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David Camp's Tax Plan

By Kim Dixon
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Wall Street yelled the loudest, but businesses beyond just banks bear the brunt of Ways and Means Chairman Dave Camp's tax overhaul proposal.

Conventional tax wonk wisdom was that the formula of the 1986 revamp — which axed flagrant corporate loopholes to cut individual rates — wasn't going to work this time. But Camp, a Michigan Republican, turned that notion on its head.

"That is one of the surprising headlines," said Joseph Rosenberg, an economist with the left-leaning Urban Institute.

The chairman's draft imposes nearly $600 billion in net taxes on businesses over 10 years, according to both liberal and conservative economists. And although big banks made the most noise about their $86 billion tax hike, service companies, manufacturers and smaller businesses will also pay more.

"From a top-line perspective, the Camp plan is tilted toward lowering the burden on individual taxpayers while increasing the burden on business investment," said economist Stephen Entin of the free-market Tax Foundation think tank.

Camp's office refutes these analyses, pointing to small-business changes included within the official estimates on the individual side of the code.

The plan is approximately revenue neutral — raising $3 billion over ten years — according to the Joint Committee on Taxation. But it results in a $590 billion tax cut for individuals.

Rosenberg and Entin say businesses pick up the slack.

Camp's proposal suggests the politics of giving millions of individual Americans tax cuts still trump giving tax cuts to businesses, just as it did 30 years ago during the last major tax overhaul.

That's true even for business-friendly Republicans who have complained for years that the corporate tax rate is already too high.

Despite its limited short-term viability — Republican leadership put the kibosh on moving the bill any time soon — it is an easier political sell to voters to raise taxes on businesses to pay for cuts to individual rates.

“From a political standpoint, if you are going to have a broad buy-in from a number of legislators — you want to make as many winners as possible for individuals,” said George Yin, a former JCT chief of staff and now a law professor at the University of Virginia.

A Camp spokeswoman said disparate JCT treatment of so-called pass-through businesses, which file taxes as individuals, ranging from mom-and-pop stores to hedge funds and law firms, confound the official numbers.

“What you are missing is the recognition that revenue raised from base broadening [cutting breaks] on pass-through businesses appears in the business portion of the JCT revenue table, while revenue lost from cutting tax rates on pass-through businesses appears in the individual portion of the table,” the spokeswoman said.

Entin and Rosenberg said that was a valid point but said they didn’t think that it would change the net impact.

The biggest tax bump comes from Camp taking the ax to a common method for calculating investment write-offs, known as accelerated depreciation.

Entin said scrapping accelerated depreciation will boost the cost of capital, depress wages and stall growth. That’s because Camp’s plan takes away immediate tax benefits for big investments, opting instead to spread the breaks out over time. Some business owners are expected to skip the investments if they can’t recoup costs right away.

“We might expect some property companies, domestic heavy manufacturing companies, and mining operations and refining industries to bear a disproportionate cost,” Entin said.

Business is on the hook for more widespread pain this time compared with in 1986, when lawmakers could rely on a number of obscure changes and widely criticized tax shelters to finance reform.

At the time, there was an explosion in tax dodges like “see-through buildings,” largely empty buildings constructed primarily as a means of manipulating and harvesting tax breaks.

So this time, lawmakers had to go after the way business does business.

Eliminating faster investment write-offs raises $270 billion over a decade. Changes to accounting for research and development costs raise another $360 billion.

Another corporate revenue raiser is a one-time tax on companies’ offshore profits, raising $170 billion over a decade.

That points to another problem, according to Rosenberg: most of the revenue gain from business will diminish after a decade. Once all capital in place is subject to the new rules, the magnitude of the tax increase falls, Rosenberg said.

To be sure, corporations are getting a 10 percentage point rate cut — from a top rate of 35 percent to 25 percent under Camp's plan — and a shift to their favored territorial tax system.

That is the sugar to help the medicine go down — with a painful transition to get there. That, combined with the diminishing revenue, could mean business potentially ends up better off in the long run.

Dan Mitchell, an economist at the libertarian Cato Institute, said he didn't see it as an individual versus business issue, but rather took issue with Camp's punitive treatment of savings and investment.

"The way Camp is extracting more money from businesses — more punitive depreciation and the like — is he is making the tax system more biased against savings and investment," said Mitchell, who worked for Republican Sen. Bob Packwood after the historic 1986 tax act that Packwood helped negotiate as chair of the Finance Committee.

The 1986 law did take aim at some popular business benefits, including a lucrative investment tax credit.

But the reward was a lot sweeter.

"At least then, we got a big, big reduction in tax rates in exchange," Mitchell said.

The 1986 act cut top business rates from 48 percent to 34 percent, and trimmed the top individual rate to 33 percent from 50 percent.

It's an academic argument at this point because Republican leadership has no interest in letting Camp move his legislation any time soon. It may take until 2017 at the earliest for action and most likely when one party controls Congress and the White House.

"It would be a lot of fun if we had a real chance of something happening," Mitchell said.

Kelsey Snell and Brian Faler contributed to this report.