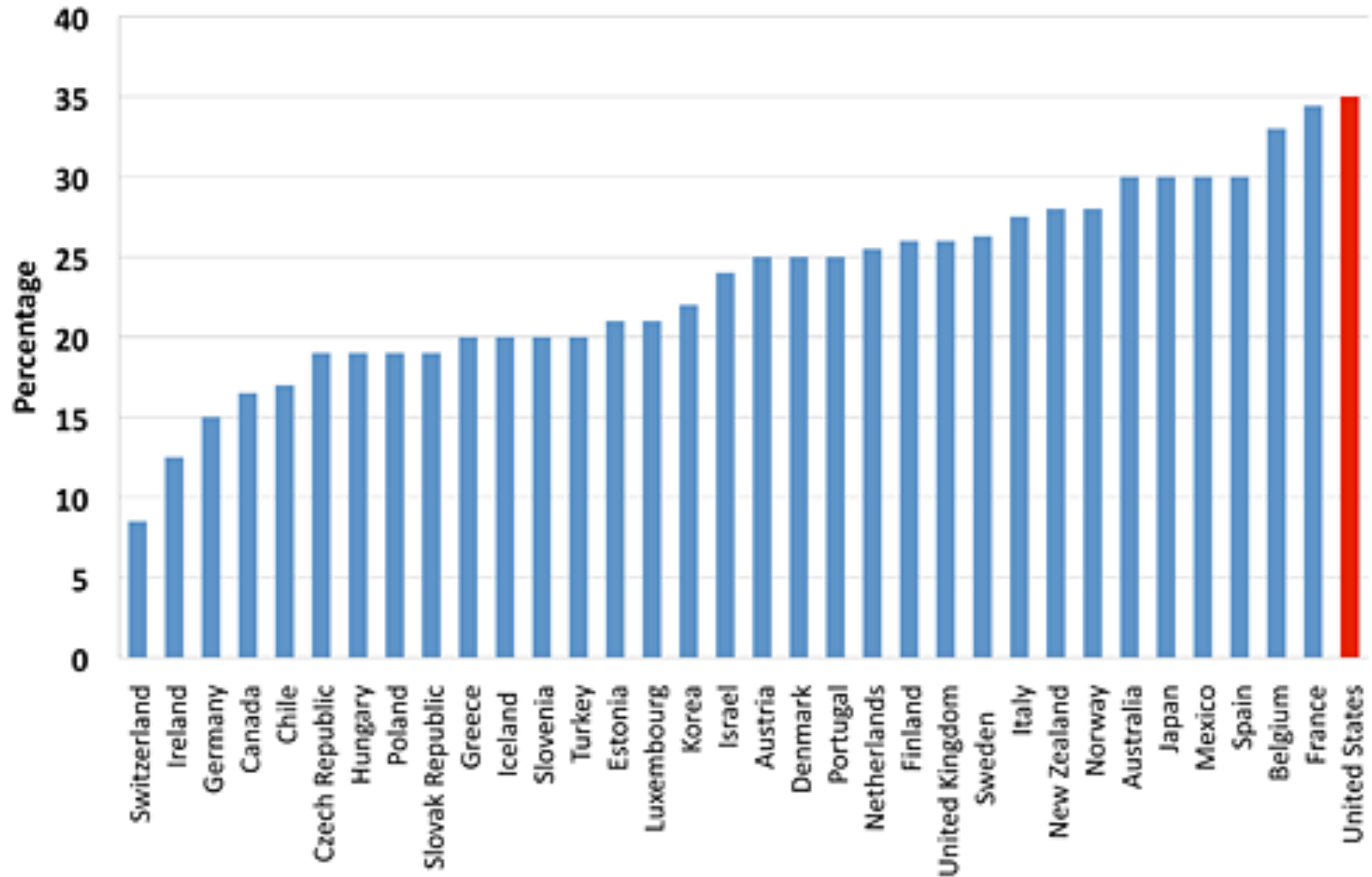
Roadmap

- Background (Charts Galore!)
- Pros
 - International Advantages
 - Domestic Fairness and Transparency
 - Domestic Efficiency Gains
 - Bipartisan Support
- Cons
 - See If We Have Time

