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Perspectives on the Need for Tax Reform

Good afternoon, Chairman Boustany, Ranking Member Neal, and Members of the Committee. It is an honor and a privilege to appear before you today to discuss perspectives on the need for federal tax reform. I will focus my attention on how U.S. tax laws can be changed to improve the current and future living standards of Americans through economic growth, business expansion and job creation.

Any critical review of the effect of U.S. tax laws on economic growth must focus on the corporation tax because the corporation tax is our most economically damaging tax. Tax reform presents many challenges for this subcommittee but I believe in the current environment the most critical of these is reducing the harmful economic effects of the corporation tax in a manner that is both fiscally responsible and does not reduce the progressivity of the tax system.

Though it has been a salient feature of the income tax since its inception, there is no economic justification for an elaborate set of rules that potentially subjects business profits to a second level of tax. All types of distortions that hurt our economy are the result. There is less capital formation. Businesses both large and small do everything possible to qualify for passthrough status. Corporations have a large tax incentive to issue debt, and equity-financed businesses are put at a competitive disadvantage with firms that borrow. And in order to defer tax at the individual level corporations have a bias in favor of retaining earnings over paying dividends to shareholders.

We have long understood these problems with the corporate tax, but they have been tolerated because the corporate tax is a large and politically expedient source of revenue. The Congressional Budget Office projects the corporate tax will raise $4 trillion over the next decade. It will not be easy to find offsetting revenues to replace even a faction of that total. Just as daunting as the revenue problem is the public's perception of the corporate tax. Despite its

[1] The views here are my own and not those of Tax Analysts. Founded in 1970 as a nonprofit organization, Tax Analysts is a leading provider of tax news and analysis for the global community. By working for the transparency of tax rules, fostering increased dialogue between taxing authorities and taxpayers, and providing forums for education and debate, Tax Analysts encourages the creation of tax systems that are fairer, simpler, and more economically efficient.

considerable economic shortcomings, there is deep-seated feeling shared by most Americans that big business is not paying its fair share of taxes.

In the modern globalized economy our old-fashioned tolerance of the corporate tax and willingness to retain a high corporate tax rate is not doing us any favors. In the past our main concern with the corporate tax's effect on capital formation was that it would reduce the amount of capital formation performed by U.S. firms who did most of their investing in the United States anyway. Though there was a lot of dispute (as there always is) among economists, most studies showed that back then the corporate taxes had only a modest effect on U.S. capital formation.

Globalization has changed all that. Now capital is far more mobile over international borders. This means that even if the corporate tax has a small effect on the overall amount of capital spending, it can still have a large effect on where that capital is located. In other words, our main concern is not that a firm will *reduce* its capital spending but that it will *shift* it capital spending outside the United States.

Because business are more likely to shift the location of capital spending that reduce the overall level of capital spending, the detrimental effects of the U.S. corporate tax on capital formation in the United States have grown significantly. With reduced domestic production there are fewer jobs for American workers. With less domestic capital formation, productivity and wages decline. And so now the burden of the corporation tax is not just a burden on owners of capital concentrated at the upper-end of the income scale but on American workers as well.

Other countries around the world have responded to competitive pressures of globalization by reforming their corporate taxes and lowering their corporate tax rates. Meanwhile, by standing still the United States has fallen behind. It is puzzling why the United States with its strong capitalist and low-tax traditions has not followed suit. Perhaps it is the increasing partisan gridlock in the United States that makes sweeping legislation like tax reform difficult to pass. Perhaps it is the unwillingness of the U.S. Congress to consider adoption alternative revenue sources, such as a value-added tax. Whatever the reason, while all other major industrialized countries have reduced their corporate tax rates, the United States has refused to budge from the 35 percent rate that has been in place for the last 23 years. Taking into the account the effect of state taxes, the combined federal-state corporate tax rate exceeds 39 percent and is the highest in the industrialized world.

