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Americans For Tax Reform Foundation

Analysis of Administration Proposals to "Reform the U.S. International Tax System"

Defer Deduction of Expenses, Except R&E Expenses, Related to Deferred Income

Current Law

Taxpayers are able to deduct ordinary and necessary expenses incurred in carrying on business, both inside and outside the United States.

Proposed Change

This proposal will 'defer' deductions for all non research & development expenses, so that they cannot be claimed until the profits are 'repatriated' to the U.S.

ATR Analysis

The current tax-deduction rules stimulate investment and encourage economic growth. By forcing a 'deferral', and effectively forbidding taxpayers to deduct their expenses, the time-value of this money falls, and businesses will *lose* a significant percentage of allowable deductions.

For instance: Assuming a conservative inflation rate of 3-4% annually, deferral for only five years would wipe 20% off the value of the deduction. This does not even account for the problems attributed to the fact that the money could be better spent on opportunities presently – particularly in the current financial economic downturn when generating investment is critical.

For many taxpayers, this 'deferral' may mean they will *never* realize the deductions they are legally entitled to: **Deduction delayed is deduction denied.**

This proposal will burden business and hurt investment. It will cut company revenue, and lead to downsizing back at home, meaning slower economic growth and job losses at home.

10-year Revenue Estimate:

U.S. Department of Treasury: 60.1 billion
Joint Committee on Taxation: 51.5 billion