HOW TO MAKE AMERICA A GLOBAL TAX HAVEN

An expert from Ramesh Ponnuru's Bloomberg column dated March 25, 2013.

....[Nunes] suggests a new approach: a "business consumption tax" that treats all businesses the same, whatever their organizational form. Instead of taxing their income, it taxes their cashflow -- income minus expenses, except for interest payments. That way, businesses would no longer write off their investments according to a complicated depreciation schedule. Investments would be tax-free.

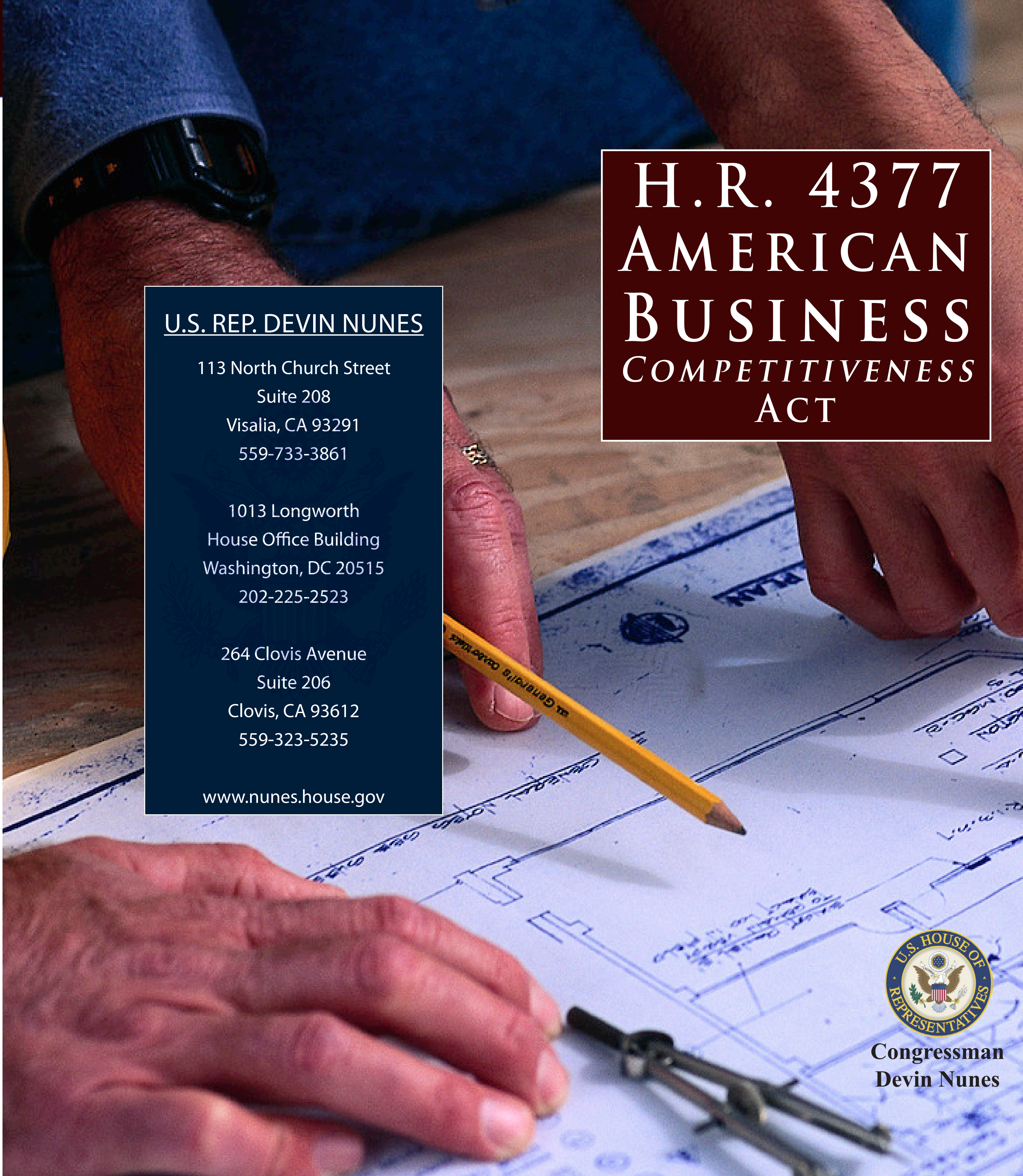
Both U.S. and foreign companies would have more reason to invest here, Nunes says. "This would make the U.S. the largest tax haven in human history."

I've run across two objections to Nunes's idea. The first is that it is simply too ambitious to be politically viable: If Congress is having trouble reforming the corporate tax, goes the argument, it won't be able to digest an entirely new approach to taxing business income. What this objection ignores is that the moderately ambitious proposals all face obstacles that are probably insuperable -- obstacles this proposal avoids.

