

# Business Tax Reform and Economic Growth

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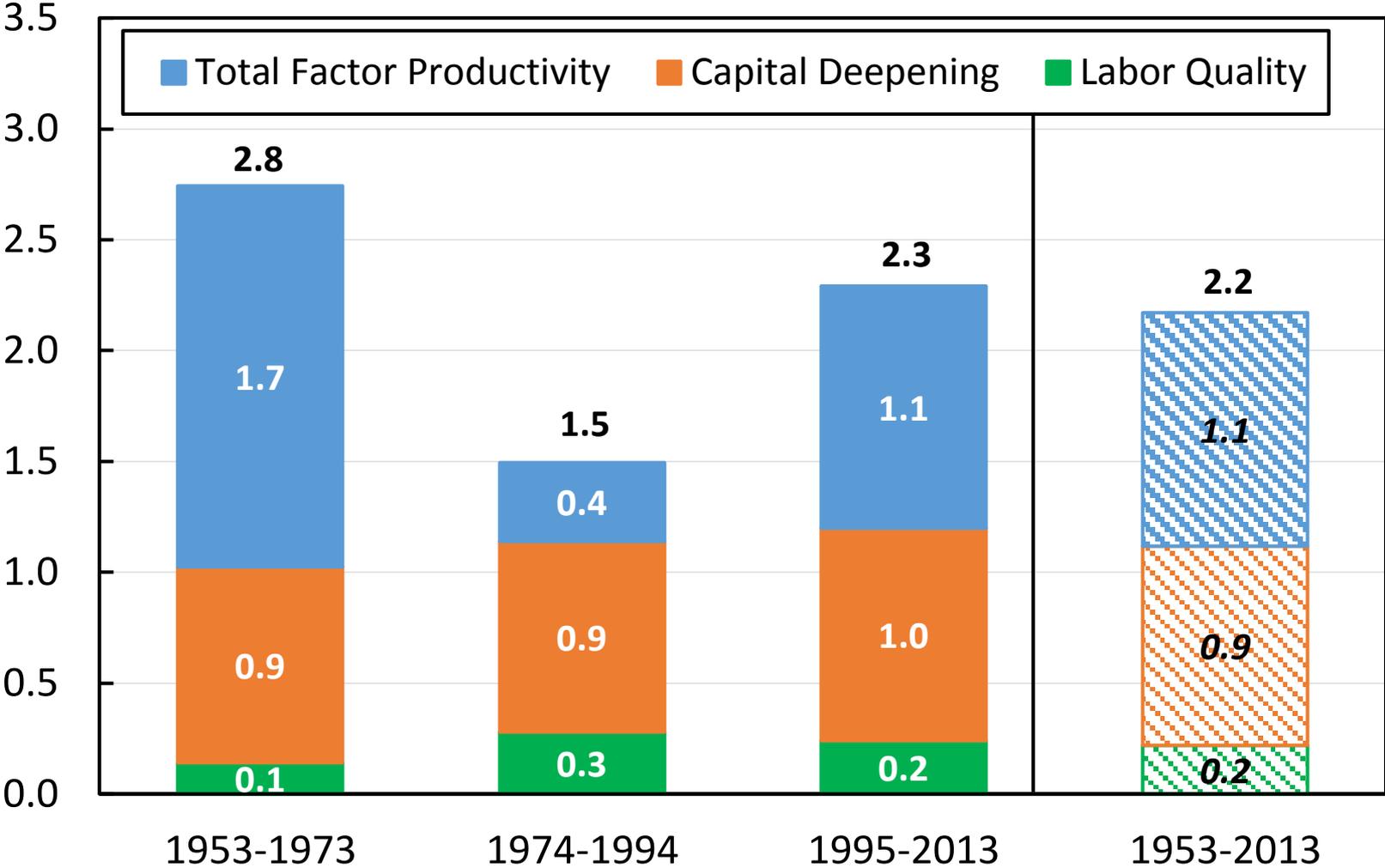
**September 22, 2014**

