NATIONAL REVIEW

Replacing a Bad Tax Idea with Another Bad Idea Isn't Progress

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July 21, 2017

Sadly, over the years, I have come to question the free-market and small-government beliefs of many members of the Republican party — especially those elected to represent their state in the federal government. But it is as if since the elections (or maybe it started before), as the Democrats have moved far to the left of the political spectrum, the Republicans have filled the political space they used to occupy. Being openly for more spending, against repealing Obamacare and rolling back the Medicaid expansion, and paying for tax reform with a large tax increase are mainstream positions these days.

On the tax front, I have been fighting the terrible idea of a border-adjustment tax (BAT) that would impose a 20 percent tax on importers while exempting exporters. The tax is not just unfair, a large tax increase targeting importers, and an open door to getting a Value Added Tax down the road, it is also a clear embrace by Republicans of the idea that tax competition should be destroyed to guarantee that Uncle Sam can extract as much revenue as possible from taxpayers.

Faced with a strong resistance, Speaker Paul Ryan and House Ways and Means chairman Kevin Brady have finally conceded that it may not be possible politically this time around and are starting to talk about alternatives. Sadly, the Republicans' commitment to revenue neutrality and their desperation for more tax revenue have brought back to life the idea of a global minimum tax. *Bloomberg BNA* explains:

A global minimum tax is conceptually simple and intuitive compared with the House Republican proposal for border-adjusted tax reform. The idea is that no matter where income is earned or stashed, U.S. companies must pay some level of tax on it.

Seriously? This idea was a bad idea when former representative David Camp introduced it and it is a bad idea now. For a party desperate to keep companies in America, imposing a minimum tax on overseas earnings by U.S. corporations does nothing to stop corporate inversions (i.e., companies relocating their headquarters abroad for tax purposes). Depending on the level and complexity of the tax, and depending on the amount of business and income earned abroad by companies, it is easy to see how companies will reach the conclusion that being an American company isn't worth it. What they will do then is they will invert and give up being American.

As *Bloomberg BNA* notes:

To critics and opponents, the relative ease and simplicity of the minimum-tax approach is a mirage, masking an important flaw — it is a residency-based approach, which puts tremendous pressure on the location of a U.S. company's headquarters and inevitably leads to inversions and takeovers.

"The residency solution in a global economy is not going to be effective," Bret Wells, a professor at the University of Houston Law Center, told Bloomberg BNA July 3. "In a free society, where we have free import and export of capital, it is difficult to create a wall high enough that prevents a company from being able to combine with a foreign-based company to achieve a corporate inversion."

That last quote makes it sound as if freedom is a *problem* — but the preservation of freedom is the goal and prize. We need to fight to preserve companies' and people's ability to shift their activities around when the taxing authorities become too greedy.

Besides, those worried about tax avoidance seem to ignore the powerful effect that lowering tax rates will have on income shifting. Cato Institute's Alan Reynolds had a really good article about this a few months ago. It is a must-read to understand the impact lowering the corporate tax has on avoidance and how other countries have done just that and not lost revenue. Reynolds expanded and summarized some of his findings here:

My previous blog noted that Treasury Department economists find the elasticity of corporate taxable income is 0.5 for smaller corporations, so when the tax rate goes down reported taxable income goes up. A paper for the Center for European Economic Research finds a higher 0.8 elasticity for multinationals: "Hence, reported profits decrease by about 0.8% if the international tax differential [e.g., between U.S. and foreign rates] increases by 1 percentage point."

Lowering the super-high U.S. corporate tax rate will not reduce revenues from corporate and other taxes by nearly as much as crude rules of thumb may suggest, if revenues decline at all. And the reason is not entirely the result of greater investment, entrepreneurship, and economic growth, but also a reduction in myriad wasteful ways of avoiding this country's uniquely dispiriting business tax.

All that being said, it is clear that the speaker and his crew are still hoping to force a BAT-or-nothing approach down members' throats. Recent remarks reported by *Politico Pro* by Representative Mark Sanford of South Carolina confirm that they haven't given up on the BAT.

In the final moments of a 12-hour budget markup, Rep. Mark Sanford (R-S.C.) abruptly attempted to offer a poison-pill amendment that would have blocked the contentious tax proposal the Freedom Caucus and other influential conservative groups oppose.

Sanford said he was seeking an official assurance that GOP leaders would not include the import tax in their overhaul proposal this year. That policy, which House Speaker Paul Ryan (R-Wisc.) has favored, has the potential to be a major source of revenue for the GOP's plan.

“I’m not saying there’s a guarantee of a BAT going forward, but increasingly, what I’ve seen over the last couple of days, puts it in that direction,” Sanford said. “That puts myself and others on this committee in a bad spot.”

CQ reported a similar story highlighting the fact that Freedom Caucus members are concerned about Ryan attempting to get his BAT anyway he can. It is as if he is committed to killing tax reform.

When speaking about the Republican leadership’s attachment to the BAT (but also their failure to repeal Obamacare) at FreedomFest in Las Vegas on Wednesday, Steve Forbes mentioned that it reminded him of the movie *The Invasion of the Body Snatchers*. In our movie, it’s Speaker Paul Ryan whose body has been snatched and turned into a tax-and-spend Democrat. No kidding.