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Obama takes first step in tax overhaul

Mon May 4, 2009 5:55pm BST

By [Steve Holland](#) - Analysis

WASHINGTON (Reuters) - President Barack Obama's move to curb overseas tax havens and job outsourcing was his first major proposal in what promises to be a broad overhaul of the U.S. tax system.

* Obama chose a relatively populist initial step.

Americans have little sympathy for companies that park their money in places like the Cayman Islands in order to avoid paying U.S. taxes.

And they are even more fed up with companies that have benefited from tax incentives for shipping jobs overseas, blaming these policies for a broad erosion of the U.S. labor market.

* Not everyone agrees with his salvo at tax havens.

Daniel Griswold, an expert at the Cato Institute think tank, said locating affiliates in foreign markets is now the chief way that U.S. companies reach new customers outside the United States.

"This demagogic grab for more revenue will only cripple the ability of U.S. companies to expand their sales in global markets, putting in jeopardy the U.S.-based jobs that support their foreign affiliates," he wrote in a blog.

* Demands for more revenues to close a widening budget deficit and pay for government programs are driving what could turn out to be the biggest overhaul in the U.S. tax code since 1986.

The U.S. budget deficit for fiscal 2009 could top \$1.8 trillion and is forecast to be around \$1.4 trillion in 2010. Obama has vowed his economic plan will cut the deficit in half in four years, but many lawmakers express concern about the burden of long-term debt.

Obama has proposed a record \$3.55 trillion budget for 2010, which includes billions in support of overhauling healthcare and education and expanding green technologies.

The Democratic-controlled Congress has passed a \$3.4 trillion compromise version that sets parameters for spending and tax legislation, with many battles left to be fought.

* More changes in the tax system are likely to be proposed in the months ahead.

"It's a down payment on the larger tax reform we need to make our tax system simpler and fairer and more efficient for individuals and corporations," Obama said in making his tax-haven announcement on Monday.

In March Obama formed a White House task force to recommend ways to simplify the tax code, close loopholes and limit tax evasion.

Obama has vowed to increase taxes for Americans making more than \$250,000 a year but other Democrats have voiced concern that this may not raise sufficient revenues.

Many voices, including Obama's, are calling for a simpler tax system.

The Center for the Study of the Presidency, a bipartisan think tank, issued a report in March that among other things, talked about the need to reform a tax code that contains 3.7 million words.

Among its conclusions was that: "The tax system needs to strike a better balance between taxing income and consumption."

(Editing by Mohammad Zargham)

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