# **Economic Recovery and Economic Growth**

# Total Factor Productivity Explains Much of the Substantial Variation in Growth Rates Since 1953

## Sources of Productivity Growth Over Selected Periods

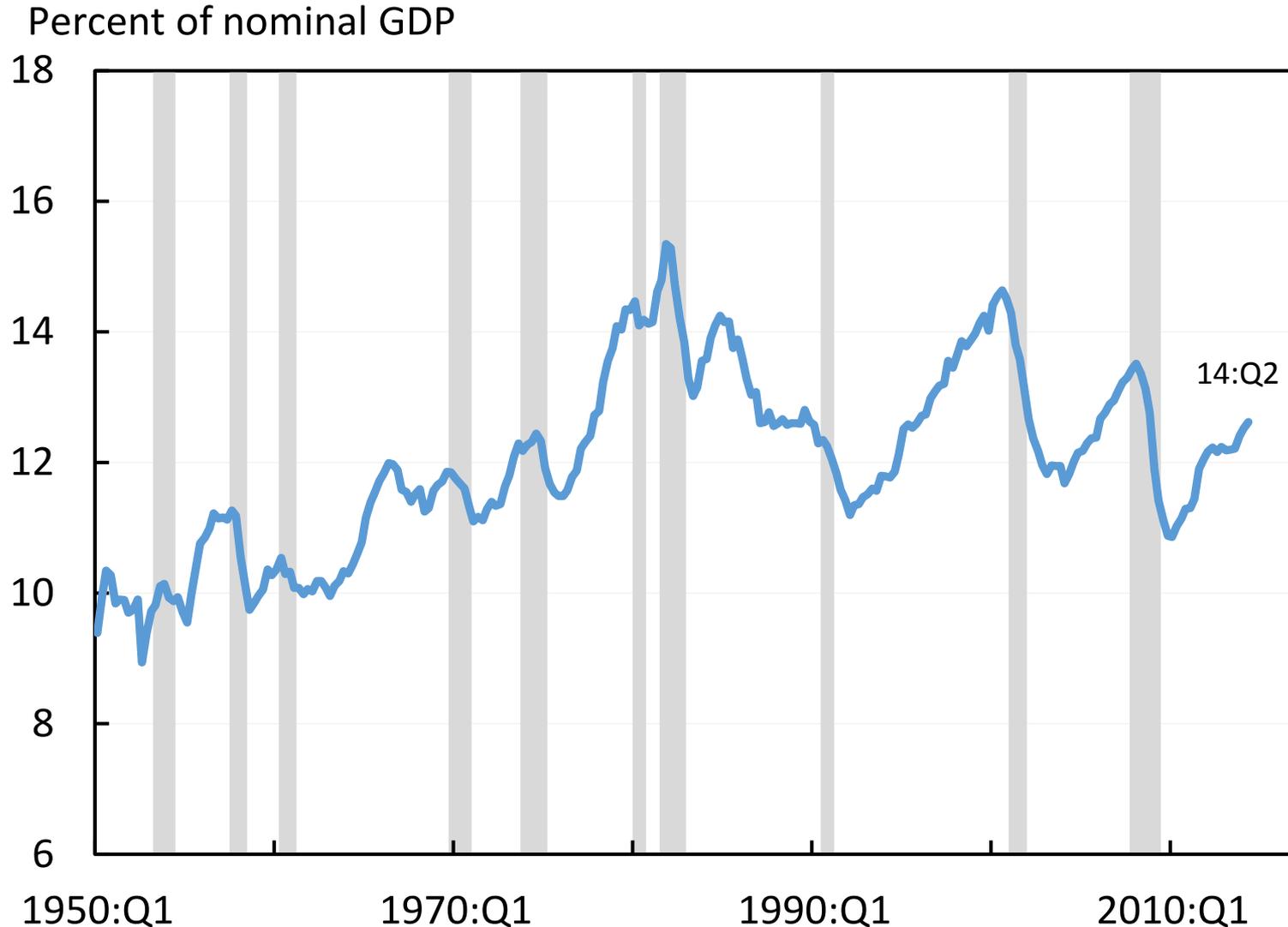
Percentage points, annual rate



Source: Bureau of Labor Statistics; CEA Calculations.

# Business Investment Has Generally Fluctuated Between 10 and 14 Percent of GDP During the Postwar Period

## Private Nonresidential Fixed Investment



# **The Fundamental Underpinnings of Business Tax Reform**

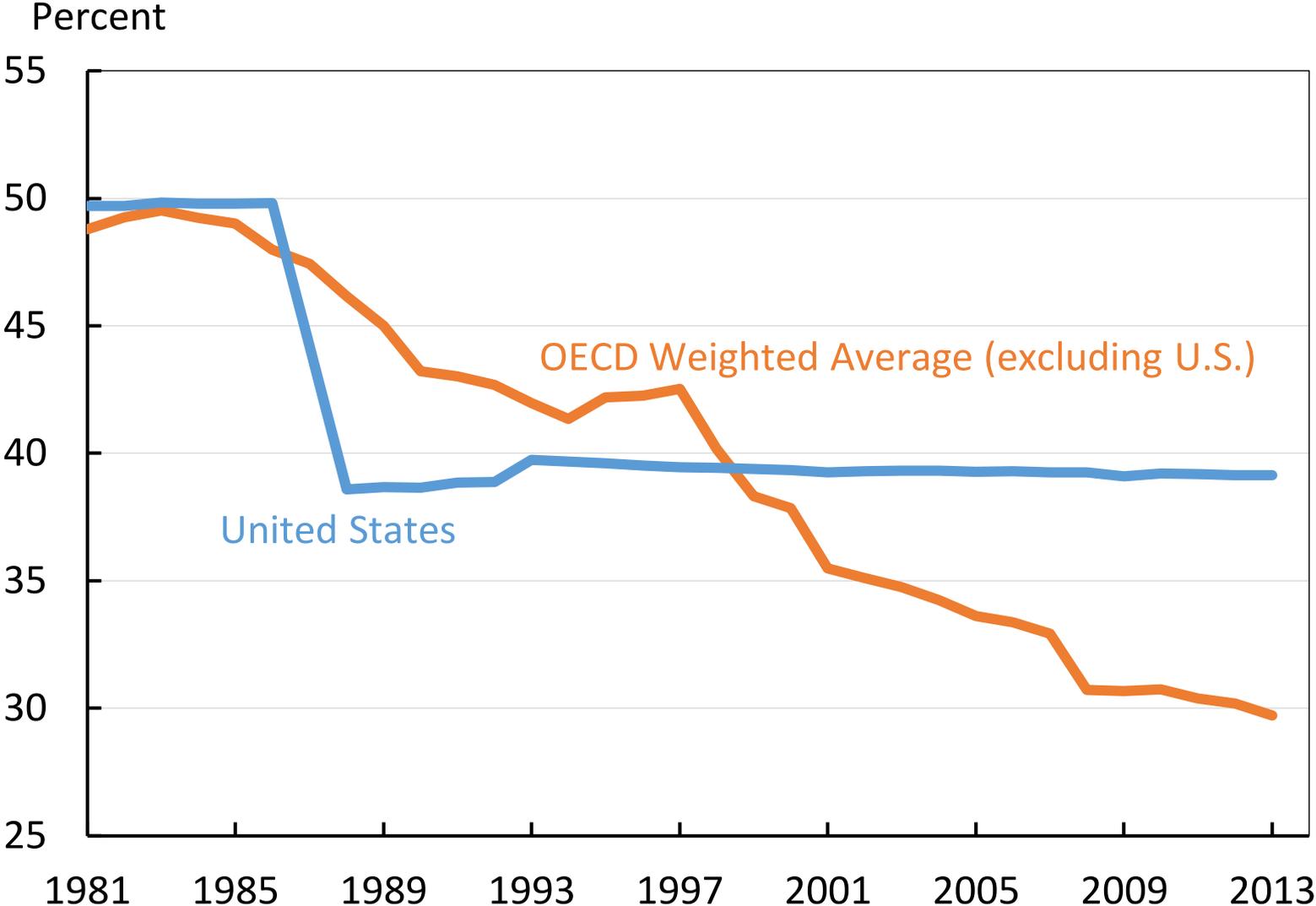
# The Fundamental Underpinnings of Business Tax Reform

