

TAXING TIMES

Reforming How Businesses Are Taxed

by Michael P. Boyle

(NAPSA)—Tax reform is a lot like the weather—everyone talks about it but no one seems to do anything about it. Incoming Treasury Secretary Henry Paulson could change that by focusing on the need for corporate tax reform.

Congress should not ignore the tax rules governing individuals, but modernizing America's business tax system is critical to promoting growth, creating jobs and narrowing the budget deficit. In deciding how best to proceed, Secretary Paulson and Congress must recognize four things.

First, America's Tax System Must Be Competitive. Every day we make choices based on cost: If gasoline is selling for 10 cents less on the left-hand side of the street than on the right, few of us turn right to fill up the car. Similarly with taxes: They are a cost that a business rightly considers as it locates new plants, creates distribution networks and hires workers. Taxes are not the only or most important cost to be considered, but they do matter. The U.S. system must change to remain competitive.

Second, Tax Rates Matter. A critical aspect of tax competition is the tax rate. Regrettably, while individual rates have been reduced, the corporate rate has remained unchanged since the 1990s.

In contrast, lowering tax rates has become the rule of the day in Europe. Significantly, lower rates do not mean lower revenues. Economist Martin Sullivan of the independent publication Tax Notes has confirmed that tax rate reductions in European countries have led to increased tax revenues. Moreover, a recent study of more than 70 countries by the American Enterprise Institute strongly links lower



corporate rates with higher wages. Corporate tax reductions should do the same here.

Third, The Tax Base Matters, Too. The amount of revenues raised by a tax system is the product of the tax rate and the tax base. While some incentives—such as those for research and education—have wide support, a growing consensus favors lower rates and a broader tax base to reduce complexity, ease tax administration and minimize the government's role in picking “winners” and “losers.”

Fourth, Complexity Matters. A primary advantage of lowering taxes through a rate reduction is that such a system is much easier to construct and, hence, simpler for taxpayers to follow. Simple is good, because complexity represents a daunting, hidden tax on American business. The Tax Foundation estimated that in 2005 it cost taxpayers \$265 billion to comply with federal income tax laws, with business's share being a staggering 55 percent.

It is time to embrace corporate tax reform in order to promote growth, create jobs and reduce the trade and budget deficits.

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