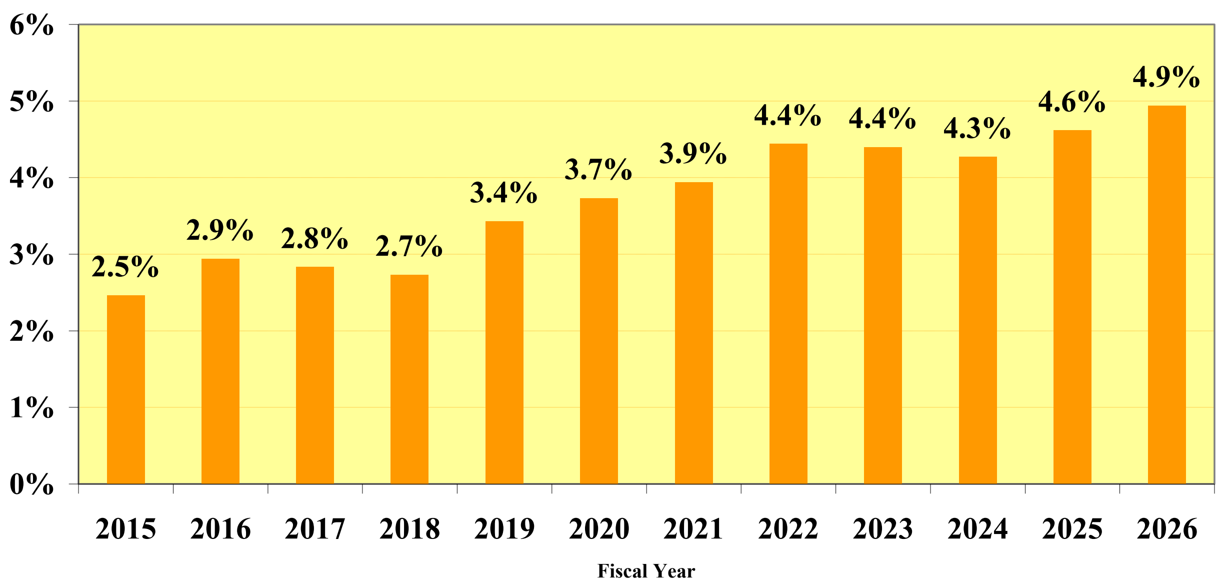
In addition to globalization and declining foreign tax rates, the OECD's BEPS project is providing the United States with yet another motivation for corporate tax reform. In essence, the OECD's BEPS project is telling governments that profits must be aligned with substantial value creation. As this principle becomes more widely adopted, we will be entering a new era where rate differentials take on heighted significance for the shifting of real business activity. The likely response by foreign parliamentary governments that can more easily change their tax laws will be further reductions in their corporate tax rates. Thus, the already problematic economic effects of a high U.S. corporate tax could be compounded by rate cuts of foreign governments responding to BEPS. Reducing the corporate tax rate has always been a top priority of U.S. economic policy. The BEPS project has raised the stakes.

The critical question is how do we pay for a lower corporate tax rate. It has been five years since Simpson-Bowles Commission put tax reform on the front burner. But since then there has not been one tax reform proposal that has come close to coming up for a vote in either the House or Senate tax-writing committees. The lukewarm response to former Ways and Means Committee Chairman Camp's prodigious tax reform efforts demonstrates the political obstacles to 1986-style tax reform that lowers the rates and broadens the base. There is no obvious Plan B. Worse still, at this time when the need for corporate tax reform has never been greater, the obstacles to corporate reform are growing.

Obstacles to Corporate Reform

To make real progress on corporate rate reduction we will need to raise more revenue than can be raised from corporate base broadening. From an economic perspective there is nothing wrong with corporate tax reform that loses revenue as long revenue losses are offset by cuts in inefficient spending or other tax increases. Unfortunately, we are rapidly running out of fiscal space that would make revenue-losing corporate reform possible. In the figure below, the Congressional Budget Office's latest baseline budget projections show that the federal deficit as a percentage of GDP will nearly double from 2.5 percent in 2015 to 4.9 percent in 2026. Debt held by the public will increase from $14 trillion to $24 trillion. This happens despite discretionary spending cuts from 6.5 percent of GDP in 2015 to 5.2 percent of GDP in 2026 already being baked into the forecast. If that isn't scary enough, projections for the following decades only continue to grow with the cost of entitlements.

