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Obama Highway Plan Proposes Taxing Businesses' Overseas Earnings

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President Barack Obama's budget, released in February 2015, includes a 6-year plan to spend $478 billion on highway infrastructure, or roughly $494,962 per mile of national highway per year.

The president's transportation spending proposal is funded by a 14 percent retroactive tax on multinational corporations' earnings in other countries, and a proposed 19 percent tax on future profits.

Currently, multinational corporations pay a 35 percent tax on income earned in other countries, if those profits are sent home to the parent company in the United States. Profits held in other countries by corporations' international subsidiaries are not currently taxed.

Following Other Countries' Lead

Cato Institute Director of Tax Policy Studies Chris Edwards says the proposal represents a step in the wrong direction.

"The dominant view of corporate tax experts is that the United States should follow the lead of other major nations by slashing our tax rate and adopting a territorial system that does not tax active foreign business income," Edwards said.

"Although it's not true that what's good for General Motors is necessarily good for the United States, in this case, slashing our tax rate to, say, 15 percent and adopting a territorial system would be a big win for American businesses and American workers," he said.

Trust Fund Bailouts

Taxing overseas profits to fund road construction will have negative consequences for the quality of American highways, says Reason Foundation Transportation Policy Analyst Baruch Feigenbaum.

"Using repatriation for the Trust Fund seems like a bailout, that will weaken the users-pay principle, leading to more bailouts in the future," he said.

Instead of spending hundreds of billions of dollars on surface transportation spending, Feigenbaum says reforming the way the government funds transportation spending would be a better option.

“The federal transportation budget should support only nationally-relevant infrastructure. Aviation, ports, inland waterways, freight rail and passenger rail, where it is economically viable, are also nationally relevant, but shouldn’t be funded out of the surface transportation budget,” he said.

Cutting Out the Fluff and Waste

“I would say approximately 65 percent of federal highway spending is for national highway needs, while 35 percent of the budget is for funding lesser roadways, transit, bicycling or walking, and other fluff. About 20 percent of the total funding supports transit.

“This leaves about 15 percent of the total budget as pure waste, ranging from recreational trails to weed removal to designing historic byways.”

Feigebaum says phasing out federal gas taxes, in favor of use fees, would be a fairer and more stable source of highway spending.

“The long-term funding bill should continue to rely on gas taxes in the short term, but switch to mileage-based user fees (MBUFs) in 10 to 15 years. MBUFs are the purest road fees, making them the best funding source because they charge travelers an exact price for how far they travel.”