

Corporate Taxes Are Self-Defeating

There is a growing realization that the United States is at an increasingly competitive disadvantage when it comes to taxing corporations. From a purely economic standpoint, it makes no sense to tax corporations at all, because only people pay taxes, not legal entities, says Richard W. Rahn, senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.

Many countries used to have higher corporate tax rates than the United States, but, over time, they realized they were losing business -- and jobs -- to countries with lower rates; so most countries have been reducing their corporate tax rates to attract new businesses and global firms.

- Japan, up to this year, had a corporate-tax rate slightly higher than the U.S. rate, but it has announced it will reduce its rate by 5 percentage points.
- The Canadians have been steadily reducing their corporate rate and have said they will continue to do so.

The Obama administration has said that any corporate tax rate reduction must be "revenue neutral," by which it means that rates can only be lowered if corporate "loopholes" are closed. The way the administration and some in Congress are formulating the conditions for a revenue-neutral corporate-rate cut means the effort will be both a political and economic failure.

- Tax-revenue projections are provided by the Joint Tax Committee of Congress.
- The committee uses largely static, rather than fully dynamic, revenue analysis.
- When it prepares estimates of proposed corporate tax changes, it will largely ignore the fact that if the U.S. rate remains the highest or one of the highest in the world, increasing numbers of U.S. businesses will migrate elsewhere, and new or existing foreign businesses will choose not to come to the United States -- all of which will have a significant negative impact on U.S. job and economic growth.
- As a result, the United States will continue to lose global market share of the economic pie.

Source: Richard W. Rahn, "Corporate Taxes Are Self-Defeating," Washington Times, January 18, 2011.