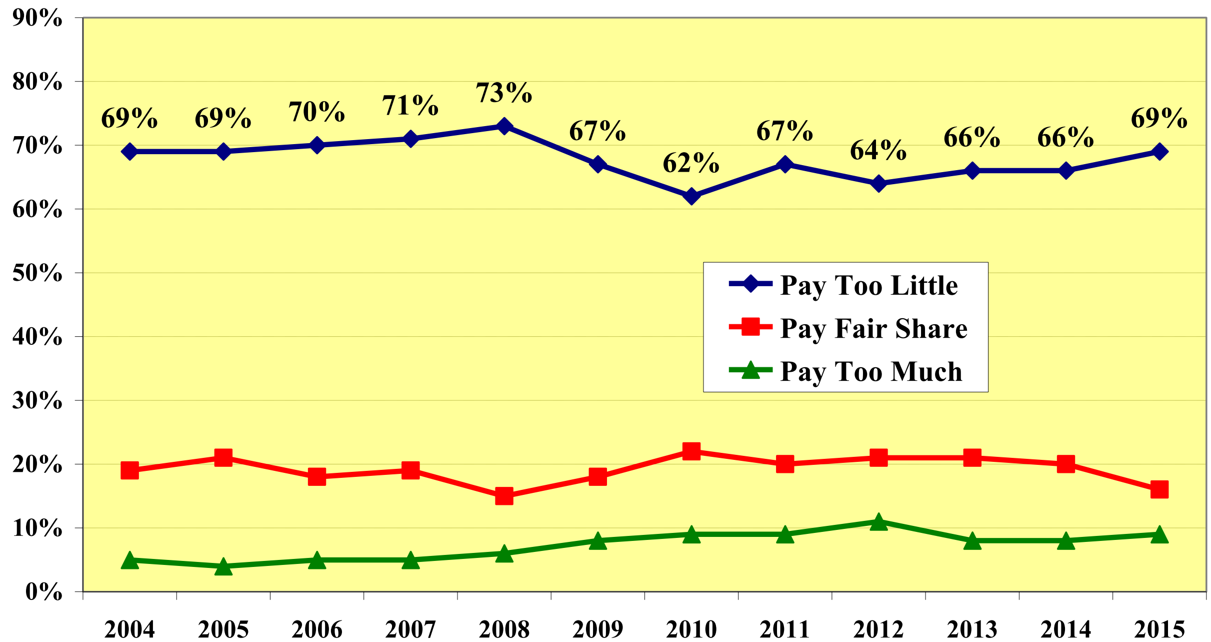
Latest CBO Federal Budget Deficit Projections
(Deficit as a % of GDP)



Source: Congressional Budget Office, *Updated Budget Projections: 2016-2026* , March 24, 2016.

Another obstacle to corporate tax reform is American public's perception of corporate taxation. The figure below shows Gallup poll results indicating that on average over the last decade, seven out of 10 Americans believed American corporations were not paying their fair share of taxes. Similarly, a 2015 Pew Research poll found that 64 percent of Americans are bothered "a lot" by the belief that corporations are not paying their fair share of taxes.[2]

Americans' Views on the Tax Burden of Corporations



Source: Justin McCarthy, "More Americans Say Low-Income Earners Pay Too Much in Taxes," April 15, 2015, at www.gapllop.com.

Despite these polling results, there is currently a lot of discussion of business-only tax reform. If Congress were to enact stand-alone business tax reform this would be a major break with the past. Except for some extensions of expiring provisions, in recent decades Congress has not enacted business tax relief unless it was accompanied by much larger tax cuts for individuals. Consider these historical events:

- The Economic Recovery Tax Act of 1981, signed into law by President Reagan, was projected to cut taxes by $750 billion over the 1981-1986 period. Only 20 percent of those cuts were for business.
- The Tax Reform Act of 1986 achieved overall revenue neutrality by offsetting $122 billion in individual income tax cuts over the 1986-1991 period with a nearly equal amount of corporate tax increases.
- The Taxpayer Relief Act of 1997 offset approximately $390 billion of tax cuts over the 1997-2007 period with $116 billion in tax increases. All the tax cuts were reductions in individual income and estate taxes.

[2] Seth Motel, "5 Facts on How Americans View Taxes," April 10, 2015, at http://www.pewresearch.org.

- The Economic Growth and Tax Relief Reconciliation Act of 2001, signed into law by President George W. Bush, cut taxes by $1.35 trillion over the 2001-2011 period. Except for $138 billion of estate tax cuts, all the other tax relief came in the form of tax cuts for individuals.
- The American Recovery and Reinvestment Tax Act of 2009, signed into law by President Obama, cut taxes by an estimated $326 billion over the 2009-2019 period. It included only $6 billion of net non-energy business tax cuts and $19 billion of energy tax cuts.
- The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended the Bush tax cuts for two years. The total estimated revenue cost was $858 billion over 10 years. Only two significant business tax cuts were included: a $1 billion extension of bonus depreciation and a $13 billion extension of the research credit.
- On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012. Estimated to reduce revenue by $3.9 trillion over the 2011-2021 period, this law permanently extended the Bush tax cuts for most taxpayers and greatly downsized the alternative minimum tax. Except for $396 billion of estate tax relief, almost all of these cuts were for individual taxes.

