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Permanent Tax Changes Count Most

Michael Mundaca's letter of Oct. 1 in response to your editorial "The Send Jobs Overseas Act" (Sept. 27) argues that temporary measures like bonus depreciation make the U.S. corporate tax system at least as competitive as the average G-7 country. What he fails to mention is that bonus depreciation largely shifts investment to 2009 and 2010 rather than build up capital stock on a sustained basis. For this reason, Duanjie Chen and I have downplayed the temporary measures adopted in many industrialized nations when we compared tax burdens on new investment across countries in our Cato study.

It is perhaps disheartening that the U.S. government seems bent on more temporary depreciation measures to grow the economy. The U.S. needs a healthy dose of corporate tax reform especially to lower its high corporate income tax rates (close to 40% for state and federal taxes) and remove special preferences often targeted at uneconomic business activities. It would not only lead to more productivity but also help federal and state governments by reducing the incentive for companies to shift taxable income to low-tax jurisdictions.

As many countries have found in the past two decades, corporate rate cuts lead to little revenue loss when rates are excessively high (over 27%).

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