1. In general the tax system should strive for *neutrality*.
2. In carefully delineated specific cases, the tax system should deviate from neutrality to *correct externalities*.
3. The tax system should be *simpler*.

# **Shortcomings of the Current U.S. Business Tax System**

# The U.S. has Maintained a High Corporate Tax Rate Since the 1980s While Peer Countries Reduced Rates

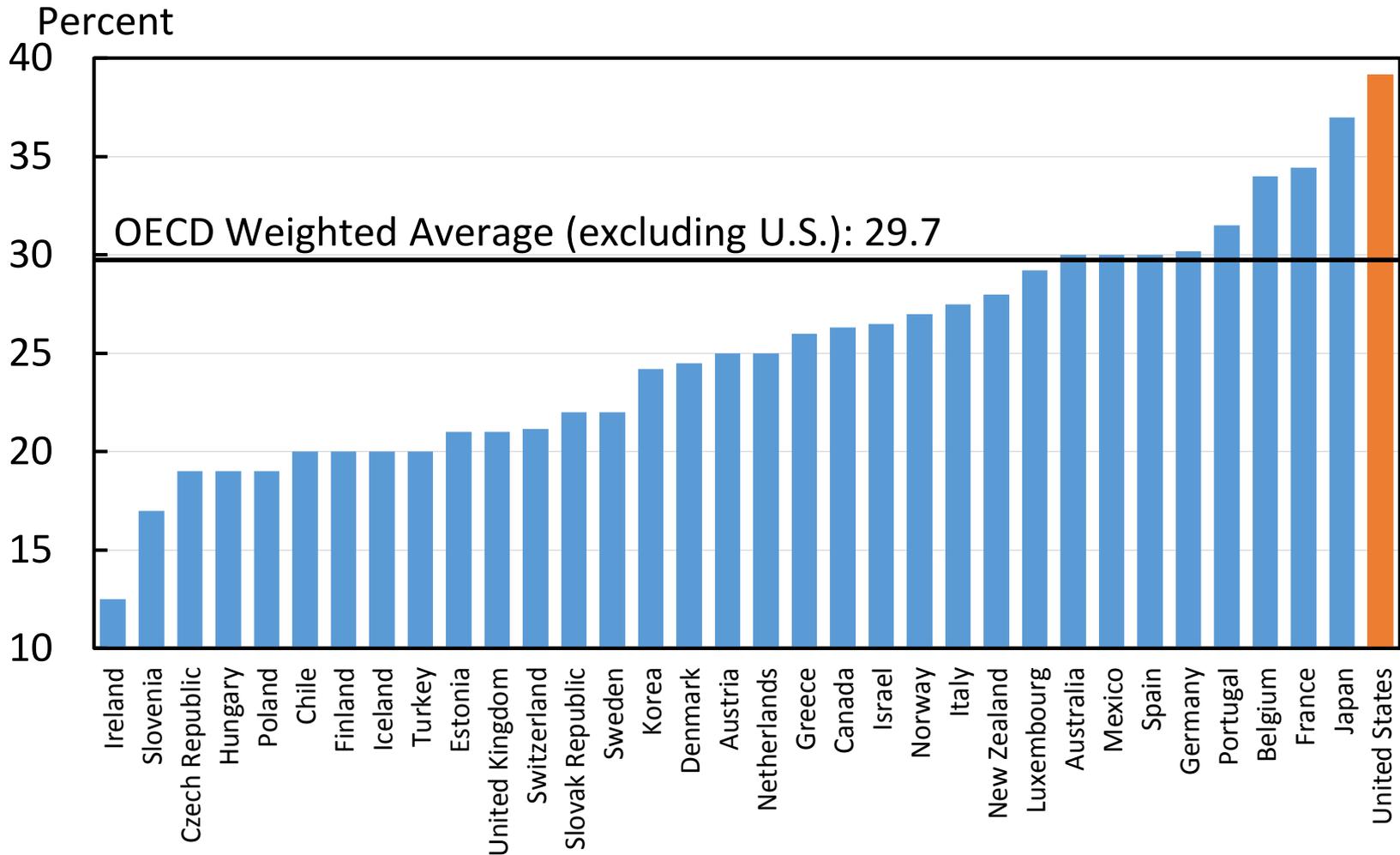
## Statutory Corporate Tax Rates in the U.S. and OECD



Source: OECD.