So there you have it: Seven major changes in tax law, all with tax relief for individuals and all with relatively small amounts of business tax relief or with none at all. And it does not seem to matter which party is in the White House or in control of Congress. When it comes to actually making law, both Republicans and Democrats strongly favor individual over business tax cuts.

Rising Economic Populism

As difficult as it has been in the past to enact stand-alone business tax cuts, the political environment now is probably less favorable to business tax relief than at any time in living memory. This is an unexpected development. Just a few years ago a reasonable prediction would have been that business-only tax reform had good chance of enactment in 2017. After all, with ever-increasing international capital mobility and ever-declining corporate tax rates, isn't the economic case for cutting taxes on U.S. business operations more compelling than ever? Isn't it obvious that we should be following the lead of the United Kingdom which just announced its intention to reduce its corporate tax rate to 17 percent by 2020?

But 2016 has been anything but a normal year in American politics. As profits and stock prices hover near record levels, the United States is entering its third consecutive decade of stagnant wage growth. There are 5 million fewer American manufacturing jobs now than there were in 1990. Median income has flat-lined. The economy is not working for working-class Americans, and they are fed up. Long-simmering economic populism has been brought to a boil by the candidacies of Donald Trump and Bernie Sanders.

But it is not just Trump and Sanders who are sounding populist themes. All the major candidates for president in this election cycle—including conservative Republicans—are courting working class voters with lots of rhetoric complaining about corporate power and crony capitalism. A continuing barrage of press reports about large profitable corporations' aggressive tax avoidance has only contributing to the anti-corporate sentiment—further bolstering the public's opinion of corporations as not paying their fair share of taxes. The major implications of this for the candidates' tax policies are wholesale attacks on tax breaks that favor the wealthy and large corporations and strong support for large tax cuts for low- and middle-income families. This latter development is a fundamental break with the supply-side economic theories that have dominated conservative thinking for the last three decades.

Whoever is the next president, he or she will have spent more than a year denouncing elites and promising tax relief for people who live paycheck to paycheck. It seems unlikely that he or she would prioritize a tax cut or a tax reform exclusively for the benefit of business. The 2016 election has provided an outlet for the latent anger of the working class, and it is unlikely the populist genie can be put back in the bottle when the election is over.

For those of us who place a high priority on corporate tax reform, this is not a hopeful picture. At this point it is hard to discern exactly what tax policies will address voters' discontent and improve living standards. I believe, however, there are several intriguing and economically uncontroversial ideas that have emerged from our recent tax reform debate that can be useful to Congress as it tackles the challenge of tax reform in 2017. These are listed below.

Some Guidelines for Tax Reform

It is better to tax shareholders than corporations. A decade ago, nobody would have believed that conservatives would ever advocate increased taxation on capital gains and dividends. But now it is increasingly accepted by economists and analysts of all political stripes that tax hikes on investors should be used to pay for tax cuts on corporations. The reason is simple: When you raise taxes on corporations, investment moves to a lower-tax jurisdiction. This lowers domestic productivity, wages, and employment. When you raise taxes on investors, investors can move, but usually they don't. Most people are unwilling to uproot families, leave friends, and adopt a new culture just to save taxes. And so with shareholder taxes, wealthy investors bear most of the burden rather than workers.[3]

Mobile activities should be taxed at lower rates than immobile activities. Economists have long known this as the Ramsey inverse elasticity rule: To promote economic efficiency, items

[3] In a 2010 paper economists Rosanne Altshuler, Benjamin Harris, and Eric Toder explored the possibility of returning the top dividend and capital gains rates to their pre-1997 level of 28 percent. They made several interesting findings: First, most OECD countries have moved in the opposite direction of the United States and have raised shareholder tax rates while lowering corporate rates. Second, because the cross-border mobility of individuals is less than that of corporations, such a change would reduce tax distortions in economic decision-making. Third, because the burden of corporate taxation is believed to increasingly fall on labor, a shift in tax from corporations to shareholders would increase the progressivity of the tax system. ("Capital Income Taxation and Progressivity in a Global Economy," *Virginia Tax Review*, 2010, p. 355.) James Pethokoukis of the American Enterprise Institute has written: "Perhaps it is time for a new approach, with one economically obvious reform being a shift of corporate income taxation from the corporate level to that of the individual shareholders." Similarly, Alan Viard, also at the American Enterprise Institute, has stated: "We need to base our tax on where the stockholders live. We should give up this idea of taxing income at the corporate level, and instead say American shareholders should pay tax every year at full ordinary income rates on their dividends and their capital gains from any company no matter where the company is chartered or managed or where it earns its profits, and that tax should apply regardless of whether the stockholders sold the stock or not." (James Pethokoukis, "What to Do About US Firms Moving Overseas to Pay Lower Tax Rates?" Nov. 23, 2015. Includes quote from Alan Viard.)

