Washington Examiner PRESENTS RESTORING AMERICA

Manchin’s mistake

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July 29, 2022

Senate Democrats are considering funding their costly climate agenda by socking corporations with a $313 billion tax increase.

Talk about bad timing — hitting businesses with a big tax hike just as the economy is sliding into recession. Lawmakers should be encouraging companies to hire and invest, not raining more taxes on them. Senate Majority Leader Chuck Schumer (D-NY) and pivotal Sen. Joe Manchin (D-WV) are calling their bill the Inflation Reduction Act of 2022. But the legislation would increase inflation by shrinking the economy’s supply side and intensifying the problem of too much money chasing too few goods.

In a statement after he struck the deal, Manchin claimed that it would "begin paying down our $30 trillion national debt." But it is naive to think that creating a slew of new green subsidy programs would ever reduce the deficit, whatever the initial accounting may suggest. New programs get entrenched and grow faster than promised as lobby groups pressure for continued expansion. Schumer and Manchin also claim their legislation will make corporations "pay their fair share," but corporate tax revenues have soared in recent years, even with the 2017 GOP tax cut in place. The Congressional Budget Office currently projects that corporate tax revenues will be up 53% in 2023 from before the GOP cut.

Who knows what "fair share" means, but corporations are not starving the government of tax revenues. Besides, corporate taxes ultimately land on people, so workers, shareholders, and consumers would actually bear the $313 billion burden of the Democrat’s green subsidy bonanza. A 15% minimum tax may sound innocuous, but it would be applied to financial statement income, which is different than income normally used for tax purposes. Corporate projects that make sense under current rules would be scrapped as companies now face lower after-tax returns under the new tax regime.

The proposed minimum tax would also risk corrupting corporate financial reporting. Currently, financial statements follow generally accepted accounting principles, or GAAP, set by the independent Financial Accounting Standards Board. Under the new tax, corporations would have an incentive to manipulate their GAAP income to reduce their tax hit. That would undermine the usefulness of financial statements for markets and investors.

The minimum tax would open a new lobbying front in Washington. Politicians and corporations would both start pressuring FASB to change GAAP rules for their opposing tax ends, and if FASB caved in, it would further reduce the utility of financial statements in the market economy. A new corporate tax based on different accounting rules would magnify tax complexity, benefiting only lawyers and accountants. In my time at PricewaterhouseCoopers defending corporations against the IRS, I witnessed vast brainpower devoted to such efforts. The Schumer-Manchin plan would draw more smart people into the Washington tax battle and away from building the real economy outside the Beltway.

As West Virginia governor from 2005 to 2010, Manchin was a real fiscal conservative who focused on cutting his state's corporate income and franchise taxes to boost growth. In announcing one of his big tax cuts in 2006, he argued that the reforms would "show our citizens, our businesses, and our nation that West Virginia is committed to making our state economically competitive."

Corporations are an easy target for political rhetoric, but squeezing them for another $313 billion would damage the economy of West Virginia and every other state.

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