



The Corporate Income Tax System: Overview and Options for Reform (CRS Reports)

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Many economists and policy makers believe that the U.S. corporate tax system is in need of reform. There is, however, disagreement over why the corporate tax system needs to be reformed, and what specific policy measures should be included in a reform. To assist policy makers in designing and evaluating corporate tax proposals, this report (1) briefly reviews the current U.S. corporate tax system; (2) discusses economic factors that may be considered in the corporate tax reform debate; and (3) presents corporate tax reform policy options, including a brief discussion of current corporate tax reform proposals. The current U.S. corporate income tax system generally taxes corporate income at a rate of 35%. This tax is applied to income earned domestically and abroad, although taxes on certain income earned abroad can be deferred indefinitely if that income remains overseas. The U.S. corporate tax system also contains a number of deductions, exemptions, deferrals, and tax credits, often referred to as “tax expenditures.” Collectively, these provisions reduce the effective tax rate paid by many U.S. corporations below the 35% statutory rate. In 2014, the sum of all corporate tax expenditures was \$154.4 billion. The significance of the corporate tax as a federal revenue source has declined over time. At its post-WWII peak in 1952, the corporate tax generated 32.1% of all federal tax revenue. In 2013, the corporate tax accounted for 9.9% of federal tax revenue. The decline in corporate revenues is a combination of decreasing effective tax rates, an increasing fraction of business activity that is being carried out by pass-through entities (particularly partnerships and S corporations, which are not subject to the corporate tax), and a decline in corporate sector profitability. A particular aspect of the corporate tax system that receives substantial attention is the 35% statutory corporate tax rate. Although the United States has the world’s highest statutory corporate tax rate, the U.S. effective corporate tax rate is similar to the Organization for Economic Co-operation and Development (OECD) average. Further, the United States collects less in corporate tax revenue relative to Gross Domestic Production (GDP) (2.3% in 2011) than the average of other OECD countries (3.0% in 2011). This report discusses a number of economic considerations that may be made while evaluating various corporate tax reform proposals. These might include analyses of the likely effect on households of certain reforms (also known as incidence analysis). Policy makers might also want to consider how certain corporate tax provisions contribute to the allocation of economic resources, choosing policies that promote an efficient use of resources. Other goals of corporate tax reform may include designing a system that is simple to comply with and administer, while also promoting competitiveness of U.S. corporations. Commonly discussed corporate tax reforms include policies that would broaden the tax base (i.e., eliminate tax expenditures) to finance reduced corporate tax rates. Concerns that the U.S. corporate tax system inefficiently imposes a “double tax” on corporate income have led some to consider an integration of the corporate and individual tax systems. The treatment of pass-through income—business income not earned by C corporations—has also received considerable attention in tax reform debates. How the United States taxes income earned abroad, and the possibility of moving to a territorial tax system, have emerged as important issues.

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