

# NATIONAL REVIEW

## Keep the 20 Percent Corporate Tax Rate

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During the entire tax debate, President Trump insisted that there were three aspects of the tax reform that weren't negotiable: a 20 percent corporate tax rate, a middle-class cut, and simplification. House speaker Paul Ryan, Ways and Means chairman Kevin Brady, and Trump's Council of Economic Advisers, all at one point or another repeated that these were three red lines.

So imagine my surprise when this weekend Trump said that a 22 percent corporate rate may do. From CNBC:

Trump told reporters at the White House before a trip to New York City that he would consider setting the corporate tax rate at 22 percent, compared to a 20 percent rate that he has pushed for with House and Senate Republicans during the fall. Pointing to expected talks between House and Senate negotiators this month, Trump predicted "something beautiful is going to come out of that mixer" and the business tax would come "all the way down from 35 to 20. It could be 22 when it comes out, but it could also be 20. We'll see what ultimately comes out."

For a president who claims to be such a great negotiator, this move is surprising. It is especially surprising since he has managed to get both the House and the Senate to comply with his demand to produce and pass a version that would cut the rate to 20 percent. Trump's sudden reversal on this issue means that, while he promises that "something beautiful will come out of that mixer," he is actually making it much harder to get something out of that mixer at all.

Make no mistake: The 20 percent rate for the corporate tax is not only a line that neither the House nor the Senate was willing to cross because they had committed to it in the Big Six Framework, but it has also been the glue that has been holding the tax-reform movement together. The truth is that every side of the coalition has been willing to swallow some aspect of the bills they didn't like because ultimately we each had our eyes on the 20 percent corporate tax rate. Start back-pedaling on that number and you may find it hard to get the whole thing to the finish line.

In addition to sending the signal that whatever the president says is his last word really isn't, changing course now is incredibly self-defeating to the economic-growth process. As I explained last week, that provision is one of the most pro-growth aspects in the tax plans. And whatever liberals and Senator Marco Rubio are saying, there is a difference in terms of growth between 20 and 22 percent.

The rate wasn't picked randomly. It is a compromise between what is economically important and politically doable. Even though many people wish it could be much lower, 20 percent isn't so low that people are rejecting it totally yet it still puts us on par with our main trading partners. Chris Edwards also notes:

Policymakers need to remember that in America state taxes pile on top of federal. So while in Britain the federal rate of 19 percent is also the overall rate, our overall rate in California would still be 27 percent even as we cut our federal rate to 20.

A Council of Economic Advisors Report on corporate taxes noted that international investment flows are "highly responsive to cross-border differences in tax rates." And further that "an additional margin along which changes in corporate tax rates are likely to affect growth is through profit shifting by U.S. firms to foreign subsidiaries ... This profit-shifting has increased substantially since the 1990s."

So for more investment flowing in, and less paper profits flowing out, we should cut our corporate tax rate as low as we can. Most other countries have figured this out, as the chart below shows.

According to KPMG, the average corporate tax rate across 171 countries today is just 24 percent. The United States with a federal-state rate of 40 percent is the outlier at the top of the chart. Rates have fallen in Africa, Asia, Europe, and Latin America. American businesses generally face their biggest competition from businesses in Asia and Europe, and those are the regions with the lowest rates.



Thankfully, it isn't too late to reaffirm that a 20 percent corporate tax rate isn't negotiable.