that are less responsive to tax changes should be taxed at higher rates. Regular people instinctively understand this because they know that in a negotiation, the party that can walk away is in the stronger bargaining position. Mobile international businesses have choices. So if a country on a limited budget wants to attract as much foreign capital as possible, it will do better "spending" its tax relief dollars on mobile rather than immobile capital.

The tough part for governments wishing to implement this approach is drawing an administrable line between business activities that are mobile and immobile. If a multinational wants to sell its products in a country with a large and lucrative local market, to promote national welfare (that is, collect maximum revenue with minimal loss of jobs), a market country ideally will impose high taxes for market access. On the other hand, because manufacturing is often highly mobile, countries will go to great lengths to attract the manufacturing jobs and investment. In this case, to promote national welfare (that is, create maximum jobs with minimal loss of revenue), a source country will cut taxes to the bone to encourage businesses to locate factories in its borders.

One clearly immobile investment is real estate. One revenue-neutral approach to tax reform that would take advantage of the Ramsey rule would be to pay for tax cuts on mobile manufacturing with offsetting tax increases on real estate investment, such as reducing the home mortgage interest deduction and limiting like-kind exchanges.[4]

Border tax adjustments eliminate incentives to relocate investment. A border-adjusted consumption tax exempts exports and includes imports in the tax base. Most value added taxes and some cash flow business taxes have border tax adjustments. For decades policymakers have focused on the potential benefit to the balance of trade from border tax adjustments. (Most economists dismiss these trade effects because they expect any tax effects to be offset by exchange rate adjustments.)

With increased mobility of international capital, attention is now focused on the effects of border tax adjustments on the location of investment rather than on their effects on trade. The striking feature of a cash flow business tax with border tax adjustments is that unlike a source-based income tax, it has no effect on the location of investment. All goods destined for the U.S. market would be subject to tax no matter where produced. All goods destined for foreign markets would be exempt from tax no matter where produced. This means that if the United States replaced its corporate tax with a cash flow tax with border tax adjustments (as proposed by President George W. Bush's tax reform panel in 2005), the United States would leapfrog from one of the least attractive to one of the most attractive countries in the world for locating manufacturing.

Foreign profits should be subject to U.S. tax as those profits are earned. Deferral of U.S. tax on unrepatriated foreign profits has been a central feature of the U.S. corporate tax since its inception. It has long had the strong political support of the business lobby because it has provided U.S. multinationals with a tax benefit for operating abroad. But as a result of check-the-box regulations and expert tax planning, deferral has resulted in an unsightly multitrillion-dollar buildup of unrepatriated foreign profits.

[4] Martin A. Sullivan, "The Simple Economics of Like-Kind Exchanges," *Tax Notes*, Aug. 3, 2015, p. 491.

It is yet to be determined how heavily or lightly foreign profits will be taxed in any future U.S. international tax reform. At one extreme, some liberals want a pure worldwide system in which profits are taxed as they are earned at a 35 percent rate. At the other extreme, some conservatives want a pure territorial system in which foreign profits from active business are not taxed at all. In between are the majority of folks who want international tax rules that allow U.S. corporations to remain competitive in foreign markets but at the same time remove planning opportunities that encourage shifting of profits and jobs out of the United States.

Waiting to tax profits until they are distributed to the U.S. parent adds needless complexity and inefficiency to the tax law. Whatever burden Congress wants to impose on foreign profits, it can achieve the same general effect by adjusting the tax rate on foreign profits without retaining deferral and the lockout effect.

There are good reasons to limit deductions on debt. It is now widely accepted that there must be limitations of related-party lending to prevent profit shifting to low-tax jurisdictions. Concern about related-party debt is what prompted the OECD last year to propose limitations on intergroup borrowing in action 4 of its base erosion and profit-shifting project and Treasury in April to issue proposed regulations under section 385 that would recharacterize certain types of related-party debt as equity.