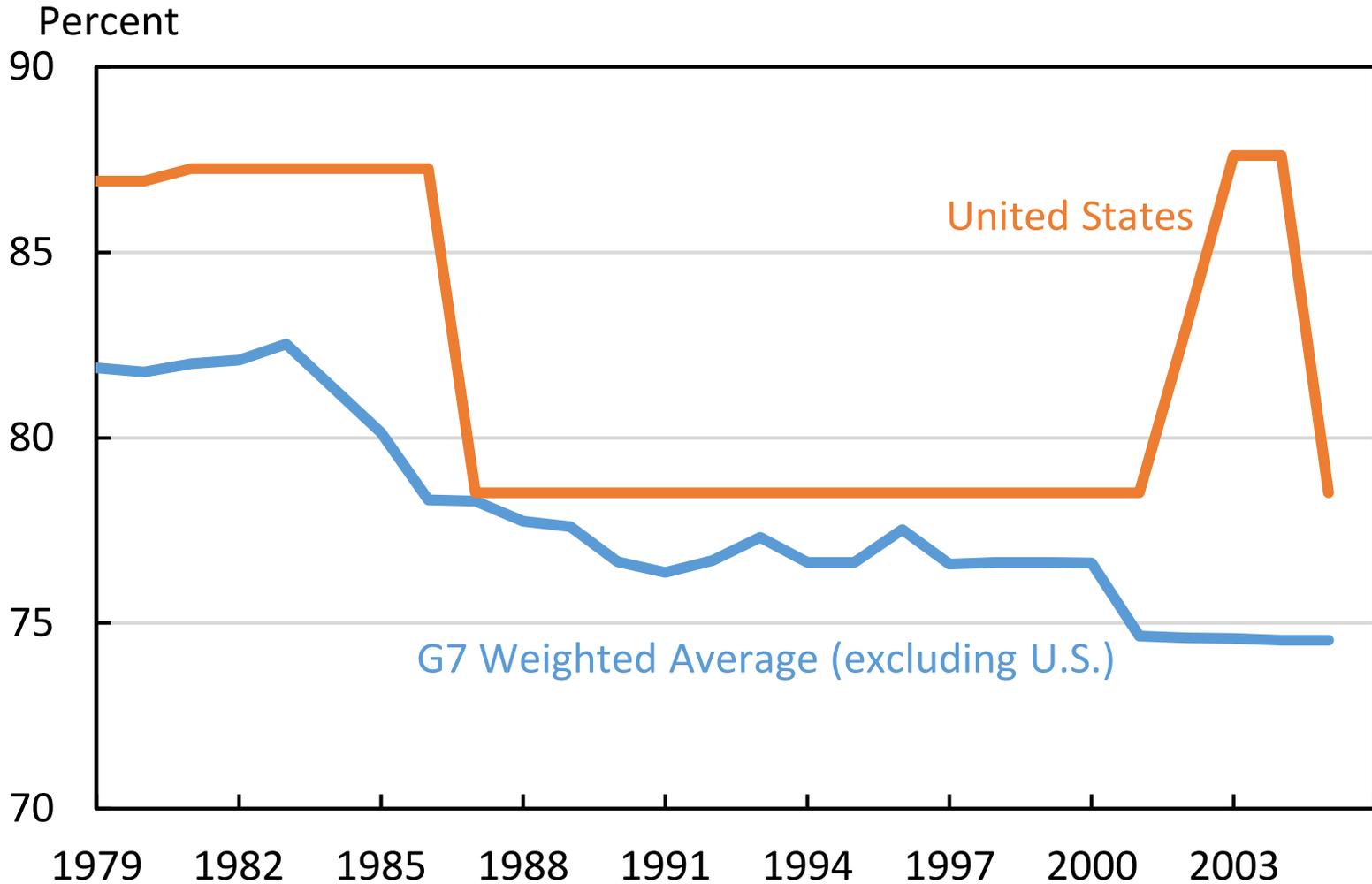
# The U.S. has the Highest Corporate Tax Rate in the World