U.S. CIT in Context

- Are We A High-CIT Country?
 - The Case That We Are

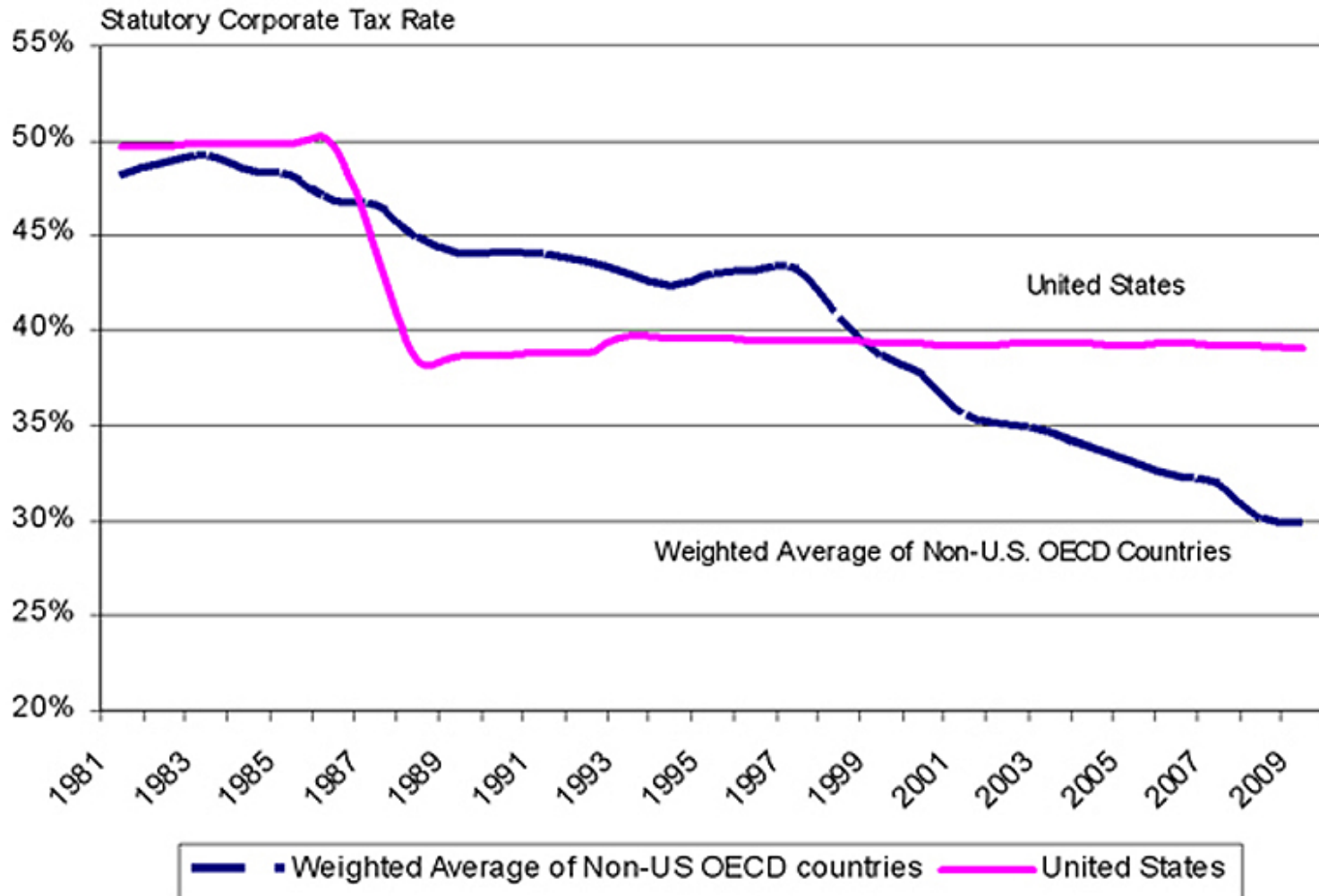
OECD Statutory CIT Rates



Source : 2011 OECD Tax Database

Produced by: Veronique de Rugy, Mercatus Center at George Mason University

Statutory CIT Rates



Statutory CIT Rates

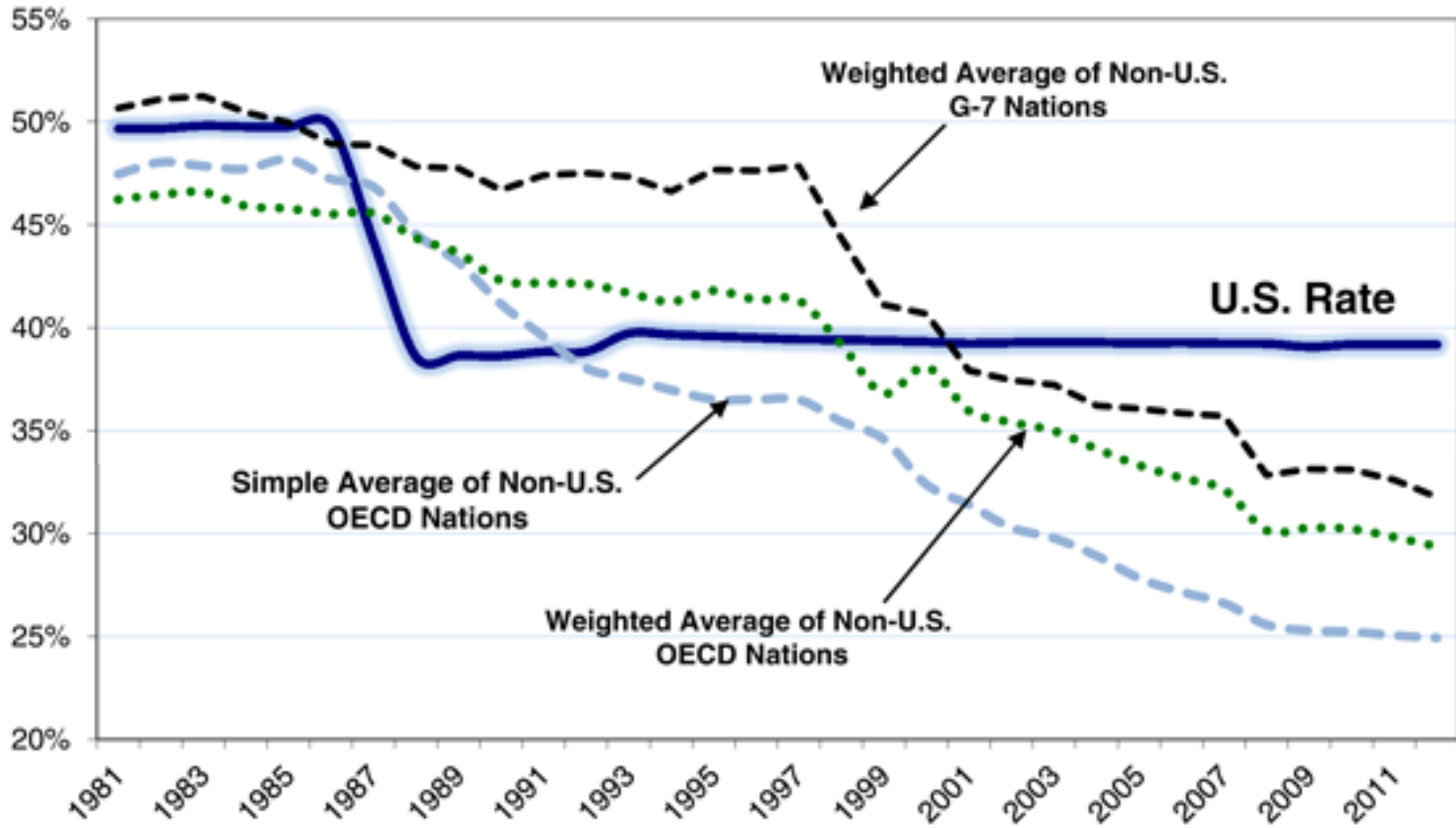
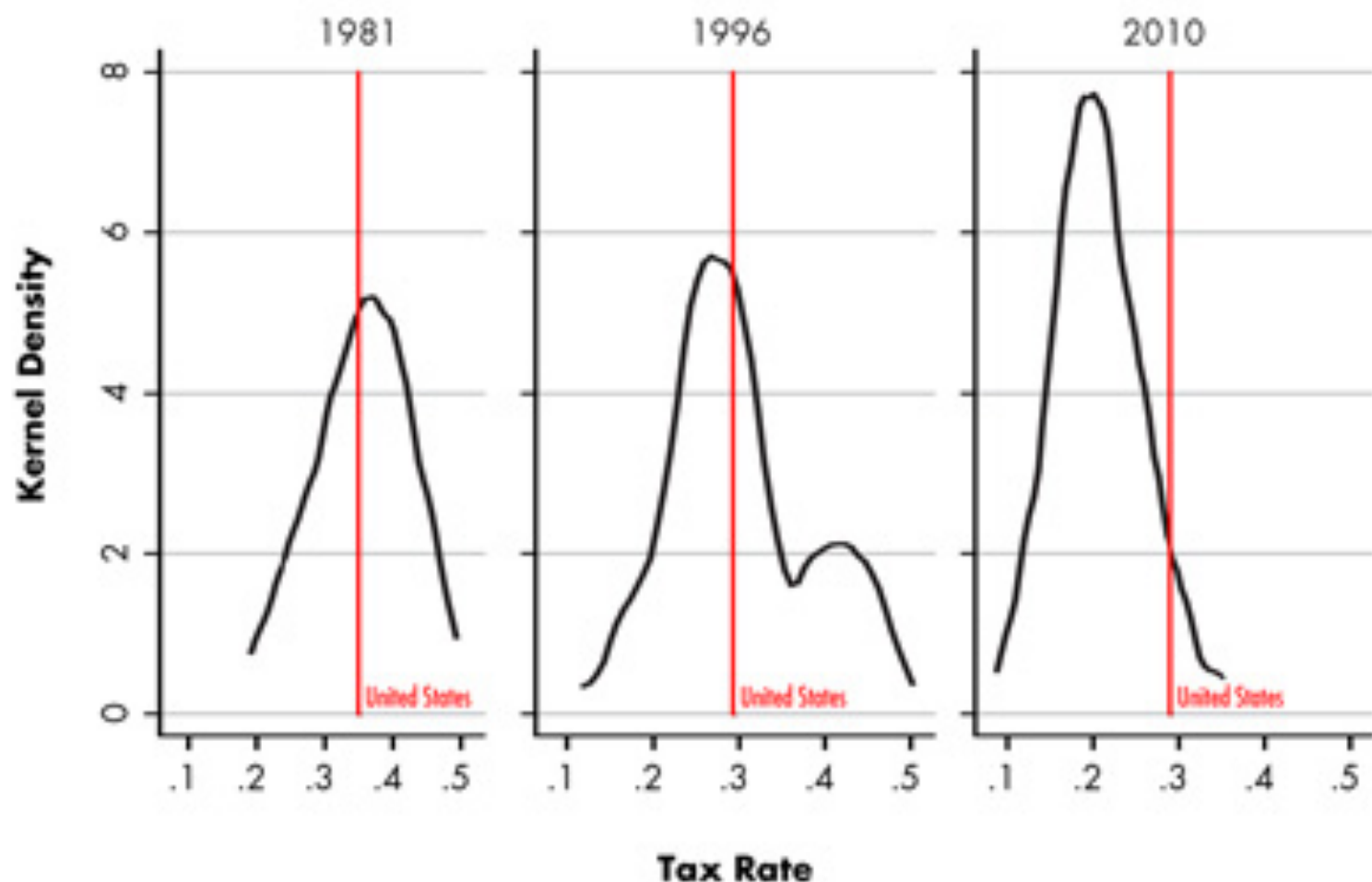


FIGURE 3
DISTRIBUTION OF EFFECTIVE AVERAGE CORPORATE
TAX RATES IN THE OECD



SOURCE: AEI International Tax Database and authors' calculations.

