How to Increase Growth While Raising Revenue: Reforming the Corporate Tax Code

In a new book titled *Tackling the Tax Code: Efficient and Equitable Ways to Raise Revenue*, The Hamilton Project offers a range of detailed proposals by leading economists and other experts for better tax policies that can raise revenue in a progressive and growth-friendly manner. In one chapter, Jason Furman of Harvard University and the Peterson Institute for International Economics proposes several reforms to the corporate tax code.

Specifically, Furman's proposal would:

- Implement full and permanent expensing of all business investment while disallowing interest deductions.
- Require large pass-through businesses to file as C corporations.
- Close wasteful corporate tax loopholes.
- Raise the corporate tax rate.
- Expand incentives for investment in research and development (R&D).

Issue Overview

- **The United States raises relatively little revenue from corporate taxation.** Improved corporate tax policy can fund needed investments and better support economic growth.
- **Permanently allowing full expensing of business investment would improve incentives for firms to invest** and shift the burden of taxation towards monopoly profits. In addition, the corporate tax code should do more to encourage R&D. Social returns to R&D remain high and R&D incentives should be enhanced.
- **Improving the corporate tax *base* is an important part of raising revenue in a growth-friendly manner.** This includes removing special interest exemptions and requiring all large firms to file as corporations.

The Challenge

Despite the substantial revenue potential of corporate taxation, the United States currently collects about the lowest corporate revenue (only 1 percent of U.S. GDP) among the advanced economies. The current corporate tax code is also unstable: numerous provisions are scheduled to expire, phase in, or phase out. There are several shortcomings of the U.S corporate tax code that limit its efficiency and progressivity, including the very different tax rates for different activities and financing strategies, an insufficient attention to monopoly power, and unpredictable changes over time in many provisions of the tax code. In addition, new investments and R&D do not receive enough incentives.

The Path Forward

Furman's domestic corporate taxation proposal would generate an estimated $1.1 trillion over the next decade, improving the efficiency of the corporate tax code and raising revenue without placing undue burden on low-paid workers. Specifically, Furman proposes:

- **Making expensing of investment costs permanent and expanding it to more categories of investment.** Applying expensing not only to equipment but also to structures and intangibles would ensure that different types of investment are not taxed at different rates. At the same time, interest deductibility for new investments would be eliminated to prevent negative rates on new investment.

- **Eliminating the tax preference for business pass-throughs.** Large businesses would be required to file as C corporations.

- **Eliminating wasteful corporate loopholes**, including tax extenders. Closing loopholes would not raise additional revenue relative to current law, but it would prevent further revenue loss and remove distortions from the tax code.

- **Expanding the tax incentive for R&D.** Increasing the alternative simplified credit rate from 14 percent to 20 percent while repealing other credits would simplify the tax code and help spur investment in R&D.

- **Raising the corporate tax rate from 21 percent to 28 percent.** This rate increase would place the U.S. on par with other advanced economies and, when combined with expensing and R&D incentives, offer a growth-increasing and welfare-enhancing reform.

The author's proposal would reform the corporate tax system by incentivizing investment, improving the tax base, and raising tax rates. This combination makes it possible to increase economic growth, well-being, and revenue. Furman's proposal would raise annual economic growth over the next decade by at least 0.2 percentage points and would raise revenue by $1.1 trillion over the same period. The reforms would be progressive, with the bottom 80 percent of the income distribution seeing increases in their after-tax incomes after spending is included in the analysis.

About the Author

Jason Furman is the Professor of the Practice of Economic Policy at Harvard University and a nonresident Senior Fellow at the Peterson Institute for International Economics.