## Statutory Corporate Income Tax Rates, 2014



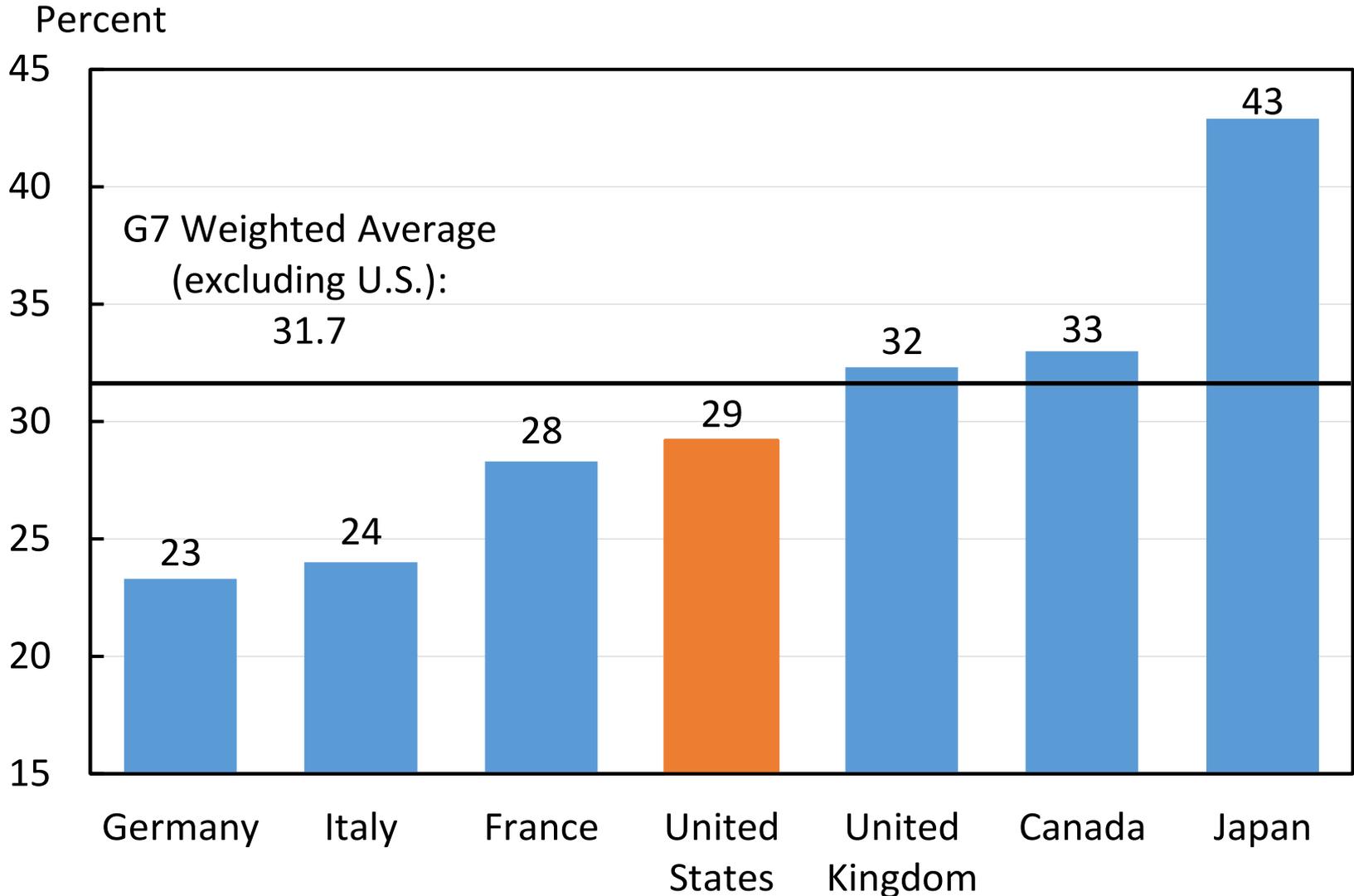
# The U.S. and Other Countries Have Reduced Depreciation Allowances When Cutting Corporate Tax Rates