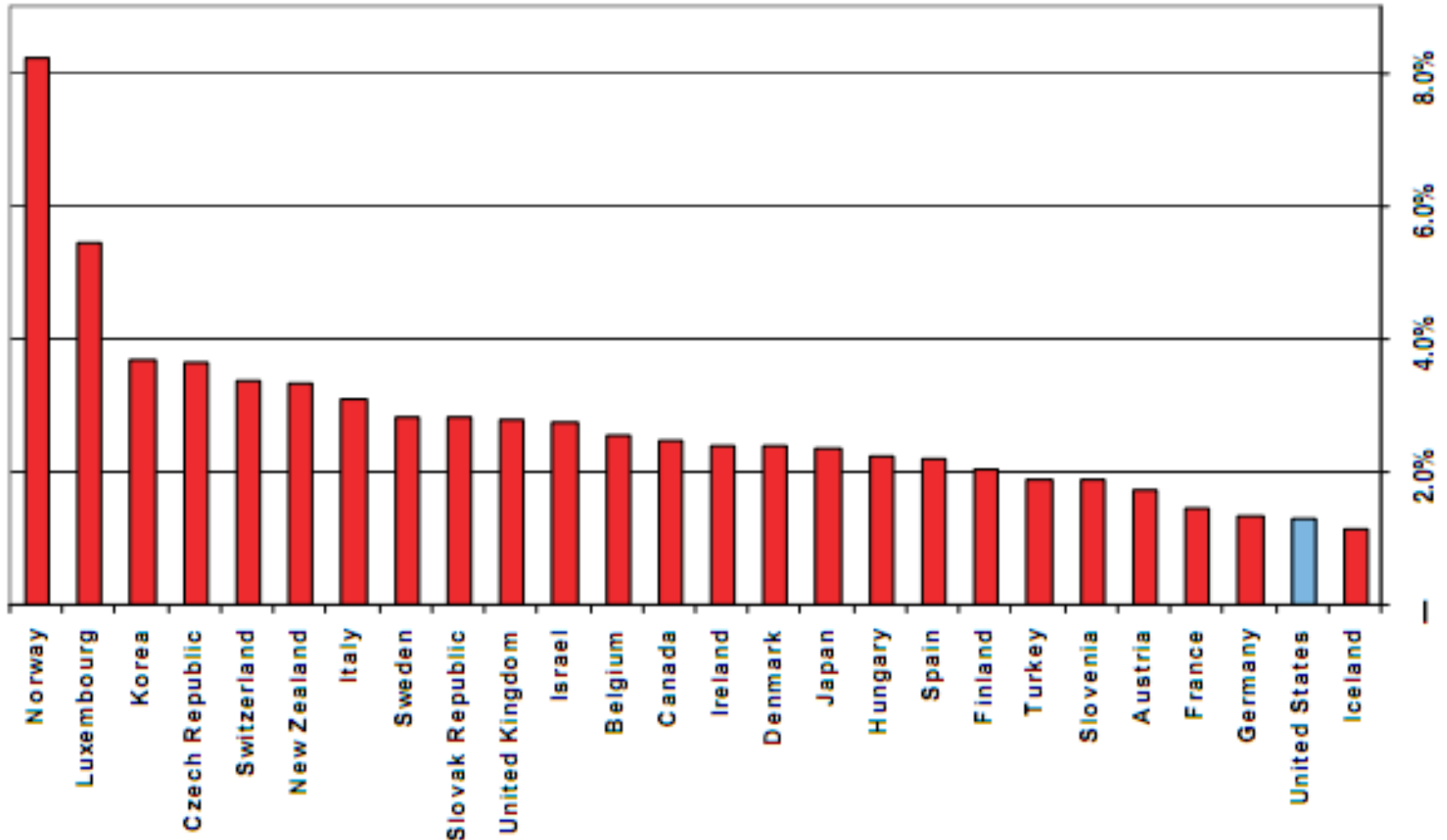
A Base Comparison

- Many OECD Countries Are Territorial
 - No Tax on Foreign Income
 - Many Recent
 - Japan (2009)
 - United Kingdom (2009)
 - Poland (2007)
 - Turkey (2005)
 - Norway (2004)
- Any U.S. Tax Is a Disadvantage

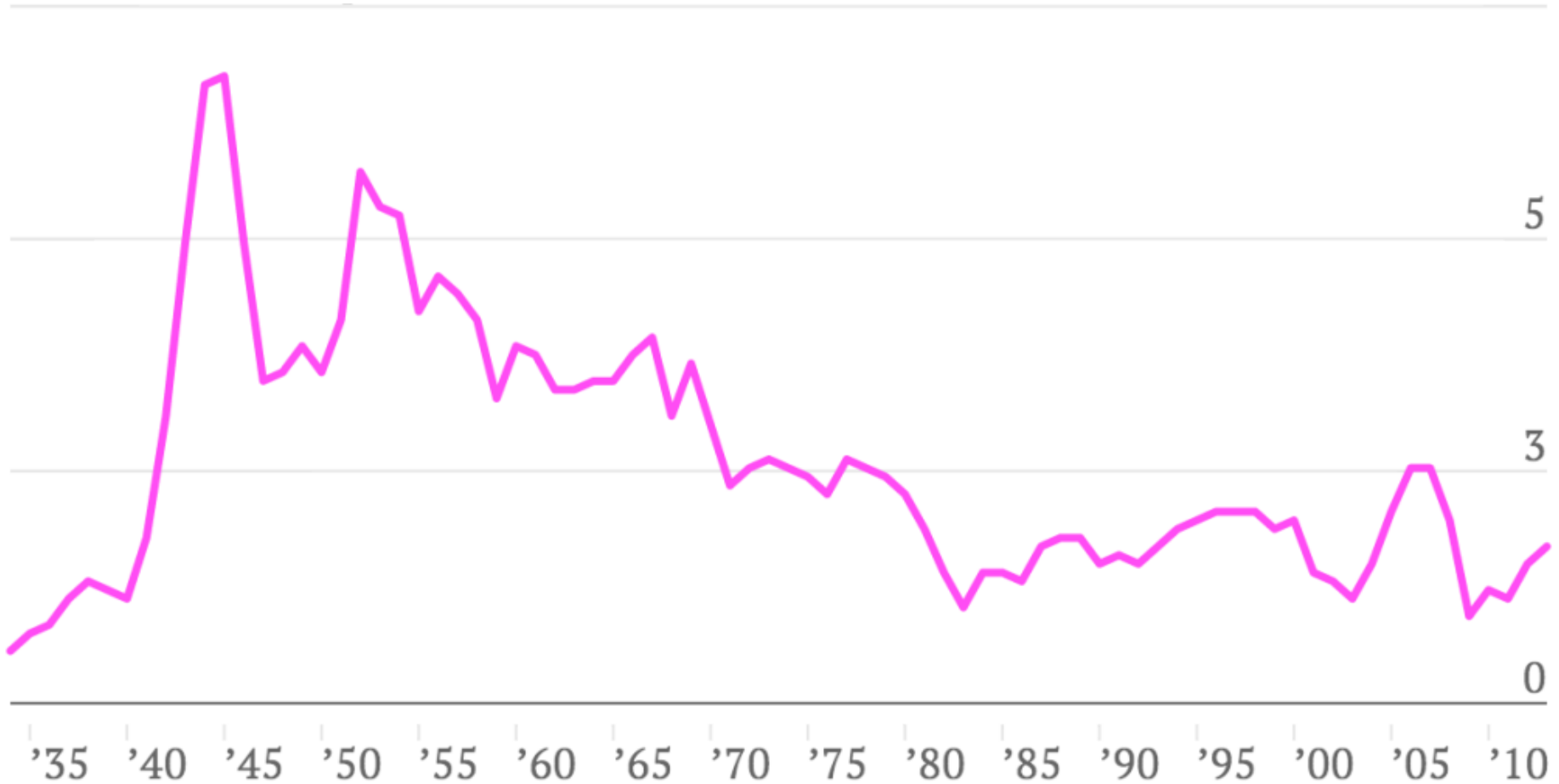
U.S. CIT in Context

- Are We A High-CIT Country?
 - Point: Of Course We Are!
 - Counterpoint: No, Definitely Not!

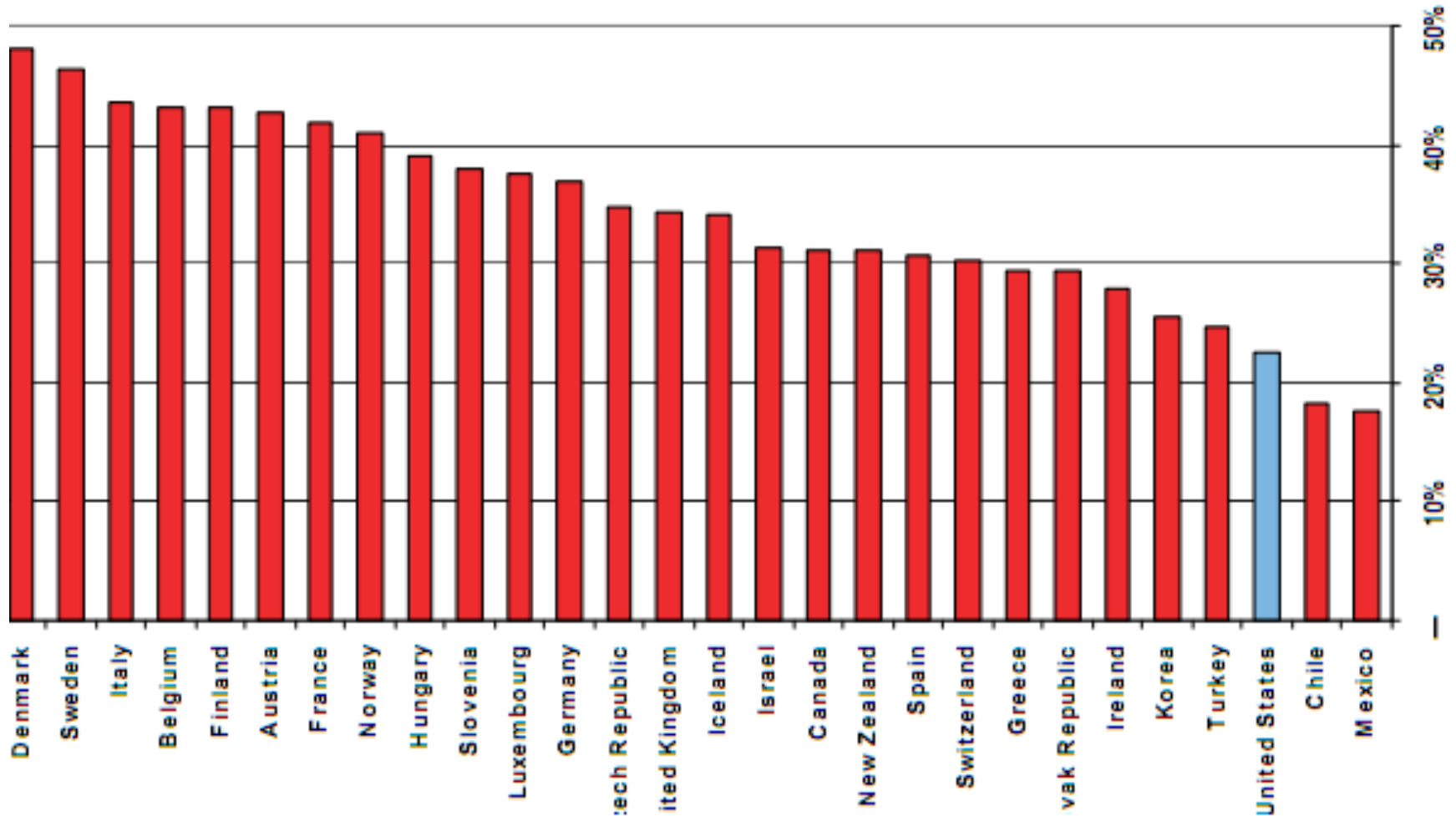
2009 CIT Revenues As A Percentage of GDP



