CORPORATE TAX REFORM

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Background: Budget Projections

Revenue and Outlays as a Percentage of GDP
2016–2027

Source: Congressional Budget Office, Budget and Economic Outlook, January 2017.
Background: Tax Proposals

Revenue Effects of House Republican and Trump Campaign Tax Proposals

Background: R&D Tax Expenditures

Source: US Department of the Treasury, Office of Tax Analysis, September 28, 2016; Joint Committee on Taxation (JCT), Estimates of Federal Tax Expenditures for Fiscal Years 2016–20,
Are Research Tax Expenditures Effective?

- Do they induce firms to conduct more research?
- Do they help research-intensive firms expand?
- Does the new research generate external benefits?
Corporate Tax System: Major Concerns

- High Corporate Tax Rate
- Treatment of International Issues: Source vs. Residence
  - Favor US Multinationals (territorial tax)
  - Encourage domestic investment (world-wide tax)
- Defining Source and Residence
  - Income shifting (IP profits)
  - Shifting residence (inversions)
Tax Reform: Conventional Options

- Reduce Rates and Broaden the Tax Base
  - Which preferences at risk?

- Change Method of Taxing Foreign-Source Income
  - No repatriation tax
  - Minimum tax on IP profits
  - Lump sum tax on existing foreign assets
Tax Reform: More Fundamental Approaches

- Shift to Destination-Based System (House GOP)
- Shift from Corporate to Shareholder-level Taxation
- Partial Replacement of Corporate and Individual taxes with VAT
Effects on Research

- Treatment of R&D vs. Other Investments
- Incentives for Companies to be US Resident
- Incentives for Capital to flow to United States
THANK YOU

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