# CORPORATE INCOME TAXES AND ECONOMIC GROWTH

by

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# TAXATION OF CAPITAL INCOME UNDER CURRENT LAW

- CURRENT LAW: Combines Elements of Consumption and Income Taxation.

- CORPORATE INCOME IS TAXED TWICE: First under the Corporate Income Tax and Second under the Individual Income Tax on Corporate Distributions.

- INCOME FROM RENTAL HOUSING: Taxed as Corporate Income if the Owner is a Corporation; Taxed as Individual Income if the Owner is Non-Corporate.

- INCOME FROM OWNER-OCCUPIED HOUSING: Subsidized through Tax Deductions for Mortgage Interest and Property Taxes.

# ISSUES IN THE TAX REFORM DEBATE

•PROGRESSIVITY: Redistribution through Tax Policy Is Very Costly in Terms of Efficiency.

•FISCAL FEDERALISM: State and Local Taxes Would Continue to Employ the Same Tax Base as Federal Taxes.

•FEDERAL DEFICIT: Limit Consideration to Revenue Neutral Proposals; Choosing the Appropriate Level of Revenue is a Distinct Issue.

# APPROACHES TO TAX REFORM

Simplifying the Income Tax:

•Integration of Individual and Corporate Income Tax Systems

•President’s Advisory Panel’s Simplified Income Tax

•Efficient Taxation of Income

Changing the Tax Base to Consumpiton:

•Hall-Rabushka Flat Tax

•President’s Advisory Panel’s Growth and Investment Tax Plan

•National Retail Sales Tax

# EFFICIENT TAXATION OF INCOME

DEFINITION OF INCOME

•Adjusted Gross Income and Corporate Income Defined as in Existing Internal Revenue Code.

•Exemptions, Deductions, and Tax Credits Unaffected.

•No Transition Rules Required.

PROGRESSIVITY

•Separate Tax on Earned and Unearned Income.

•Earned Income Taxed at a Rate of 10.9%.

•Unearned Income Taxed at an Effective Rate of 30.8%.

# EQUALIZING TAX BURDENS ON ALL SOURCES OF CAPITAL INCOME

- •CORPORATIONS: Tax Credits for New Investment of 3.9% for Equipment and 18.9% for Structures.

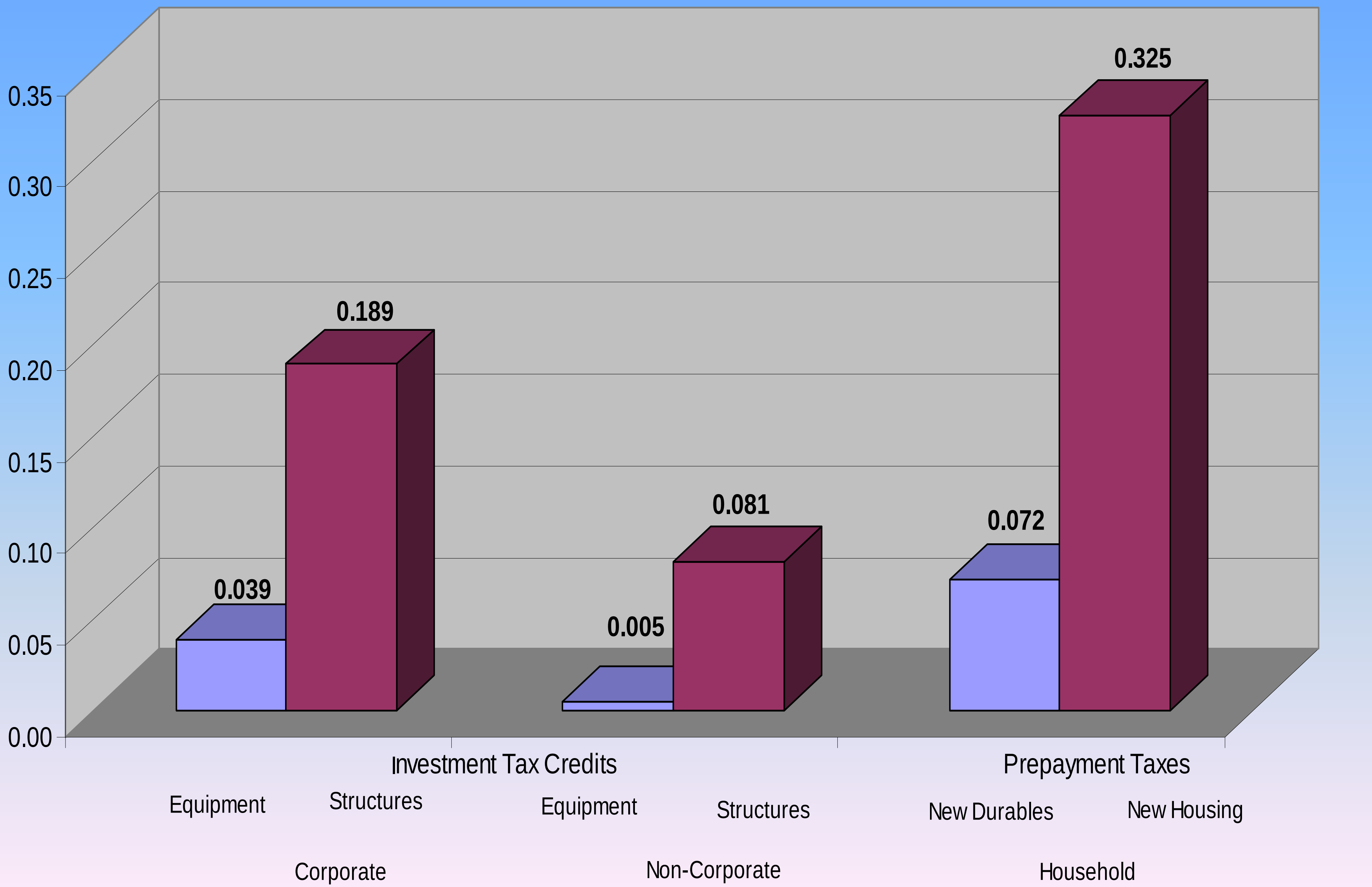
- •NON-CORPORATE BUSINESS: Tax Credits for New Investments of 0.5% for Equipment and 8.1% for Structures.