Revenue from CIT As Percentage of U.S. GDP



2009 Total Tax Revenues As A Percentage of GDP

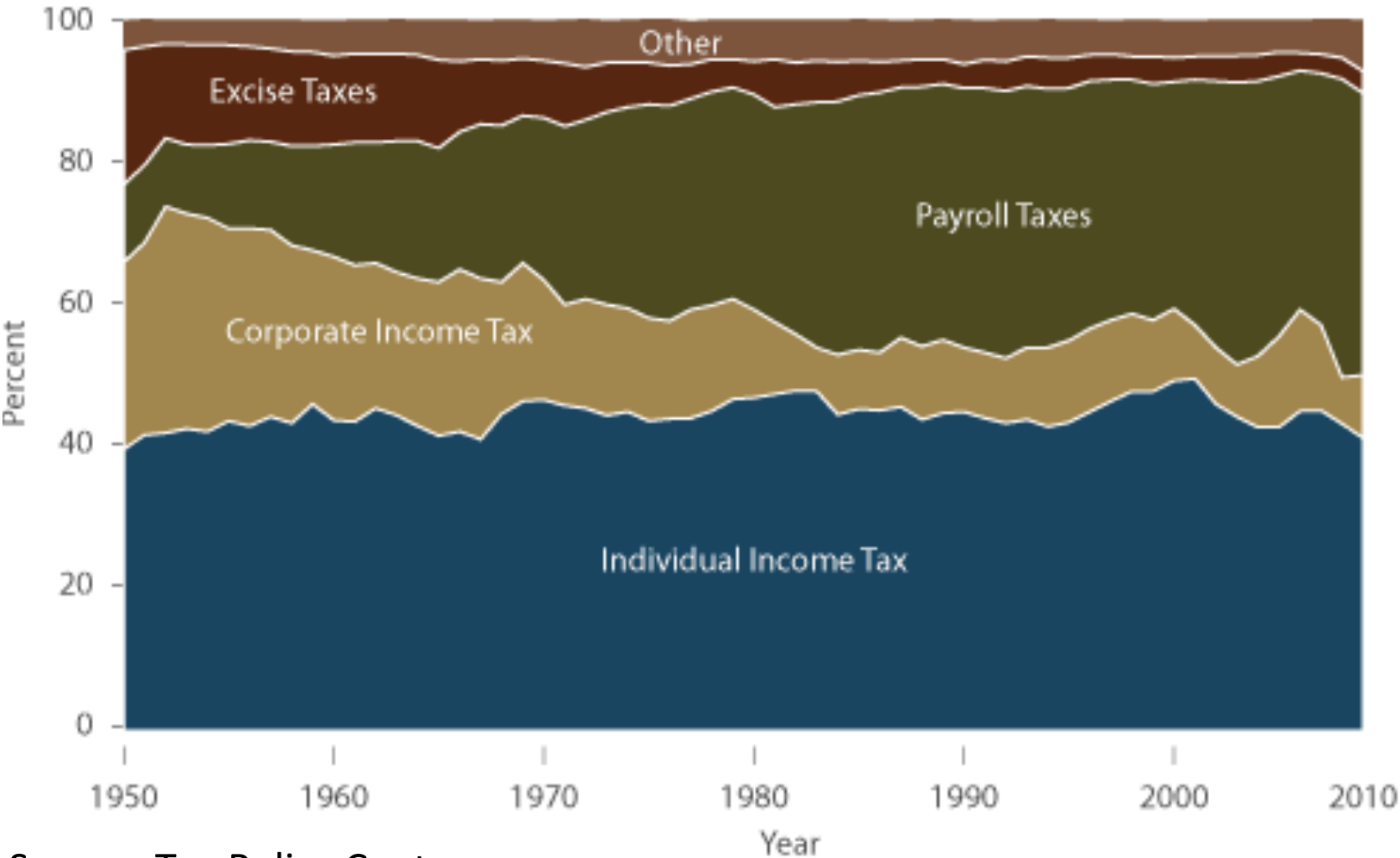


Federal Revenues by Tax, FY 2010



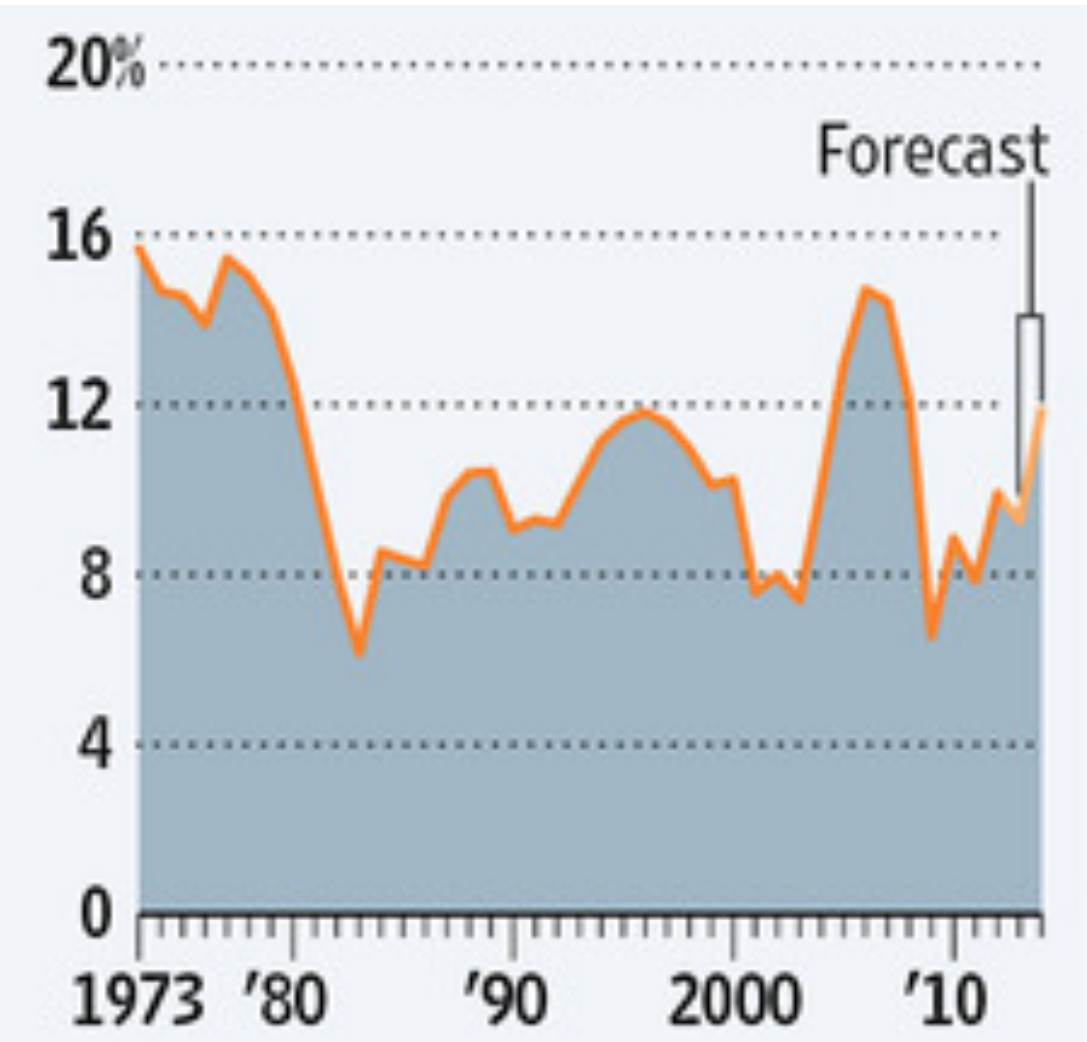
Source: Tax Policy Center

Federal Revenues by Tax, 1950-2010



Source: Tax Policy Center

CIT As Percentage of Federal Revenue

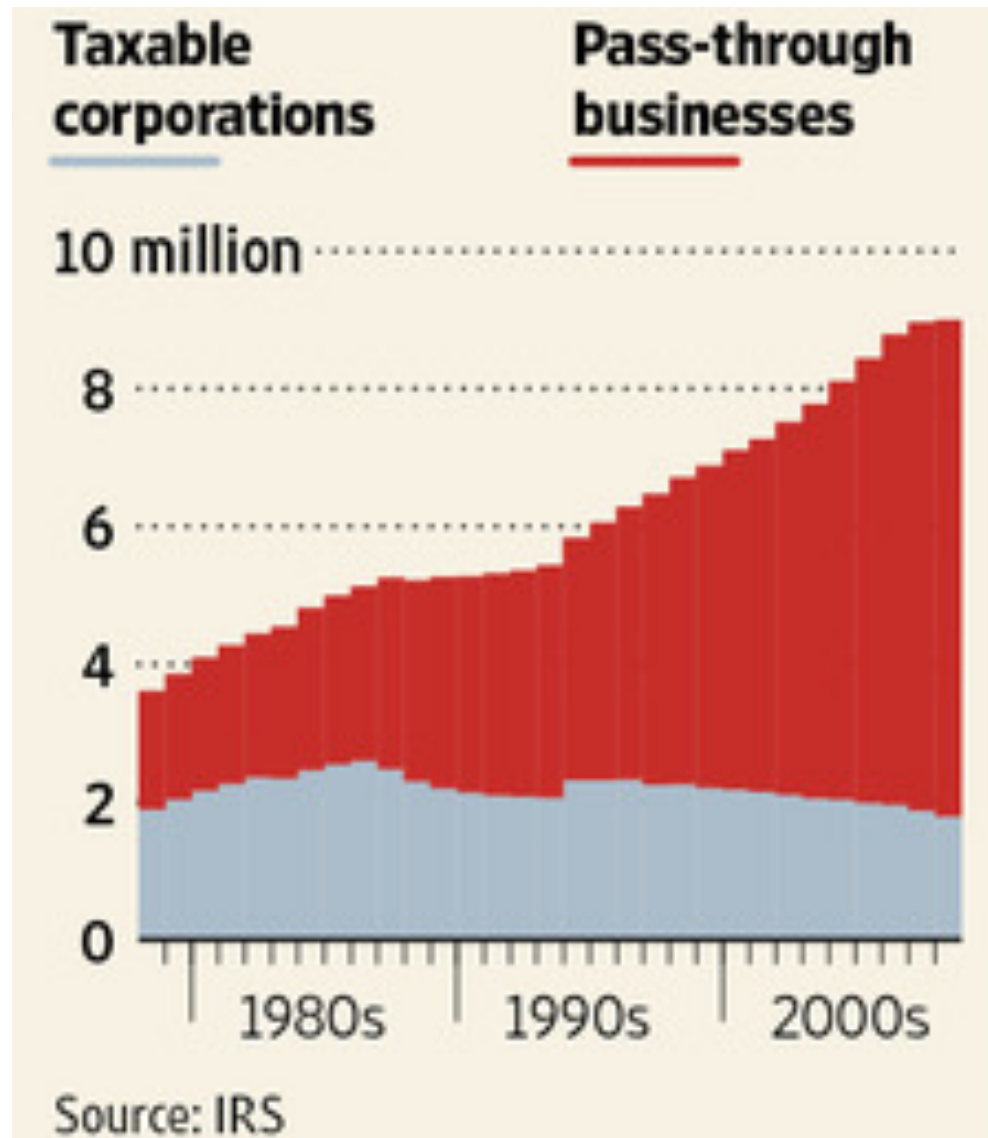


Sources: Congressional Budget Office; Office of Management and Budget
The Wall Street Journal