More generally, economists have long bemoaned the large tax advantages of corporate investment financed with debt over investment financed with equity. There is no question that interest is a legitimate business expense in the determination of corporate profits.[5] But the corporation tax is an arbitrary tax on corporate capital income paid to shareholders. When economists propose limiting corporate interest deductions, they are seeking to make corporate tax less distortionary by expanding the corporate tax base to include capital income paid to bondholders.[6]

Given that tax neutrality and financial stability are both noncontroversial policy goals, favoritism of debt over equity in our current system makes no sense. In fact, negative effective tax rates are common for debt-financed investment. In addition to the economic arguments to limiting interest, proposals to limit interest deductibility on debt are gaining attention because other, more conventional revenue raisers to pay for lowering the corporate rate do not have widespread support in the business community or in Congress.

The Obama administration has suggested limiting interest deductions as part of its 2012 business tax reform framework and its updated framework in April of 2016. Donald Trump has proposed limitations on interest deductions. Former Florida Gov. Jeb Bush and Sen. Marco Rubio, R-Fla., had proposed eliminating business interest deductions entirely as part of their plans to replace the corporate tax with a business cash flow tax.

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[5] Jonathan Talisman, “Do No Harm: Keep Corporate Interest Fully Deductible,” *Tax Notes*, Oct. 14, 2013, p. 211.

[6] Martin A. Sullivan, "Treat Corporate Interest Deductions Like Any Tax Expenditure," *Tax Notes*, Aug. 6, 2012, p. 631; and Robert C. Pozen and Lucas W. Goodman, "Capping the Deductibility of Corporate Interest Expense," *Tax Notes*, Dec. 10, 2012, p. 1207.

The infrastructure funding gap is growing and can no longer be ignored. Ronald Reagan increased the federal gas tax in his first term and was reelected in a landslide. Bill Clinton increased the federal gas tax in 1993 and was reelected in a landslide. Despite this, modern-day politicians of both parties simply refuse to consider the most obvious method of replenishing the federal government's shrinking pool of funds to pay for infrastructure.

This is economic malpractice on the part of Congress. Infrastructure spending is good demand-side economics. It directly stimulates employment in construction firms and in all the suppliers and support services for construction projects. Infrastructure spending is also good supply-side economics. It increases domestic capital formation, which increases productivity and long-term growth.

Many believe that government spending on infrastructure would contribute to the financial instability of the government at a time when deficits are growing. Here is where our archaic system of government accounts does lawmakers and the public a monumental disservice. We focus obsessively on government bonds, notes, and bills issued by the treasury as though the only thing the government did was issue debt to buy candy bars. We ignore almost every other asset and liability on the government's balance sheet, including unfunded pension liabilities, land, gold, foreign currency reserves, the right to the electromagnetic spectrum, and -- the subject of our current discussion -- roads, bridges, tunnels, and waterways.

In our current system of accounting, we do not tabulate the losses from depreciation of publicly owned infrastructure. And we do not acknowledge the positive contribution to the economy and to government net worth when governments spend on building and capital maintenance.

Somehow we must soon figure out how to pay for more spending on infrastructure. The most discussed alternatives are mostly about shifting costs: more privatization, devolution to the states, an infrastructure bank, new tax-exempt bonds, user fees based on mileage instead of fuel consumption. Yes, some of these are more efficient methods of collecting and distributing funds, but for the most part they do not change the fundamental problem that makes politicians cringe: the public will have to pay more.

Tax on deemed repatriations is an efficient tax. As part of a broader overhaul of our international tax rules, Chairman Camp's proposal to apply a one-time tax on the stock of accumulated foreign earnings (so called "deemed repatriation") should not only be fully embraced, it should be expanded. Under the Chairman Camp's plan unrepatriated foreign earnings currently held as cash would be taxed at 8.75 percent and other unrepatriated earnings invested in active business would be taxed at 3.5 percent. The Joint Committee on Taxation estimated this proposed would raise $170 billion over ten years. From an economic perspective, this is about the most efficient tax possible—even better than a consumption tax—because as a tax on old capital it does not affect incentives to invest on a going forward basis. Therefore, in order to pay for rate cuts and tax incentives that would promote domestic capital formation and job growth, in addition to tough base protection measures that limit profit shifting to low-tax countries, Congress should give high priority to the a deemed repatriation proposal with rates considerably higher than those proposed by Chairman Camp.

