

Tax Reform

THE ISSUE:

Taxes should raise the revenue to fund necessary government operations in ways that cause the least possible economic damage. Accordingly, Congress and President Obama should reform the existing tax code and drop their current plans to increase taxes on high-income earners, small businesses, investors, and other job creators. For good reason, no school of economic thought advocates raising taxes during a recession or in its immediate aftermath. Raising taxes now would be reckless and irresponsible. Instead, Congress should focus on tax reforms that would grow jobs and the economy.

THE FACTS:

- **Corporate Taxes Are Too High.** At a combined government rate of 40%, the U.S. has the second highest corporate income tax rate in the world, which makes [America unappealing in the competition for businesses and jobs](#).
- **The Problem with Progressivity.** Top earners are the immediate target for new tax increases, but [the U.S. tax system is already highly progressive](#). The top 1% of income earners paid 40% of all federal income taxes in 2007, while the bottom 50% paid only 3%.
- **The Return of the Death Tax.** In January 2011, unless President Obama and Congress act, the death tax which currently stands at 0% will be raised to 55% with a \$1 million exemption. The death tax discourages saving and investing, undermines job creation, suppresses productivity and wage growth, contradicts the central promise of American life—wealth creation—and hurts those who have their savings tied up in land and other hard-to-sell assets. The death tax is a drag on the economy and raises only 1% of all federal revenue. Estimates show it

costs the economy more in lost growth than it raises in revenue.

- **Households Are Already Taxed Enough.** American households are sending more of their income to Washington, even with the 2001 and 2003 tax relief. For 2008, the average household paid \$21,616, which is well above the historical average of \$16,334.

THE SOLUTIONS:

- **Block the Obama Tax Hikes.** President Obama and Congress want to drastically raise taxes in January 2011, which would stifle the anemic economic recovery and destroy job creation. [The current tax rates must be made permanent](#) for all individuals, businesses, and investors.
- **Permanently Eliminate the Death Tax.** Congress should stick with current policy and permanently repeal the death tax once and for all. Abolition of this harmful tax will help spur economic recovery, put unemployed Americans back to work, and increase the long-term growth potential of the economy. Most importantly, repeal of the death tax would restore the American Dream that if you work hard and live a virtuous life, you can pass the fruits of your labor to succeeding generations of your family without fear that the government will take it away from them.
- **Lower Corporate Income Taxes.** The U.S. corporate tax rate should be set at or below the Organisation for Economic Co-operation and Development average of 26% to eliminate the incentive to move businesses and jobs overseas.
- **Shift to a Territorial Tax System.** The U.S. is one of the few countries that still taxes businesses on income earned abroad. Taxing businesses only on the income earned within U.S. borders would improve our competi-

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Entitlements

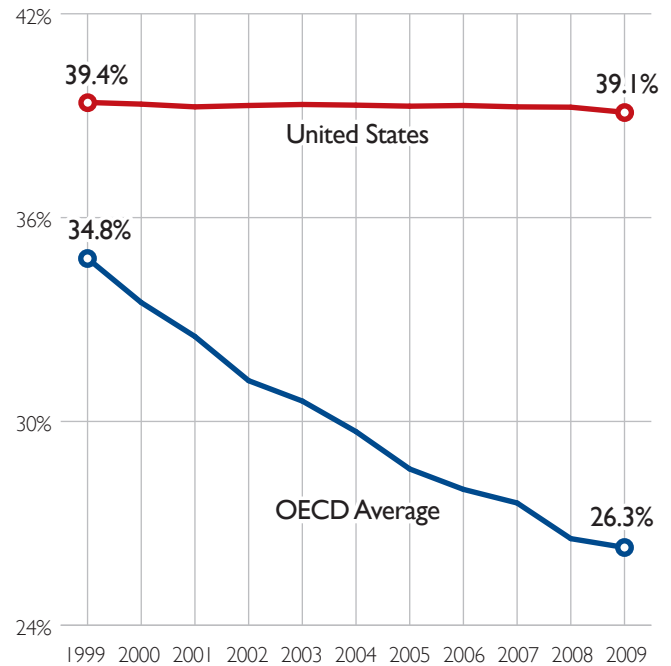
Entitlements are one of the greatest domestic challenges the nation faces. This product is part of the Entitlements Initiative, one of 10 transformational initiatives in our Leadership for America campaign.

tiveness at home and abroad, which in turn would spur job creation.

- **Stop Taxing Businesses as Individuals.** Taxes on small businesses are often collected at [high rates on owners' individual tax returns](#). Instead, taxes should be collected at the entity level and rates reduced to 25%, which would help business to grow and create jobs.
- **Fix Capital Depreciation Rules.** Businesses typically must deduct the cost of investments in new plants and equipment over years. Shortening or eliminating the depreciation period would reduce the tax bias against business investment, increasing business investment, competitiveness, and future wage growth through higher worker productivity.
- **Eliminate the Alternative Minimum Tax.** The Alternative Minimum Tax (AMT) is a secondary income tax system without purpose or justification that now threatens to ensnare middle-income families. Eliminating the AMT from individual and corporate income taxes would simplify the tax code and prevent an unintended tax hike.
- **Liberate Seniors from Payroll Taxes.** As part of a broader effort to reform of our out-of-control entitlement programs, seniors who wish to work into their retirement years should be freed from the burden of paying Social Security payroll taxes and employers who are willing to hire and/or retain older workers should be exempt from paying the employer share of the payroll tax.
- **Eliminate State and Local Tax Deductions.** The deduction of state and local taxes from federal taxes lowers the

U.S. Corporate Income Tax Rate Is Increasingly Uncompetitive

COMBINED CORPORATE INCOME TAX RATE



Source: Organisation for Economic Co-operation and Development, at <http://www.oecd.org>.

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perceived cost of government and encourages its growth. Eliminating this deduction would both simplify the tax system and offset the cost of the proposed tax relief.