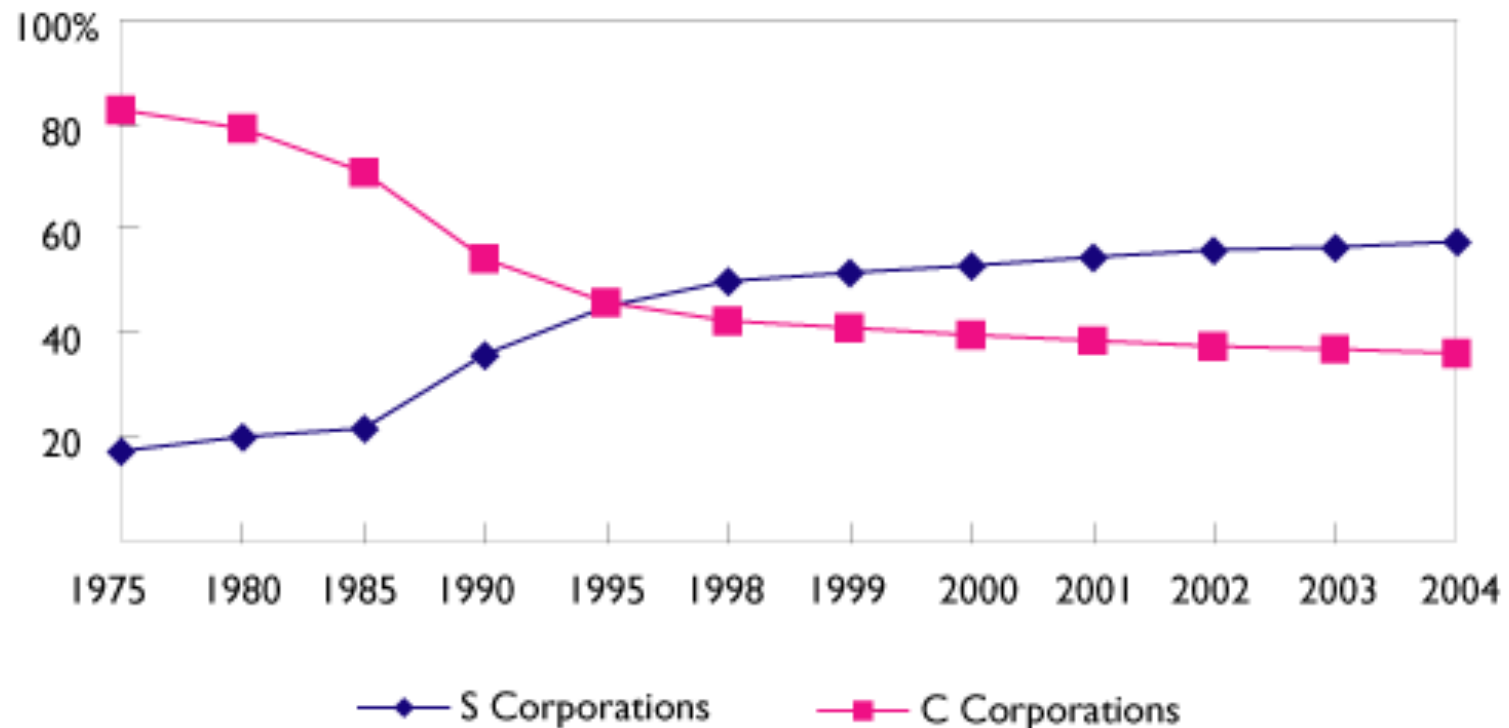
Why the Disparity?

- Larger Pass-Through Sector
- Corporate Tax Breaks
- No VAT

Number of Tax Returns Filed



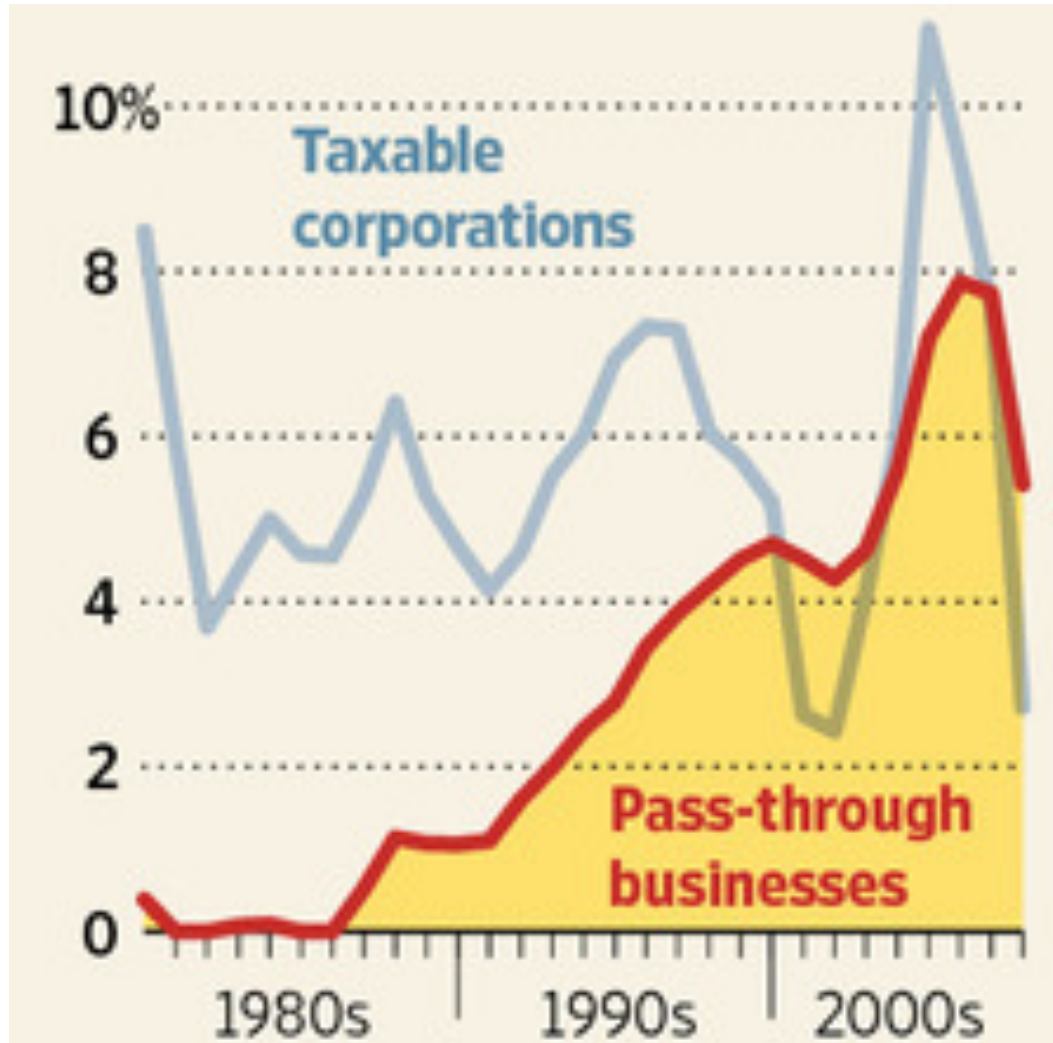
S and C Corp Returns As Percentage of Total “Corporate” Returns



Note: The IRS classifies returns from C and S corporations as “corporate” returns and returns from other types of pass-through entities as “non-corporate” returns. Tax years 2003 and 2004 are IRS projections.