The second objection is that Nunes's proposal would cost the federal government a lot of revenue. A Joint Committee on Taxation estimate of the proposal's budget impact would make it possible to evaluate this claim, but it sounds plausible. If it turns out to be expensive, though, the concept can still work: The tax rate would just have to be higher than the 25 percent that Nunes has tentatively put forward.

Even if the rate were left at the 35 percent that currently applies to corporations, the shift to the new tax would still be a boon for the economy. The statutory rate would be higher than that of other countries, but the number that matters -- the effective tax rate on investments -- would be a very competitive zero, thanks to companies' ability to write off their costs immediately. Eliminating the deduction for interest, meanwhile, would end a destabilizing distortion in the economy: the federal tax code's preference for corporate financing via debt rather than equity. That preference also gives an advantage to established firms that have greater borrowing capacity than startups.

If Congress still finds the Nunes proposal too ambitious to contemplate, it could undertake reform on a much smaller scale. Leave tax rates alone, keep the separate schedules for different types of companies, and just make a trade: Companies would get immediate write-offs on investments and in return lose the interest deduction. That trade would probably leave the government's revenue at roughly the same level. It would certainly be simpler than most other proposals to reform business taxation. And it would encourage more investment and less debt.



H.R. 4377 AMERICAN BUSINESS COMPETITIVENESS ACT

U.S. REP. DEVIN NUNES

113 North Church Street
Suite 208
Visalia, CA 93291
559-733-3861

1013 Longworth
House Office Building
Washington, DC 20515
202-225-2523

264 Clovis Avenue
Suite 206
Clovis, CA 93612
559-323-5235

www.nunes.house.gov

Congressman
Devin Nunes

The ABC Act

* SIMPLE * FAIR * FLAT *

The **American Business Competitiveness Act (ABC Act),** would establish the most aggressive pro-growth business tax policy in the developed world. If implemented, it would result in massive investments and job creation throughout the United States.

Lower Business Income Tax

All businesses, no matter how they are organized, will be taxed at the same low rate; ***25 percent***.

The taxation of non-business income remains unchanged, except that interest income is taxed at the same rate as dividends and capital gains.

High Rates Are A Large Burden For Small Business

Regardless of income, small businesses face a rate of 30% or higher.

Tax Foundation Analysis

Individual And Business Changes Modeled:
Cut Corporate Income Tax Rate To 25%
Assorted Changes In Corporate Tax Base
Limit Top Tax Rate On Noncorporate Business Income To 25%
Full Expensing*
Tax Individuals' Interest Income At Capital Gains Rate

ECONOMIC AND BUDGET CHANGES VERSUS 2015 LAW
(billions of dollars except as noted)

GDP	7.3%
$GDP (annual gain relative to 2015 economy)	$1,290
Private business stocks (equipment, structures, etc.)	22.1%
Wage rate	6.0%
Private business hours of work	1.5%
Full-time Equivalent Jobs (in thousands)	1,401
10 year static federal revenue estimate, GDP assumed constant	-$1,638
10 year dynamic federal revenue estimate, after GDP gain or loss	$631
10th year dynamic federal revenue estimate	$288

Source: Tax Foundation, Taxes and Growth Model (October 2015 version)
*full expensing of equipment and structures. Expensing of inventories and land not included.

Pro-Growth

The ABC Act will allow ***100 percent expensing***, meaning firms will deduct their full investment costs from their current year tax liabilities.

- This includes land, buildings and inventory, as well as other tangible or intangible property.
- Expensing that exceeds taxable income can be carried to future tax years with interest or backwards to reduce taxes from prior years.

This will create a powerful incentive for businesses of all sizes to invest and grow, generating new jobs across America.

No Loopholes

The ABC Act eliminates all special loopholes. The complex tax code, with its high compliance costs and distorting impact on the economy, is wiped away and replaced with a **simple, fair and flat tax.**

Less Complex & Fewer Distortions

The elimination of deductions and credits simplifies the tax code and reduces compliance costs.

- Complex property and inventory rules such as depreciations, amortization and depletion are replaced by full expensing.
- The tax code's pressure on firms to carry debt is removed by eliminating the business interest deduction while lowering the individual income tax on interest income.

International Tax Reform

Territorial tax rules will make U.S. businesses more globally competitive.

Simple, Fair, Flat & Fiscally Responsible

- The Tax Foundation has analyzed the ABC Act and concluded that it would increase baseline GDP growth by 7.3%.
- Under the ABC Act, businesses can plan for the future based on easy to understand rules that are not subject to constant expiration.
- The ABC Act promotes pro-growth tax policy that would radically transform our tax code and our economy.

Congressman Nunes is seeking comments on the ABC Act. Contact us at: ABCtaxplan@mail.house.gov.