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The tax code should reduce ineffective exemptions and incentives while expanding effective ones focused on innovation.

Congress has an opportunity to reform the corporate tax code to explicitly promote the competitiveness of business establishments in America by expanding, not cutting, incentives for investing in America, including the domestic production deduction, the R&E tax credit, and accelerated depreciation. Ideally, Congress would also establish new incentives, such as an investment tax credit for new machinery, equipment and software investment (replacing accelerated depreciation) and a “patent box” incentive, as a number of European nations have recently put in place that taxes corporate income from innovation-based products at a lower rate.

This is not to say that corporate tax reform should not reduce or eliminate special deductions, exemptions and credits that cannot be justified on a productivity, innovation or competitiveness basis. Indeed, a reconstituted corporate tax code which eliminates incentives that do not spur growth could have some positive, albeit likely modest, impacts on growth. But if a dogged faith in simplicity ends up reducing and even eliminating incentives that spur productivity, innovation and competitiveness, reform will lead to less economic growth, not more. So the choice should not be between a corporate tax code riddled with particular exemptions and credits and a completely neutral code. Rather the code should reduce ineffective exemptions and incentives while expanding effective ones focused on innovation and growth-enhancing activities characterized by significant spillovers or other market failures, all the while lowering the effective, and statutory, corporate rates.