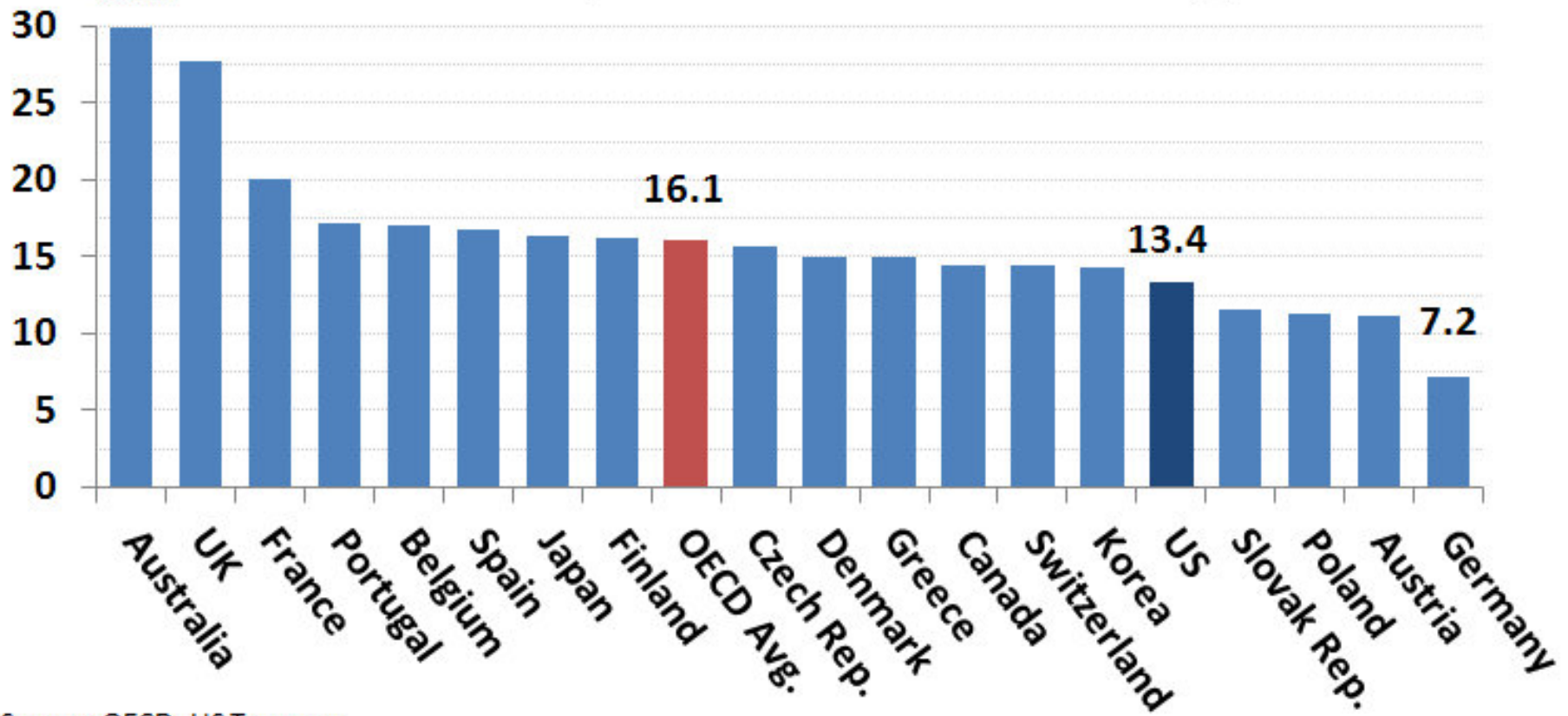
Source: Internal Revenue Service, *Statistics of Income Bulletin*, Winter 2004, Historical Tables and Appendix, Table 22, at www.irs.gov/pub/irs-soi/04al22sr.xls (November 12, 2004).

