

# POLICY SHOP

THE DÉMOS WEBLOG

## *Obama Needs To Be Bolder on Corporate Tax Reform*

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**January 30, 2012**

Not long ago, it seemed the stars were aligned for President Obama to mount a serious bid for corporate tax reform. I have [argued often](#) that this is an area ripe with opportunity for Obama -- not to mention a reviled Congress desperate to show it can get something done.

There is unusual ideological convergence right now about the need to overhaul a corporate tax code littered with loopholes and subsidies. Libertarians and some conservatives don't like all these tax breaks because government is "choosing winners and losers." (CATO has been campaigning against "corporate welfare" for decades.) Progressives don't like the giveaways to big business at a time of record profits. Meanwhile, it's true that the top corporate tax rate of 35 percent is too high in global terms, even if few companies ever actually pay that rate. Closing loopholes and lowering the rate would likely produce a significant net increase in corporate taxes -- revenue that is desperately needed right now. (An alternative minimum corporate tax, as [Daniel Gross has proposed](#), would also be helpful.)

But it's not just more revenue that President Obama needs. He also needs a full-blown fight with corporations and lobbyists this year to show that he is committed to fighting for ordinary people against private power. The best way to trigger such a fight would be to embrace the recommendation of the [Simpson-Bowles Commission](#), which called for eliminating *all* corporate tax breaks while lowering the top rate to 25 percent. If Obama did this, he would ignite a major conflagration in Washington -- but not of the familiar partisan kind that so turns off Americans. Some notable Republicans -- like Tom Coburn -- would stand with the President on this one, and if all went well -- meaning the White House gets at least a big chunk of what it wants -- the President could head into

reelection with a victory that shows he can stand up to corporate America, simplifies the hated tax code, brings in new revenue, demonstrates Obama's ability to work with Republicans to get stuff done, and broadly aligns Obama with the cause of reforming the "system" and taking on the culture of Washington.

What's not to like about this scenario?

Unfortunately, though, the White House shows no signs of heading down this path. Instead, in his State of the Union address, Obama called for even greater use of the corporate tax code to incentivize certain activities. His proposals include steps to get rid of bad deductions and replace them with good ones. These include:

- Eliminating tax deductions for the expenses incurred by moving production overseas and offer companies a new tax credit for moving their operations back to the United States
- More narrowly focusing the tax incentives for producing stuff in the United States to support "advanced manufacturing" and not support oil production and other activities.
- Providing a new tax credit of \$6 billion over three years for investments in communities hit by major job losses.
- Providing an additional \$5 billion in tax credits for advanced energy manufacturing -- which the White House says would leverage nearly \$20 billion in additional investments.
- Extending through 2012 a provision to allow companies to deduct the full cost of investment in equipment.
- Making permanent an expanded research and experimentation tax credit.

The President's corporate tax plan includes good things, both in the proposals above and in other proposals -- like his plan to crack down on companies that shift profits overseas by transferring valuable assets to offshore havens.

But the net effect of the White House approach is to deprive the President of the big corporate tax battle he needs and largely maintain a corporate tax system that is easily hijacked by special interests for narrow gain.

I'm not entirely against using the tax code to make economic and social policy, and many of Obama's ideas are sound in principle. But it's just too hard to use the corporate tax system for high-minded purposes in today's system, which is so heavily dominated by lobbyists and campaign donors.

The President is right about his larger point: Which is that government can and should play a leadership role in building a strong U.S. economy for the 21st century. But the tax code is not the tool for this leadership.