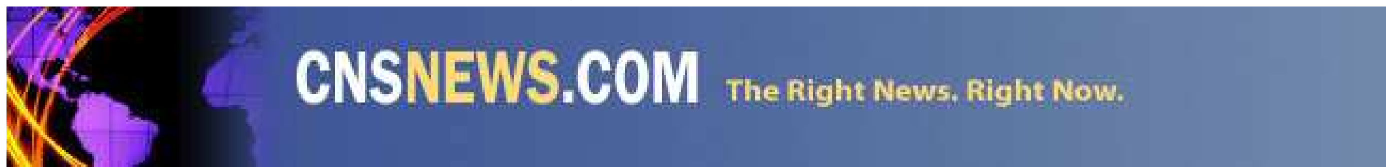

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Lowering U.S. Corporate Tax Rate to 10 Percent Will Create Jobs, Spur Economic Growth, Study Says

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By Christopher Goins

(CNSNews.com) – President Barack Obama discussed cutting the corporate tax rate in his State of the Union address, and a new Cato Institute study suggests that implementing such a cut, specifically down to a 10 percent rate, would spur economic growth and create real jobs.

[1]

President Barack Obama shakes hands with Robert Wolf, from UBS Group America, left, as GE Chairman as Jeffrey Immelt looks on at right, during a meeting of his Council on Jobs and Competitiveness, Thursday, Feb. 24, 2011, in the Eisenhower Executive Office Building on the White House complex in Washington. (AP Photo/Pablo Martinez Monsivais)

In his Jan. 25 speech before Congress, Obama said, "So tonight, I'm asking Democrats and Republicans to simplify the system. Get rid of the loopholes. Level the playing field. And use the savings to lower the corporate tax rate for the first time in 25 years – without adding to our deficit. It can be done."

Concerning Obama's remark, Chris Edwards, director of tax policy studies at the libertarian Cato Institute, said, "It shows that President Obama is on the right track by suggesting that we lower our corporate tax rate. And that is an area of bipartisan agreement that the Republicans and the Democrats should be able to agree on right away and actually do something this year."

According to the Cato report, "New Estimates of Effective Corporate Tax Rates on Business Investment," the U.S. corporate tax rate on new investment ranked among the highest in the Organization for Economic Cooperation and Development (OECD) at 34.6 percent. This puts the U.S. corporate tax rate above that of France (34.0 percent), India (33.6 percent), Russia (31.9 percent) and Japan (29.5 percent).

Argentina, Chad, Brazil, and Uzbekistan are the only countries with higher corporate tax rates than America, which makes the United States number five in a total of 83 nations surveyed.

The mission of the OECD, according to its Web site [2], "is to promote policies that will improve the economic and social well-being of people around the world."

Some of the countries with the lowest corporate tax rates include Singapore (8.5 percent), Chile (6.7 percent), Hong Kong (4.0 percent) and the Ukraine (3.1 percent).

State and federal governments must reduce their high corporate tax rates to engender economic growth and certainty among investors, according to the report, which also argued that reductions will shape an economic climate suitable for domestic investment and foreign investment here in the United States.

While President Obama's National Commission on Fiscal Responsibility and Reform [3] proposed two options for lowering the effective corporate tax rate to 32.5 percent and 28.7 percent, the Cato study calls those proposals "modest" and still places the latter reform almost 11 percent higher than the OECD average of 18.6 percent.

The statutory tax rate refers to the taxable income of a corporation (income minus costs). The effective tax rate refers to the tax on a company's profit. When a country cuts its statutory rate, it automatically lowers its effective rate, because the statutory rate is included.

For example, Canada and Taiwan both cut their statutory corporate rates in 2010: Canada from 43 percent to 29 percent; Taiwan from 25 percent to 17 percent. Canada's effective rate therefore plunged to 21 percent from 43 percent, according to the researchers' calculations. Taiwan's effective rate is now 10.9 percent.

Edwards explained that in the mid-1980s, the United States led a revolution in lowering corporate tax rates. However, while other countries kept cutting over the years, the United States did not.

"The United States led the world when it cut its corporate tax rate back in the big 1986 Tax Reform Act – and when the United States cut its corporate and individual taxes back in 1986, it started kind of a revolution around the world, and most other major countries followed us like Canada and a lot of European countries," said Edwards.

In 1986, President Ronald Reagan signed into law the Tax Reform Act of 1986, which simplified the tax code and brought about a fairer and more efficient tax system.

"A growing number of policymakers are recognizing that the U.S. corporate tax system is a major barrier to economic growth," the Cato report stated. "The aim of corporate tax reforms should be to create a system that has a competitive rate and is neutral between different business activities.

"A sharp reduction to the federal corporate rate of 10 percentage points or more combined with tax base reforms would help generate higher growth and ultimately more jobs and income. Such reforms would likely lose the government little, if any, revenue over the long run," the report added.

The Cato report [4] was written by Duanjie Chen and Jack Mintz at the School of Public Policy at the University of Calgary.

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