## Present Discounted Value of Depreciation Allowances



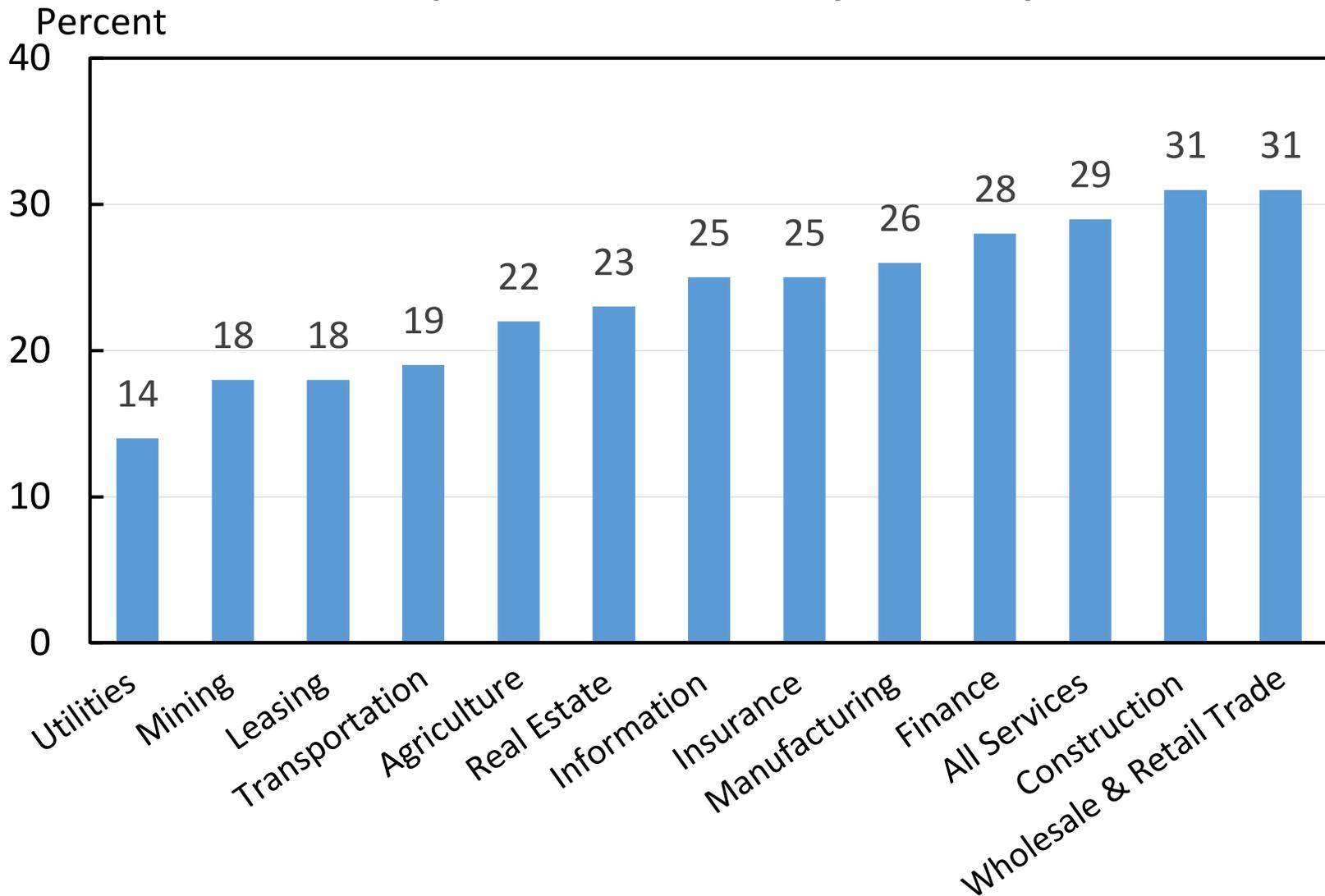
# U.S. Effective Marginal Tax Rates are in Line with Other G7 Countries

## Effective Marginal Tax Rates, 2011



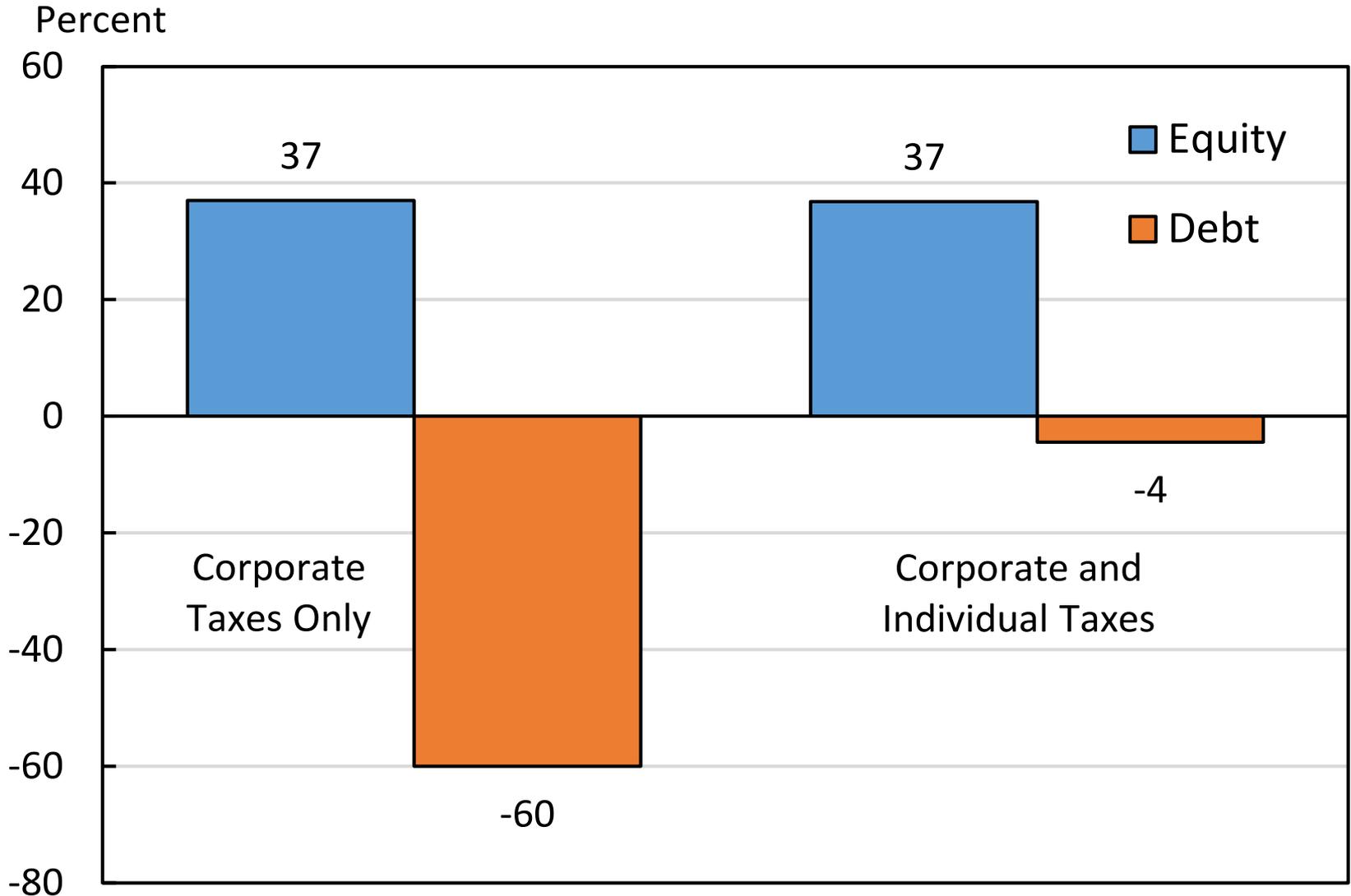
# The U.S. Tax System Distorts Investment by Industry

