Can the 'Big Six' Keep Tax Reform From Being Deep-Sixed?

This week, the so-called "Big Six" Republican tax leaders unveiled more of their plan to reform the tax code. As usual, it'll be light on details, but we're told to expect a cut in the corporate income tax rate to 20 percent — as opposed to the 15 percent rate President Donald Trump has promised.

That's unfortunate. With Republicans being the worst negotiators, this rate will only go up once Democrats and the Republicans who behave like Democrats have their say. Even though the United States has the highest corporate tax rate of all developed countries, some lawmakers still believe it's unfair or politically impractical to give corporations tax cuts.

Never mind that a high rate and a worldwide tax system have resulted in massive and legitimate tax avoidance behaviors — such as storing overseas income abroad and transfer pricing — making the return on the corporate tax mediocre. Uncle Sam raises relatively little revenue as a share of gross domestic product from corporations, and less capital is invested at home because trillions of dollars stay abroad.

Also, remember that firms don't pay taxes anyway. Individuals do. In this case, the burden of corporate taxation falls on workers through lower wages. That's why economists agree that the poorly designed tax is an inefficient way to raise revenue, is economically destructive and should be repealed entirely. In other words, even 15 percent would be too high, and higher is idiotic.

Now, a country that's $20 trillion in debt, heading toward trillion-dollar deficits and governed by lawmakers who can't find a spending program they can live without shouldn't cut taxes without serious offsets. So let's do that.

According to the Tax Foundation, lowering the corporate tax rate from its current 35 percent to 20 percent would reduce revenue — even accounting for positive economic effects — by about $718 billion over 10 years. Lowering it to 15 percent would cost $995 billion. Assuming leadership already has a plan to offset a reduction in the corporate tax rate to 20 percent, we only need an extra $277 billion in revenue over 10 years to cover the additional rate cut.

Finding $27.7 billion a year in spending cuts is easy. A combination of cuts to the annual $56 billion spent on corporate welfare (which benefits large and wealthy firms), eliminating most of the $50 billion in improper overpayments from health care programs to individuals and instituting a cap on federal spending on Medicaid would more than get us there. And there are so many more spending cuts available for willing lawmakers.

Republicans could also lower the rate to 15 percent by getting rid of the many special interest loopholes that make our tax code unfair and burdensome. Incidentally, that's exactly what the president promised to do.

Tax expenditures would be the place to start. You want to get rid of the ones benefiting activities that equate to spending through the tax code. The Heritage Foundation's David Burton calculated that, excluding the provisions meant to mitigate any inefficient double taxation of income and deductions for business costs, genuine business tax expenditures could raise $386 billion over 10 years. The top deduction alone — for domestic production activities — would raise $193 billion.

The real cash, however, is on the individual side, starting with refundable tax credits, such as the child tax credit. Because the child tax credit is paired with actual spending (not just a loss in tax revenue), the Tax Foundation estimates that getting rid of it would save $710 billion. Before you cry "but the children," I'll remind you that social policy priorities aimed at caring for children — or health or education, for that matter — are not best achieved through these tax preferences.

If the Big Six aren't already considering terminating the state and local tax deductions that provide a tax advantage to high-income earners in high-tax states, which would save $1.71 trillion over 10 years, they should. The mortgage interest deduction — which encourages real estate debt, to the great delight of real estate agents and lenders — could be eliminated, for a savings of $1.61 trillion, or capped for debt above 500K, for a savings of $308 billion. Also ripe for termination is the charitable contributions deduction, which would bring in $665 billion over 10 years.

There are plenty of options for lawmakers to start the negotiation process for a much lower corporate tax rate than 20 percent. In fact, with a sharp scalpel and political courage, you could throw in some good tax reforms on the individual side, too.

Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University. To find out more about Veronique de Rugy and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate webpage at www.creators.com.