



## The Prospects for Corporate Tax Reform

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Stipulating to an eventual political consensus on the “fundamentals,” what might corporate or business tax reform look like? While the devil will certainly be in the details, the policy momentum appears to be developing along the lines of “classic” reform, i.e., a substantial reduction in tax rates with a significant broadening of the income tax base. Few members of Congress appear inclined to pursue reform as a repeal of the current progressive income tax in favor of a consumption-based tax system.

Structuring tax reform as a bargain between lower income tax rates and a broader tax base will create many “winners” and “losers.” Importantly, there are many common or similar features in the tax reform “discussion drafts” released by various congressional leaders and the “Framework for Business Tax Reform” advanced by President Obama. The commonality includes a substantial reduction in the top corporate tax rate from 35 percent to a top rate 8–10 points lower, adoption of a “hybrid” territorial tax system for international commerce and significant repeal or restriction of a wide variety of corporate “tax expenditures.” These include proposed cutbacks to various capital investment incentives, sophisticated financial instruments and accounting methods, as well as deductions for accelerated depreciation, advertising, domestic manufacturing, and research and development expenses. In addition, industry-specific cutbacks are proposed for real estate, energy and insurance companies among others.

Seen to a successful conclusion, tax reform holds the potential for significant policy change and a beneficial effect on the national economy—with no guarantee of universally good results for all companies. Given the elements of the likely legislative “bargain” (lower rates for a broader tax base), corporations will have to do the math and evaluate the tradeoffs to determine whether they are a “winner” or “loser” as the legislation progresses.

During its congressional journey, tax reform will present various policy threats and legislative vulnerabilities—and, on occasion, opportunities for positive change. To end up on the right side of the tradeoff equation, a high level of substantive skill and political sophistication will be required to navigate the critical policy and political challenges ahead.

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