Tax simplification is especially important to small business. Small businesses spend about 1.75 billion hours and $16 billion annually on income tax compliance.[7] Most of the time burden is for record keeping. And most of the financial burden is in paying for professional help. What about differences in cost by firm size? Estimates shown in the figure below confirm what common sense would have us assume: small businesses face significant fixed compliance costs, and cost per employee decreases with firm size.

The figure demonstrates the need for small business tax simplification. The inordinately large compliance costs faced by small businesses place a tax penalty on them that is the economic equivalent of a tax surcharge for being small. That distorts the allocation of capital away from small businesses and reduces economic growth.

Of course, everybody wants a simpler tax system. But tax simplification is especially important to small businesses. In particular, the instability of the code caused by frequent tax changes and expiring tax provisions is a drain on the limited resources of a small business.

One particularly promising approach for small business tax simplification would be expansion of cash accounting methods used to compute income tax. David Kautter and Donald Williamson have proposed that small business recognize income and deductions only when cash is received or expenses are paid.[8] This proposal includes the elimination of calculations for depreciation and cost of goods sold, which the authors believe will not reduce government revenue and will increase compliance among small businesses and entrepreneurs. This is just one in a long line of proposals for simplified accounting for small business.[9]

In-depth examination of tax rules required to achieve small business tax simplification is neither easy nor glamorous. But it is one surefire way to reduce business costs and promote economic growth with minimal damage to the deficit.

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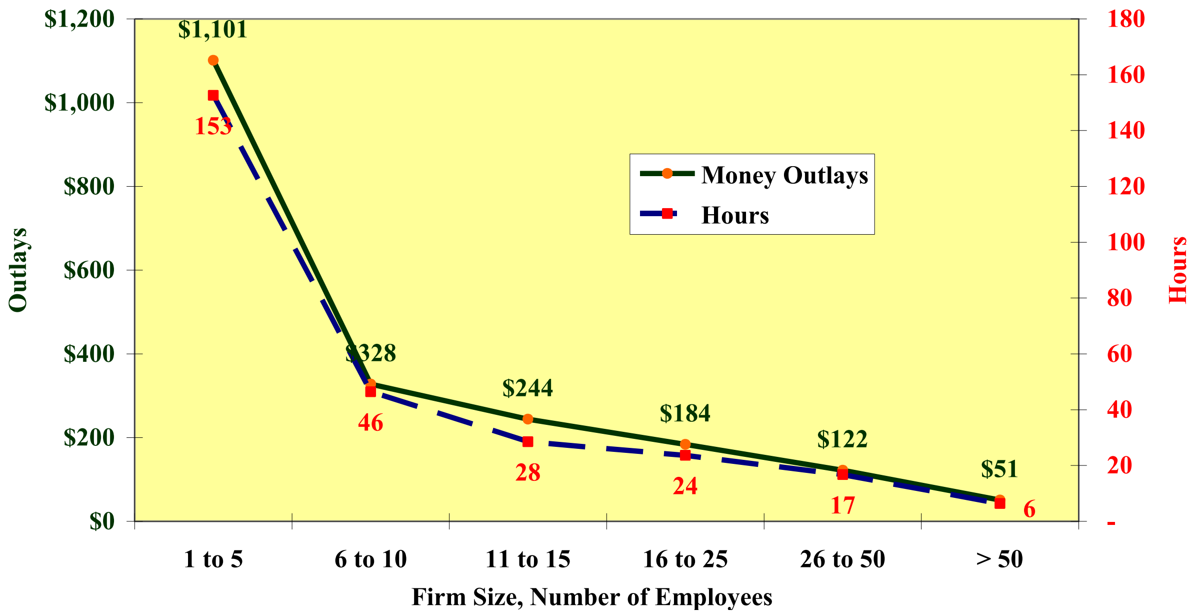
[7] Donald DeLuca, John Guton, Wu-Land Lee, John O'Hare, and Scott Stilmar, "Estimates of U.S. Federal Income Tax Compliance Burden for Small Businesses," Proceeding of the 2007 IRS Research Conference, IRS Research Bulletin, 2007.

[8] David Kautter and Donald Williamson, "A Simplified Cash Method of Accounting for Small Business," *Tax Notes*, February 13, 2012.