## Effective Fed. Corporate Tax Rates by Industry, 2007-2008



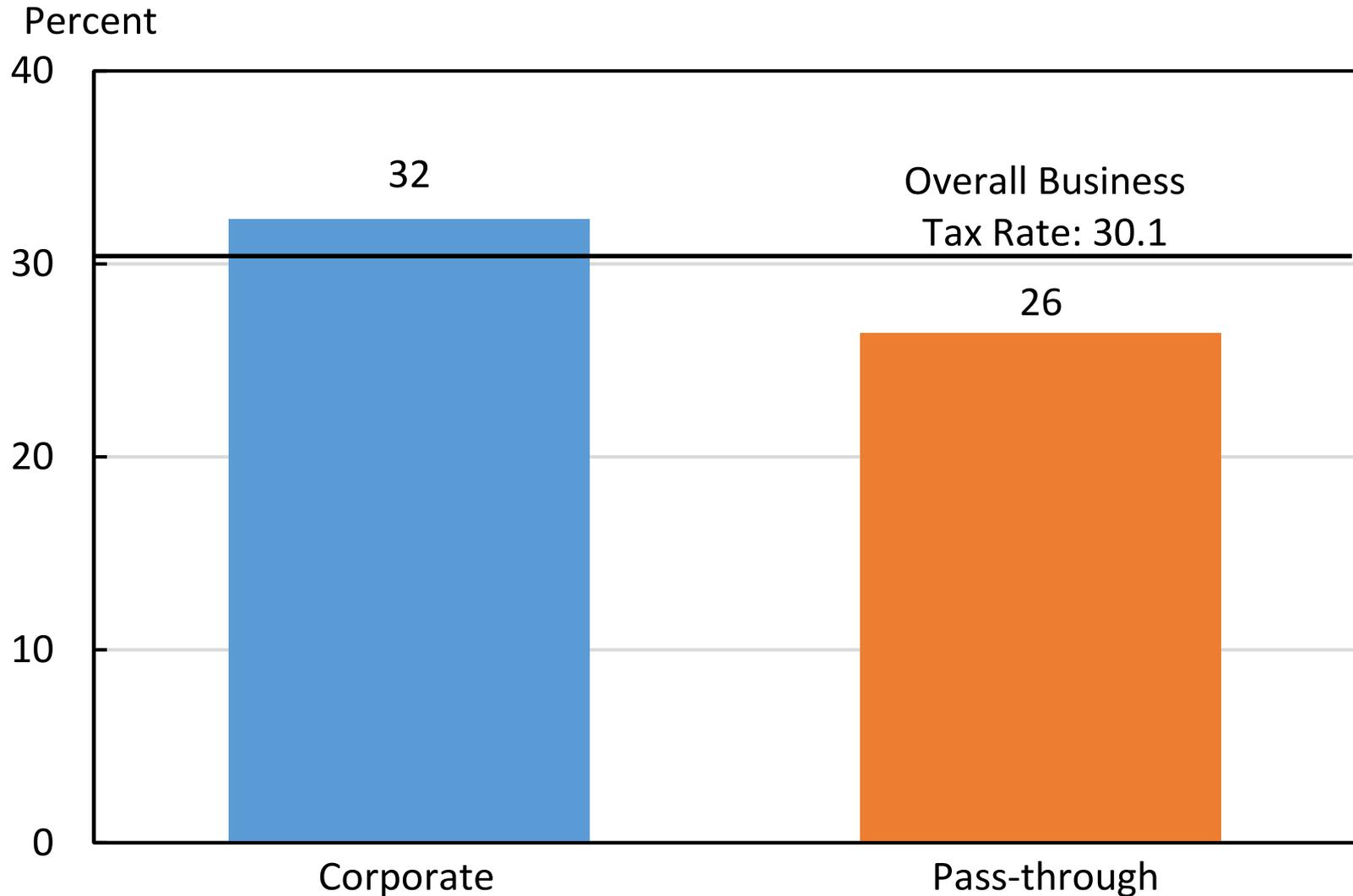
# The U.S. Tax System Distorts Investment Financing by Giving an Especially Strong Preference to Debt