Net Income As a Percentage of GDP



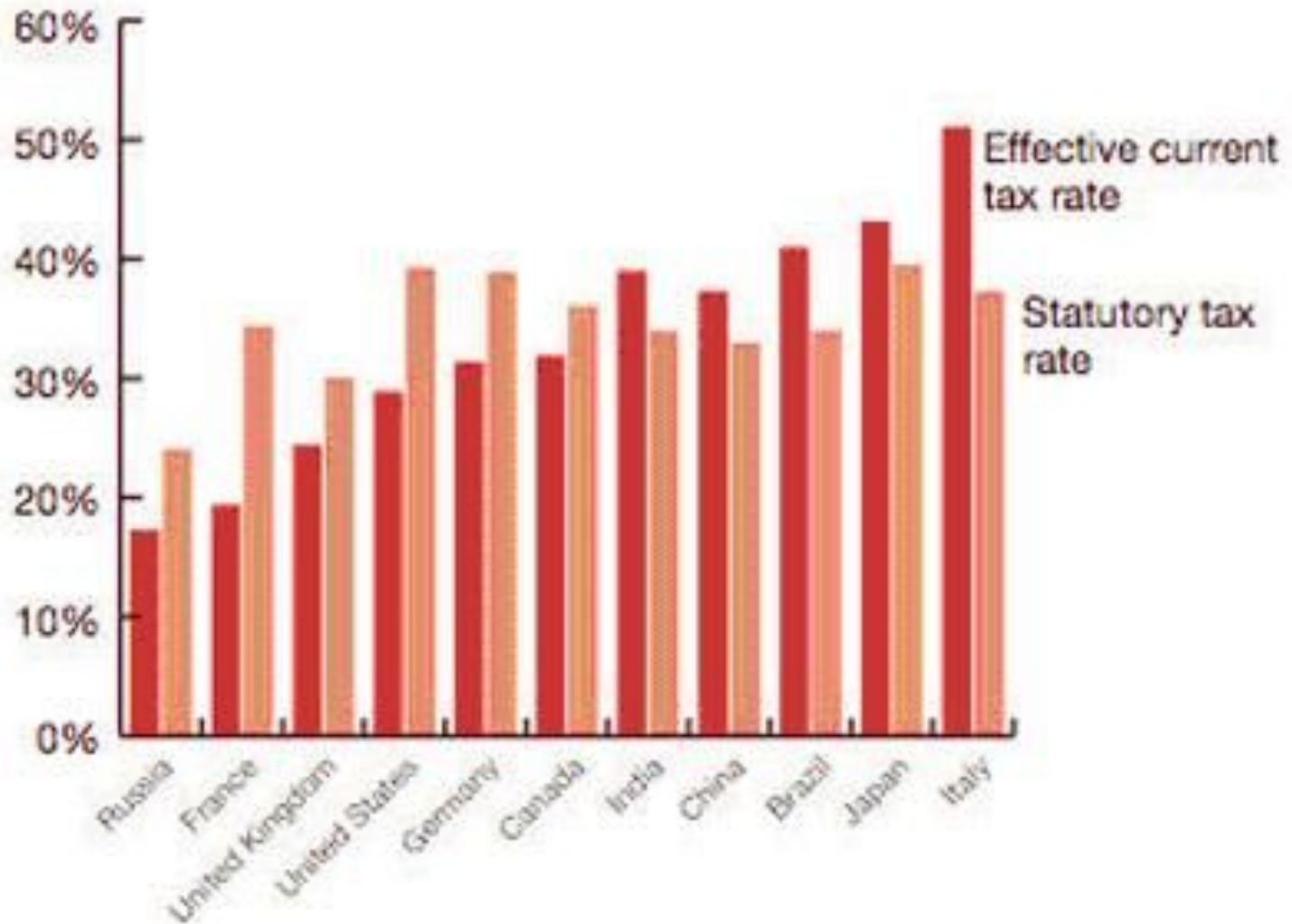
Source: IRS

Effective CIT Rates, 2000-2005 Average



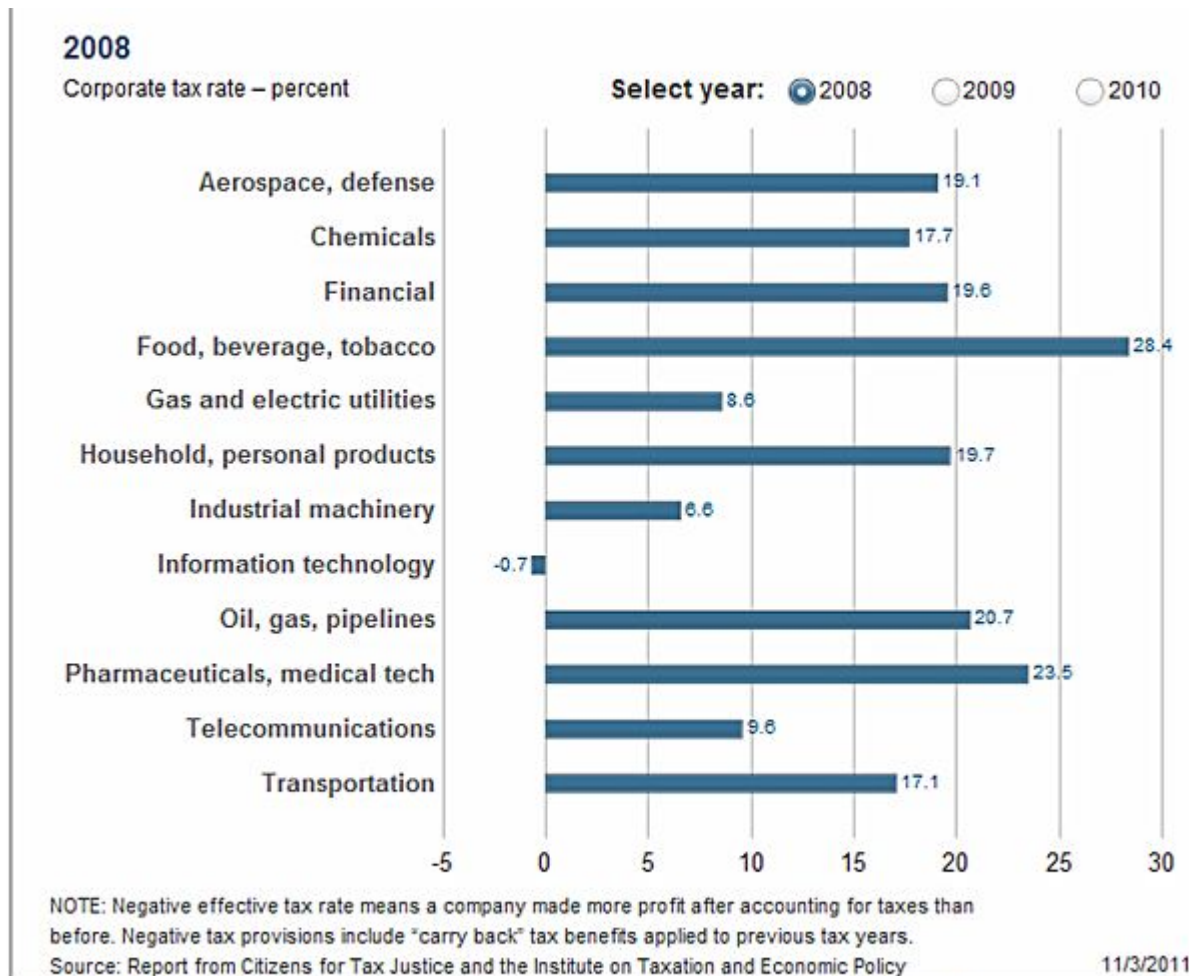
Source: OECD, US Treasury

Effective CIT Rate vs. Statutory CIT Rate



Source: *Doing Business* database

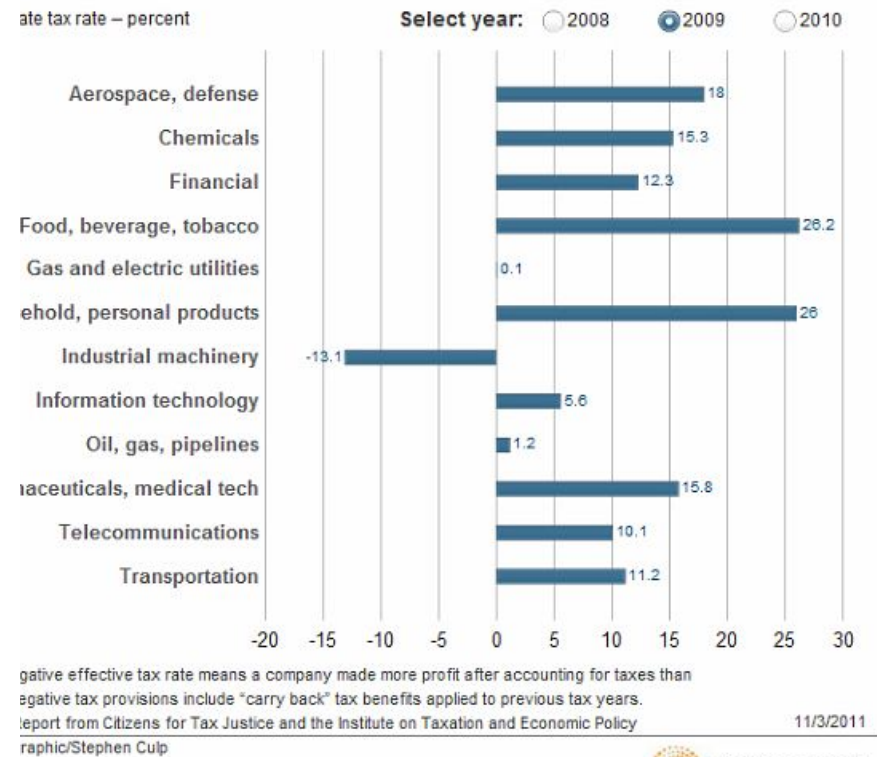
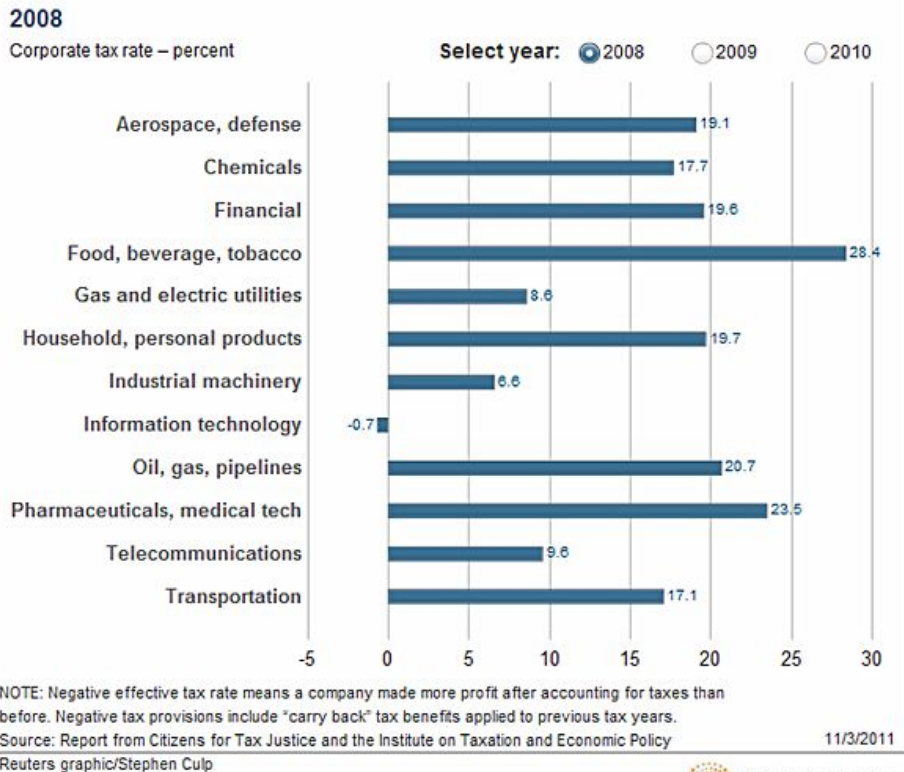
Effective U.S. Corporate Income Tax Rates By Sector, 2008



