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U.S. Corporate Tax Reform: Groupthink or Rational Debate?

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The Washington Consensus on Corp Tax Reform

"The numerous combinations of a high statutory rate and deductions and exclusions results in an inefficient tax system that distorts corporate behavior in multiple ways."

Source: The President's Economic Recovery Advisory Board, *The Report on Tax Reform Options: Simplification, Compliance, and Corporate Taxation*, special report prepared at the request of the President, August 2010, 65,

Four Intellectual Groups in The Corporate Tax Reform Debate

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4. Pragmatic Tax Incentivists

Not All Distortions Are Bad

The R&D tax credit is growth enhancing, even though it is a "distortion."

"There is no presumption that distortions are necessarily welfare-reducing. Distortions that favor the contributors to long-run growth will be welfare-enhancing." (Canadian government economist Aleb ab Iorwerth)

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3. **Corporate tax reform risks cutting rather than expanding tax incentives which are critical to growth and innovation, such as the R&D tax credit and expensing of capital equipment.**

So What Should Corporate Tax Reform Do?

Lower the effective rate by enacting an American Innovation and Competitiveness Tax credit that provides a credit of 30 percent on expenditures on R&D and workforce training and a credit of 15 percent on machinery and equipment (including software) in excess of 50 percent of base period expenditures.

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