[9] President's Advisory Panel on Federal Tax Reform, "Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System," Nov. 2005; Treasury Department, "Approaches to Improve the Competitiveness of the U.S. Business Tax Systems for the 21st Century," Dec. 2007; President's Economic Recovery Advisory Board, "The Report on Tax Reform Options: Simplification, Compliance, and Corporate Taxation," Aug. 2010; Nina E. Olson, "How Tax Complexity Hinders Small Business: The Impact on Job Creation and Economic Growth," (testimony of the national taxpayer advocate before the House Committee on Small Business), Apr. 13, 2011; and Testimony of Rick Endres, President, The Washington Network, Inc., before the U.S. House of Representatives House Committee on Small Business, April 9, 2014.

Business Federal Tax Compliance Burden, Per Employee



Source: Donald DeLuca, John Guyton, Wu-Lang Lee, John O'Hare, and Scott Stilmar, "Estimates of U.S. Federal Income Tax Compliance of Small Businesses," presented at 2007 National Tax Association meetings, Columbus, Ohio, November 2007. Table 9.

Overly aggressive tax planning may not help corporations in the long run. Since aggressive tax avoidance by multinationals has become front-page news, any firm's CFO must be concerned about the effect of the tax planning on the firm's reputation with its own customers. This is especially true for a company that sells consumer products and has a valuable brand name.

In light of rising economic populism, it is also clear that the corporate sector must be collectively concerned about the impression it makes on the voting public. If anti-corporate sentiment grows and multinationals are increasingly viewed as not paying their fair share, it will be more difficult for both Democrat and Republican lawmakers to support any business tax reform, much less any business tax cuts, despite the plain fact that the need for corporate tax reform is growing.

Not too many years ago, international tax policy was dominated by a select group of technical experts and their clients whose goal was to promote multinational competitiveness and avoid double taxation. That has all changed now. Like it or not, the mainstream press, the public, and elected politicians are major influences on international tax policy. As a result, the focus of policy is on raising revenue and preventing double nontaxation.

In this environment, business groups could do themselves a favor by dropping their natural inclination to dismiss all proposed anti-base-erosion measures as misgivings of the misinformed. Even if businesses prevailed in the next round of international tax reform and managed to keep their taxes low, their public relations problems would remain. Uncertainty and the threat of an even larger backlash would hang like a dark cloud over any short-term gains. Instead of swimming against the tide of public opinion, they should consider throwing their support behind loophole closing on the condition that any estimated revenue gains be earmarked for expansion of noncontroversial forms of business tax relief, such as cutting the corporate tax rate or increasing the research credit.

Economics of benefits of bipartisanship and fiscal responsibility. It is well understood by both business and the economics profession that uncertainty is a major impediment to business investment. Given that increasing business investment is a major policy goal, it is unfortunate that reducing uncertainty does not receive more attention in Washington D.C. In fact, political battles inside the Beltway often contribute to uncertainty.

When it comes to corporate taxation, we don't need a seesaw battle between the political left and the political right. The resulting policy uncertainty only diminishes business investment. Liberals must recognize it is not 1965 anymore. Sooner or later they will need to consider a radical overhaul of business taxation that includes enormous and challenging increases on other revenue sources to make for the lost corporate revenue. Conservatives must recognize that corporate rates cuts they tout have to be paid for on a permanent basis without gimmicks or overly optimistic assumptions about growth effects in dynamic scoring. Aggressive budgeting not only spooks the bond markets, it greatly dilutes the positive effects of any tax cuts because there is high probability those cuts will be rescinded when rosy budget scenarios are not realized.[10] Supply-side theory emphasizes the rationality of the private sector and the need for permanent tax cuts. The private sector will not be fooled by accounting maneuvers and magic asterisks.

For the economy's sake, at all points in the process of developing tax reform alternatives, our leaders should be emphasizing the common ground between the two parties. This helps business plan for the future. When the parties aggressively push their own agendas, all that business can count on is that there is likely to be major change after the next election.

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Thank you for the opportunity to discuss these important issues. I am happy to answer any questions that the committee may have.

[10] For example, it might be the case that the failure to-date of the tax cuts in Kansas to produce large economic growth is not any shortcoming of supply-side economics per se but of business's assessment that the cuts would only be temporary if Governor Brownback lost the election (which he did not) or if significant projected budget shortfalls resulted (which they did). See Martin A. Sullivan, "Were Kansas Tax Cuts True Supply-Side Policy?" *State Tax Notes*, Feb. 1, 2016, p. 323.