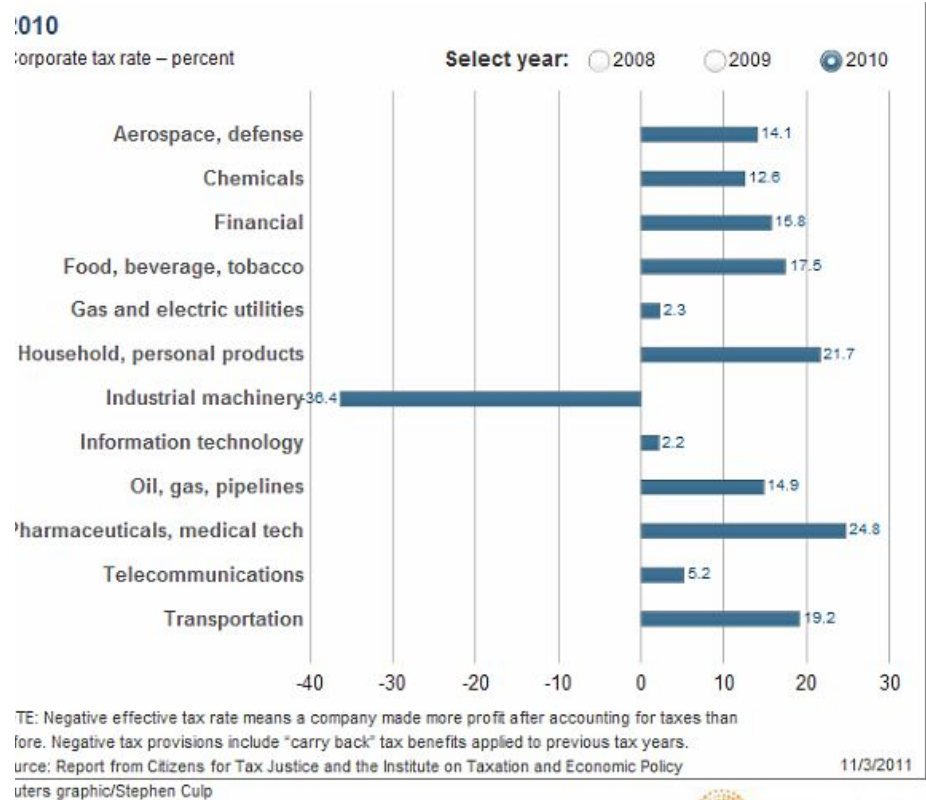
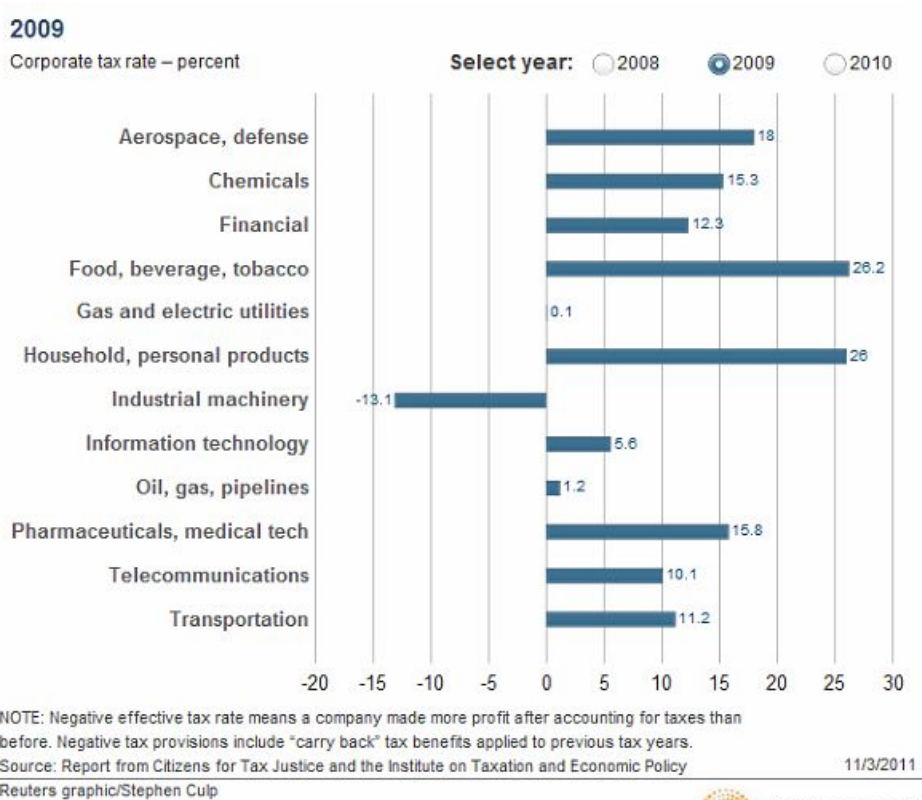
Reuters graphic/Stephen Culp



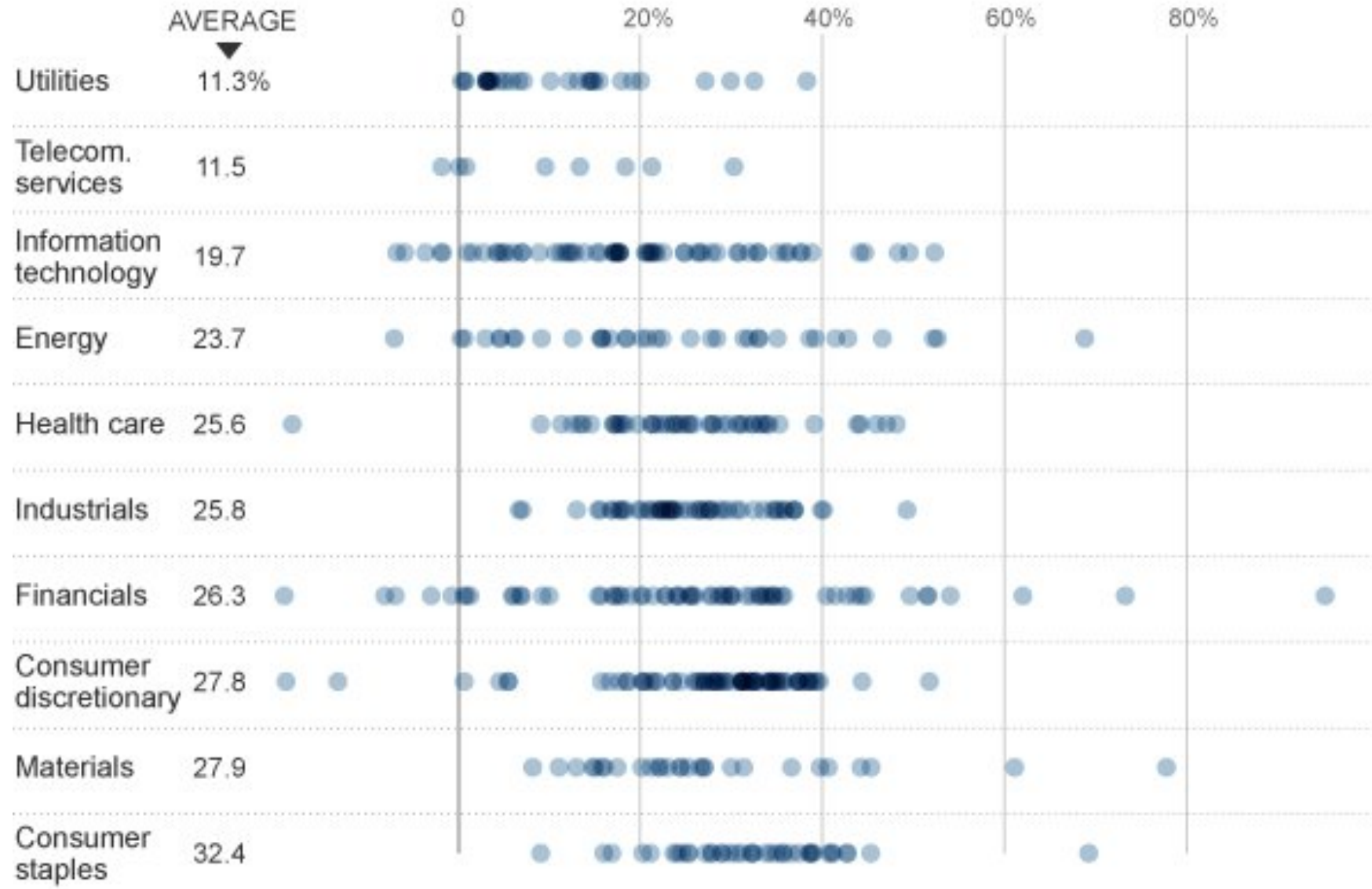
Effective U.S. Corporate Income Tax Rates By Sector, 2008 v. 2009



Effective U.S. Corporate Income Tax Rates By Sector, 2009 v. 2010



S&P 500 Average Effective Global Tax Rates



Excludes 66 Companies—Including Outliers!

Why the VAT Makes Us Look High-CIT

- VAT (Over-) Simplified
- From a Consumer Perspective, Sales Tax
- From a Corporate Perspective
 - Tax on Difference Between
 - Amount Paid for Inputs
 - Revenue Received from Outputs
 - Sounds Like an Income Tax, Doesn't It?
- No U.S. VAT

Pro 1: International Tax Benefits

- Are U.S. Businesses . . .
 - At a Competitive Disadvantage When They Invest Abroad?
 - Encouraged to Move Profits Offshore?
 - Discouraged from Bringing Foreign Profits Home?
 - At a Competitive Disadvantage with Foreign Companies Investing in the United States?

Lower CIT Rate Helps With Everything

Lots of Bad Press for Relatively Little Money

Pro 2: Domestic Fairness and Transparency

- Levels Treatment Across Industries
 - Less “Picking Winners and Losers”
- Could Facilitate Tax Simplification and
Transparency

Pro 3: Domestic Efficiency Gains

- Not Picking Winners and Losers Creates Gains
- Agency Costs
- Legal Transaction Costs
 - Planning/Structuring
 - Compliance
- Debt/Equity Financing Incentives

Pro 4: Bipartisan Support!

- Proposed Corporate Tax Rates
 - Romney 25%
 - Obama 28% / 25%
 - Camp 25%
- Shoring Up the Corporate Tax Base (in Theory)
 - Preserving and Expanding the R&E Credit

Some Cons

- Deficits
- Distributional Concerns
- Personal Holding Corporation Concerns

Thank You