

The nature and extent of corporate taxation has recently been hotly debated. A *New York Times* Op-Ed piece has recommended dropping all corporate taxes as a means to encourage investment.

I believe the following factors and changes need to be considered in combination in connection with any corporate tax overhaul.

At the same time it is necessary to modify the personal income tax code by eliminating special favorable treatment of unearned income such as capital gains and dividend exemptions.

I agree that corporate income taxes are regressive in that, like a sales tax, they are a cost of doing business which gets passed along to the consumer in the price charged. Still, I opt for a small uniform corporate income tax on all profit over a threshold. It is easy to collect and, like sales taxes, does minimum harm when kept small. Perhaps a 15% profit tax would be worth imposing. It should be a flat tax on profits above a substantial threshold of perhaps \$250,000.00

Dividends should be treated as a corporate expense and the corporation allowed to take whatever depreciation it wants including expensing capital items. The corporate tax would be on profits after such expenses.

Perhaps, income that is invested could be treated as an expense. That needs discussion.

But this all makes sense only if all personal income from dividends, capital gains and other sources is treated as ordinary income.

The economist who wrote the Op-Ed believes that eliminating corporate tax would free up money for investing in new business that builds jobs. Corporations now have trillions of dollars in held profits that presumably would have been invested if there were a demand to be met or a profitable investment to be made. Maybe eliminating or reducing corporate profit tax would just add to the trillions of savings now being held. Maybe it would reduce the price of goods and services.

It is necessary to consider all of the following in a revision to the corporate tax law. They are so inter-related that they require consideration and perhaps adopting in combination.

(a) do away with all favored tax treatment of personal income items such as capital gains, dividends and municipal bond interest. Thus the individual income recipient will pay full tax on unearned as well as earned income.

(b) do away with all favored tax treatment of selected corporate expenses such as depletion allowance. These tend to be a part of what has been called crony capitalism.

(c) omit almost all corporate subsidies. This eliminates another large part of what has been called crony capitalism. Many, but not all, of these subsidies appear in the tax code.

(d) set a low, flat corporate profit tax at profits over a fairly high threshold. Possibly a 15% rate on profits over \$250,000.00. A reduced tax treatment will lessen the impact of doing away with the crony capitalism based exemptions and subsidies.

(e) allow corporations to select amortization at whatever rate is desired. Let them opt to expense most, if not all, asset purchases rather than amortize. This could encourage investment.

(f) treat dividends as a pre-tax corporate expense. Note that bond interest is now treated as an expense. Note also that the stock holder recipient must pay personal income tax on all dividends.

(g) establish a very low tax on corporate savings that remain un-invested for more than a few years. There are definitional problems here. What distinguishes investment from savings?

The above serve the partly conflicting policies of (i) encouraging investment and job creation, (ii) maintaining a mathematically progressive personal tax code in which higher income individuals pay a higher percentage of income as taxes and (iii) minimizing the regressive impact on the cost of goods and services of high corporate profit taxes.

The above cover the more important points. The tax code has gotten so rococo that it is a daunting adventure to try to create a co-ordinated set of laws that at least partly achieve these three objectives.

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