## Marginal Tax Rates by Source of Financing



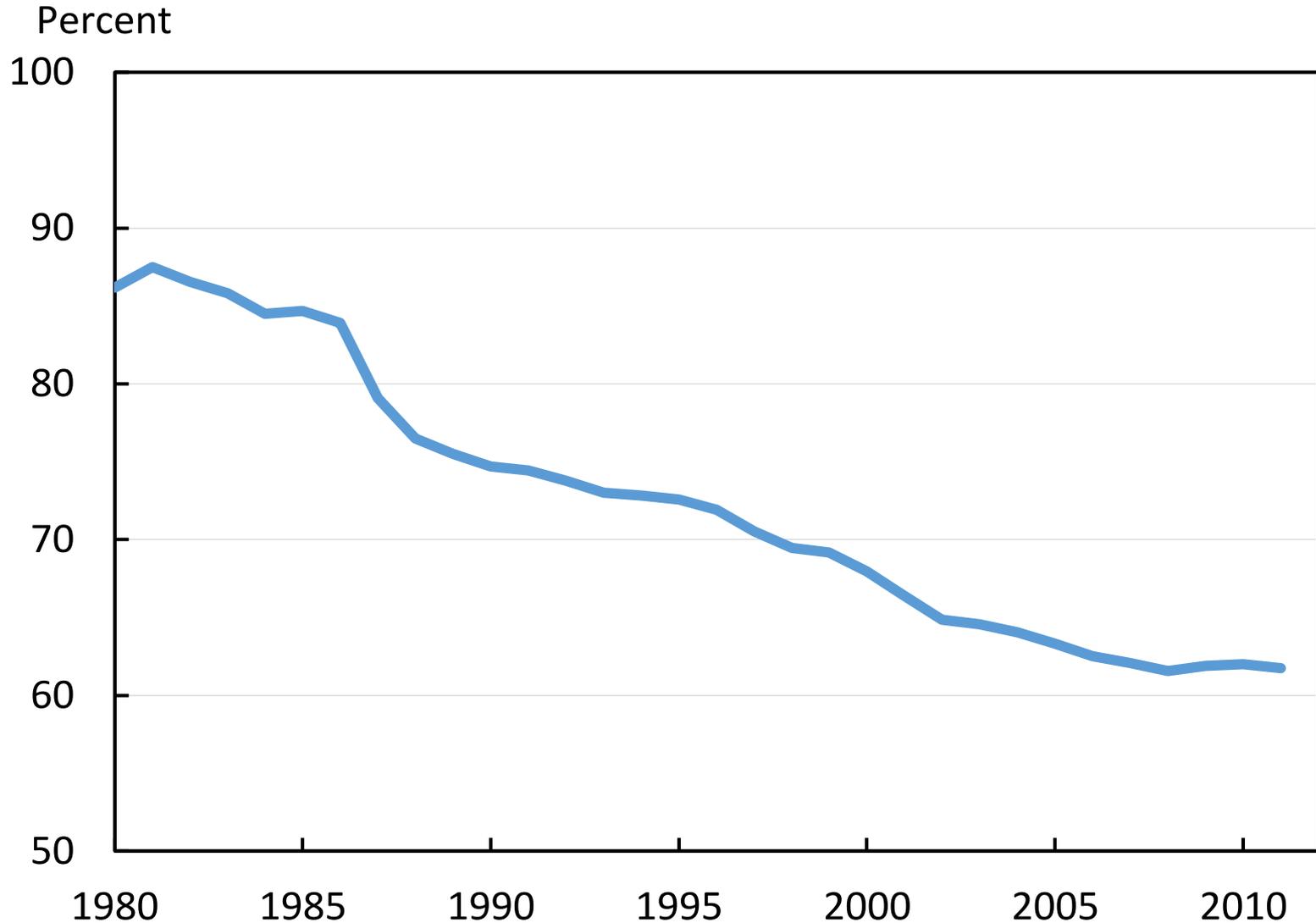
# The U.S. Tax System Distorts the Form of Business by Disfavoring Large C Corporations

## Effective Marginal Tax Rates on New Investment



# Business Receipts have Shifted Away from C Corporations

## C Corporation Share of Total Business Receipts



Note: RICs and REITs excluded from both C corporation share and total. Source: IRS; CEA Calculations.

# The U.S. Tax System Distorts the Location of Production and Profits

Country	U.S. Controlled Foreign Corporation Profits Relative to GDP (2010)
Bahamas	104%
Bermuda	1,578%
British Virgin Islands	1,009%
Cayman Islands	1,430%
Cyprus	13%
Ireland	38%
Luxembourg	103%
Netherlands	15%
Netherlands Antilles	25%

# **The President's Framework For Business Tax Reform**

## The President's Framework For Business Tax Reform

- Cutting the corporate rate to 28 percent, paid for by closing loopholes and structural reforms.
- Making permanent, expanding and reforming key incentives.
- Establishing a hybrid international system with a minimum tax on the earnings of foreign subsidiaries.
- Simplifying and reducing taxes for small businesses.
- Funding immediate investments while being revenue neutral over the medium and long run.

# **Addressing Four Objections to the Approach to Tax Rates in the President's Framework For Business Tax Reform**

# The President's Framework For Business Tax Reform: Addressing Four Objections

1. The Traditional Economist's View: Tax Rate Reductions are a Windfall for Old Capital
2. The New Economist's View: The Corporate Tax Rate Should be Zero
3. The Conservative View: The Top Individual Rate Needs to Be Cut with the Corporate Rate
4. The Progressive View: Corporate Loophole Closures Should Not Fund Rate Reductions