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US Corporate Tax 'Highest In OECD', by Mike Godfrey, Tax-News.com, Washington
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The US corporate tax system has become unwieldy, inconsistent with world practice, and highly anti-competitive, according to a new study by the University of Calgary.

With a statutory corporate tax rate of almost 40%, one of the world's highest, the researchers conclude that the US company tax system acts as a drag on economic growth and encourages business to shift investment and profits to lower-taxed jurisdictions.

"Rather than following the international trend of reducing corporate tax rates and taking steps toward a more neutral tax base, the United States follows an antiquated approach with a high rate and narrow tax breaks that undermines economic growth and job creation," write Duanjie Chen and Jack Mintz of the University of Calgary's School of Public Policy in a Tax and Budget bulletin for the Cato Institute.

The study compares effective corporate tax rates on new capital investments in 80 countries. It finds that the US, with an effective corporate tax rate of 35%, lags well behind the 80-nation average rate of just 18.2%.

While the US Congress and successive administrations have long talked about cutting the US corporate tax rate, other nations have acted decisively to reduce company taxes in recent years. The study shows that of the 30 nations in the Organization for Economic Cooperation and Development (OECD), 27 cut their general corporate income tax rates since 2000, with an average cut of more than 7%. Among the 50 other nations examined in the report, 28 reduced their corporate tax rates, with an average cut also of about 7%

Chen and Mintz suggest that "the past decade is a lost one for US business tax reform."

"Unlike most OECD countries that cut their corporate income tax rates or reduced other taxes on business investment, the United States enacted some targeted preferences while maintaining a very high federal corporate rate."

America's high effective corporate tax rate is a combination of a high statutory rate plus state-level corporate income tax rates. However, in addition, businesses in the US must also contend with state and local sales and asset-based taxes on capital, which adds about 7% to the US effective rate, according to the study. In other countries, these taxes add about 2% to the effective rate on average.

Unsurprisingly, the report concludes that the US corporate tax system is in need of "major reform" both at federal and state level. The researchers suggest that the combined federal/state corporate tax rate should be cut to 25% or less, and that distortionary tax breaks, such as the temporary 'domestic production' incentive, should be repealed to smooth out the system. They believe that much of these reform would have little effect on the amount of revenues that government collects from businesses.

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