- •HOUSEHOLDS: New Investments in Owner-Occupied Housing and Consumers' Durables Included in the Tax Base for Capital Income.

# INCLUDING OWNER-OCCUPIED HOUSING AND CONSUMERS' DURABLES IN THE TAX BASE

- Prepayment Method: Tax Base Includes Investment Rather Than Consumption.
- Rule I: All Owner-Occupiers Are Deemed to Have Prepaid All Future Taxes on the Services of Their Dwellings and Consumers' Durables.
- Rule II: All Housing Newly Purchased by Owner-Occupiers and All New Consumers' Durables Subject to the Prepayment Tax.
- Prepayment Taxes of 7.2% for New Investments in Durables and 32.5% for New Investments in Owner-Occupied Housing Collected by Providers Such as Car Dealers and Real Estate Developers. No Taxes Levied on Used Durables or Housing.

# Investment Tax Credits and Prepayment Taxes for Efficient Taxation of Income:



# WELFARE IMPACTS OF TAX REFORM

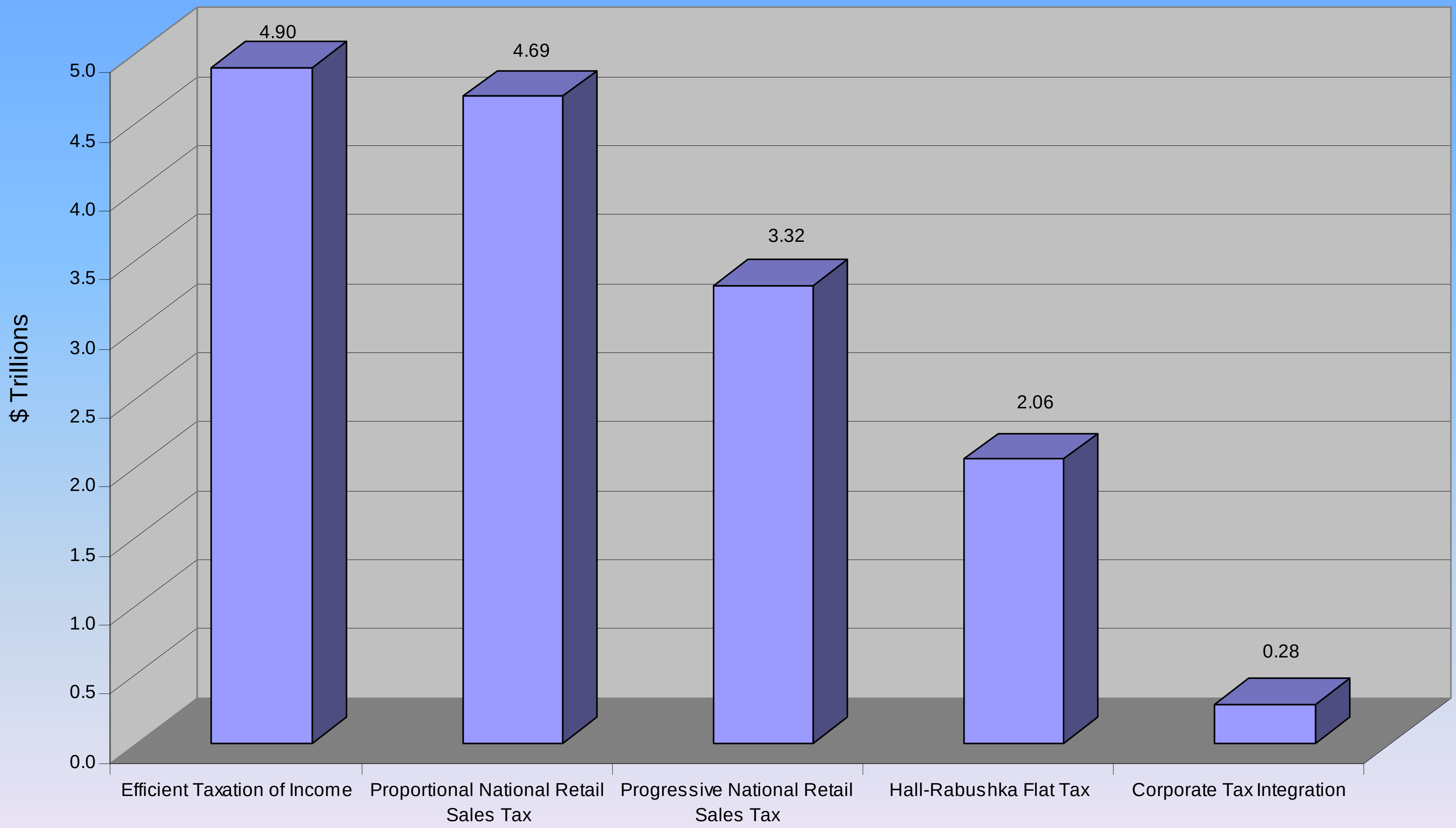
DEFINITION OF WELFARE GAINS

- Additional Wealth Required to Purchase Added Consumption of Goods and Leisure.
- Measures Willingness to Pay for Tax Reform.

COMPARISONS

- GDP in 1997 was $8.11 Trillion.
- National Wealth in 1997 was $25.38 Trillion.

# WELFARE IMPACTS OF TAX REFORM

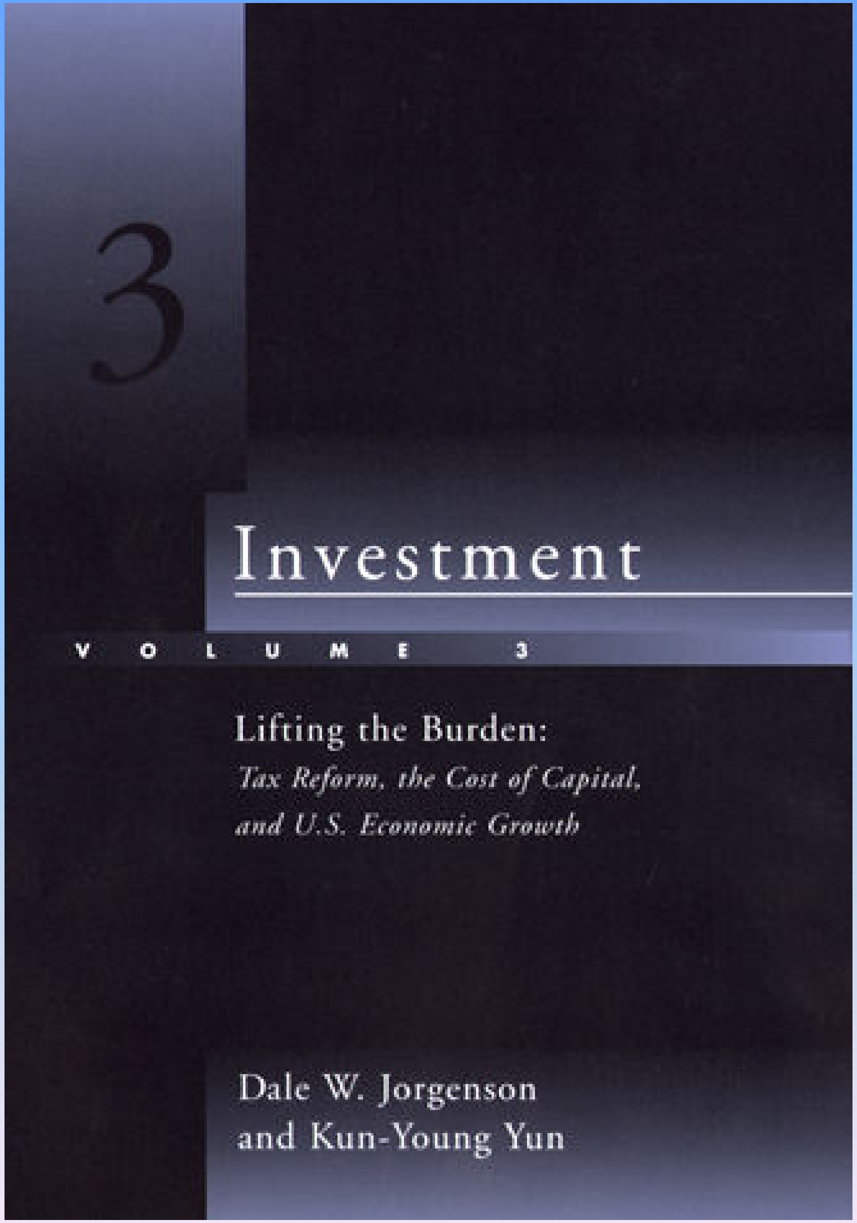


# THE AGENDA FOR FUNDAMENTAL TAX REFORM

- FIRST PRIORITY:  Broaden the Tax Base for Federal Revenue and Reduce Tax Rates.

- SECOND PRIORITY:  Equalize the Tax Treatment of Business and Household Assets.

- THIRD PRIORITY:  Change the Tax Base from Income to Consumption.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