Written Submission of the RATE Coalition
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In today's global economy, America's tax system must reflect the dynamic and innovative marketplace in which all businesses compete. Reducing America's Taxes Equitably (RATE) is a coalition of businesses, associations and other like-minded groups that have joined together to advocate for sound and equitable reforms to the tax code that will restore the competitiveness of the United States as a place to invest and grow, and boost job creation and economic growth.

The 24 members of RATE employ over 30 million people across all 50 states and support innumerable suppliers and small businesses. RATE believes that in order to improve the prospects of growth and jobs in the American economy, the U.S. must reform the corporate tax code, making it fairer and simpler, and lower the 35 percent statutory corporate income tax rate to make it more competitive with America's major trading partners.

RATE was therefore encouraged that the Ways & Means Committee's recent tax reform proposal from Chairman Camp advocated for a 25 percent corporate tax rate. The coalition believes that this lower rate will justify itself via increased economic growth and job creation – and that it is imperative for the U.S. to act now. The coalition also believes that corporate tax base-broadeners should be examined if necessary to achieve a more equitable and competitive corporate tax system.

Today, the U.S. tax system has become an outlier relative to other advanced economies in terms of a significantly higher corporate rate. Over the last two decades, most other developed nations have reduced their statutory corporate rate. Of the 34 OECD nations, 30 have lowered their statutory corporate income tax rates since 2000. Additionally, the United Kingdom is scheduled to lower its rate to 23 percent by 2015, while Canada's federal rate is 16.5 percent with a reduction to 15 percent in 2012. There is an ongoing international competition between countries for the most favorable corporate tax system and the U.S. is clearly losing.

In 2010, the average corporate tax rate in the OECD (excluding the U.S.) was 25.5 percent, including sub-central taxes. In contrast, the corporate tax rate in the United States stands at over 39 percent once state and local taxes are accounted for. This system puts U.S. companies at a competitive disadvantage and hinders economic growth.

In fact, a 2008 report by economists at the OECD found that the corporate income tax is *the most* harmful tax for long-term economic growth. This is because capital and income are the most mobile factors in the global economy and, thus, the most sensitive to high tax rates. Research generally finds

that foreign direct investment (FDI) is highly sensitive to cross-country differences in after-tax returns. One study summarizing the research found that a one percentage point reduction in a host country's tax rate increased FDI by 2.9 percent and also found that the responsiveness of FDI has risen over time. Additionally, because capital is mobile but workers are not, labor bears a disproportionate share of the burden of corporate taxes – as much as 75 percent by some estimates.

Reducing the statutory rate, therefore, will provide several benefits to the U.S. economy. As a recent paper commissioned by RATE and published by Ernst & Young highlighted, benefits of a lower corporate income tax include:

- Increased competitiveness of the United States in the global economy;
- Increased capital investment in the United States;
- Increased employment and living standards for Americans; and
- Reduced impact of taxes on economic decisions.

Thus, a significant corporate tax rate reduction is needed to both help U.S. companies compete abroad and attract investment in the United States by foreign companies. Specifically, a more competitive rate will increase capital investment, bringing more employment and higher wages for U.S. workers, as well as higher living standards. Investment will also translate into increased U.S. production at home and expanded exports to the rest of the world.

While the benefits cannot be predicted with precision, many studies support the finding that a reduction in the corporate tax rate will spur faster economic growth and create jobs in the U.S. According to the Heritage Foundation, reducing the corporate tax rate to 25 percent will create an average of 581,000 jobs in the U.S. annually from 2011 to 2020. The Milken Institute also published a study indicating that if the U.S. moved to the average OECD rate it could boost GDP by 2.2 percent and increase employment by 2.13 million workers. Lee and Gordon in the Journal of Public Economics report similar numbers, finding that a reduction in the corporate rate by ten percentage points will lead to GDP growth of between 1-2 percent.

Studies also find that lower rates have benefited America's competitors. According to Ernst & Young, between 2000 and 2011, the two countries with the highest corporate income tax rates (the U.S. and Japan) suffered a net loss of 46 and 39 Fortune Global 500 company headquarters, respectively. The firm also finds that in the last few years, European corporate taxable income expanded by 0.45 percent for every one percent decrease in the statutory corporate income tax rate.

Finally, economic growth creates successful companies, and successful companies create more jobs and pay better wages. Studies show that American workers and families will also benefit from a lower tax rate. According to the American Enterprise Institute, data from 65 countries over 25 years show that every one percent increase in corporate tax rates leads to a 0.5-0.6 percent decrease in wages. Ernst & Young has also found that workers bear up to 75 percent of the burden of the corporate income tax. In the U.S., this equates to lower wages and benefits of $100 - $200 billion at the average level of corporate taxes between 2000 through 2010. Reducing the statutory rate to 25 percent, according to the Heritage Foundation will actually increase a family of four's after-tax income by $2,484 annually, on average.

In summary, a lower, more competitive corporate tax rate, in line with the proposal from Chairman Camp, will better allow U.S. businesses to compete in today's globalized marketplace while making the U.S. a more attractive place to invest and create jobs, benefiting American workers, American consumers and American small businesses.

About RATE Coalition:

RATE is a coalition of 24 companies and organizations advocating for sensible corporate tax reform. Making the tax code fairer and simpler will help spur job growth and stimulate the U.S. economy and make us more competitive globally. RATE members currently include: AT&T, Altria Client Services Inc., Association of American Railroads, Boeing, Capital One, Cox Enterprises, CVS Caremark, FedEx, Ford, General Dynamics, Home Depot, Intel, Lockheed Martin, Macy's, National Retail Federation, Nike, Raytheon, Texas Instruments, Time Warner Cable, T-Mobile, UPS, Verizon, Viacom and Walt Disney. More information about the coalition is available at www.RATEcoalition.com