



# AMERICANS *for* TAX REFORM

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## AMERICA'S GROWTH AGENDA

### *Part Two: Permanently Lower the Corporate Income Tax Rate From 35% to 25% to Allow U.S. Businesses to Compete Globally*

Proposal: Lower the top corporate income tax rate from 35% to 25% as of 2008.

#### Current Law

The United States imposes a corporate income tax of 35%. When combined with state-level corporate income taxes (the only apples-to-apples way to measure the tax against our mostly state-less international competitors), the rate is nearly 40%.

This 40% corporate income tax rate is the second-highest in the industrialized world (behind only Japan), and is significantly higher than the 26% average European corporate rate.

In the Twenty-First century, capital knows no borders. A corporation can establish itself in the 40%-taxing United States, or the 12.5%-taxing Republic of Ireland. Not surprisingly, many corporations now choose not to set up shop in America, but in more tax-competitive nations across the globe.

Who ends up paying the corporate income tax? We know that ultimately, only people pay taxes. Recent academic literature strongly suggests that capital doesn't pay the corporate income tax (it's so mobile, it can avoid it). Rather, **the corporate income tax is actually "paid" by workers in the form of lower wages, and consumers in the form of higher prices.** Cut this tax, and workers will both earn *and* spend more.

#### Pro-Growth Solution

The corporate income tax should be cut—immediately—to 25%. While this would still leave us with slightly higher tax rates than our competitors (when state taxes are figured in), we would achieve near-parity and give our businesses a fighting chance to become competitive.

**There is good evidence that cutting corporate income tax rates will have a strong revenue-feedback, "Laffer curve" effect.** Capital has been shown to be highly tax-responsive (capital gains tax revenues more doubled after the 2003 rate cut there), and capital is highly mobile. The large increase in corporate relocations to Ireland over the last decade is evidence that corporations are highly tax-sensitive when choosing location.

Corporations today spend millions of man-hours and billions of dollars trying to avoid paying the 40% U.S. corporate income tax. A much lower rate will mean corporations will instead choose to utilize their resources on creating jobs and investing in America.

**Fun Fact:** Many liberals used to be for a corporate income tax cut in the 1970s, as they knew that workers and consumers were the actual payers of the tax.

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