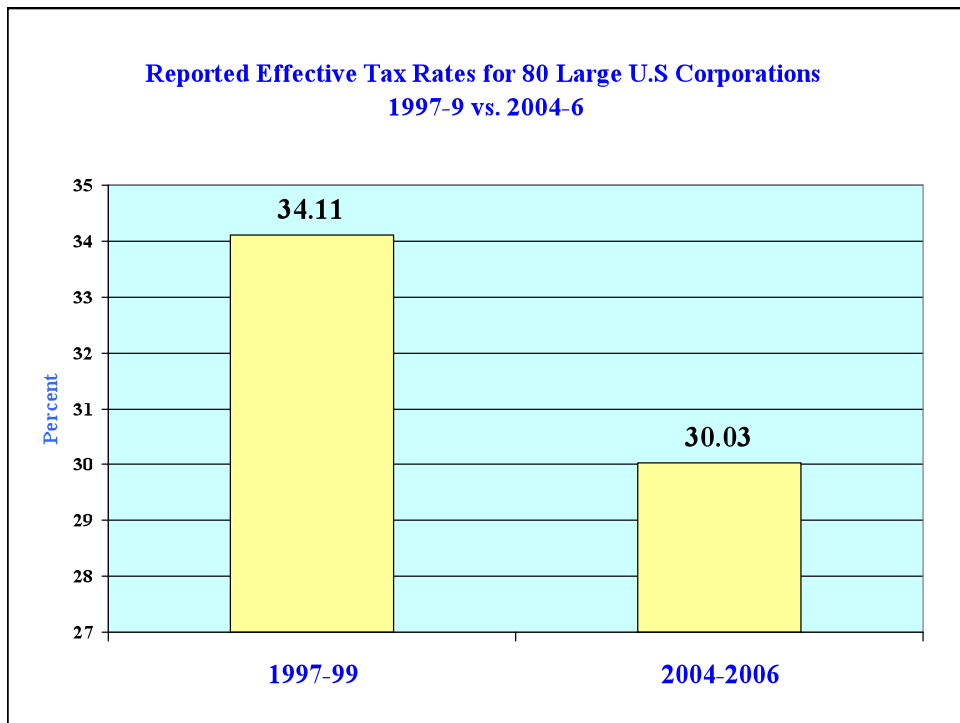
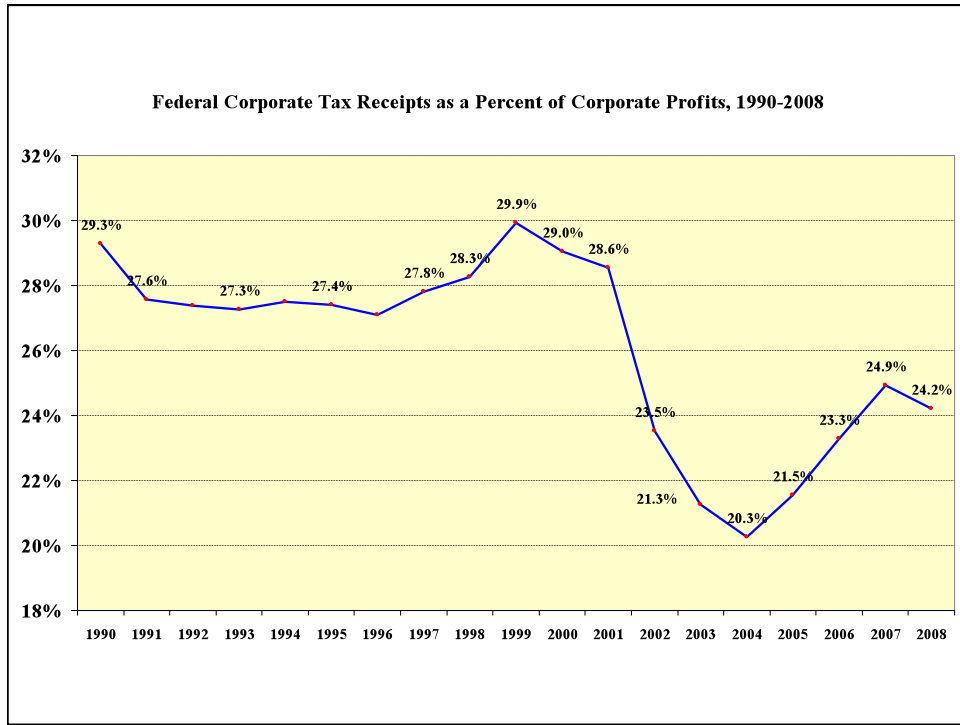


A World of Trouble: Corporate Taxes and the Growing Fiscal Crisis

Martin Sullivan, Tax Analysts 2010
FTA Revenue Estimation & Tax Research Conference

September 19-22, 2010 •
Sun Valley Conference Center • Ketchum, ID

Part 1. **The Decline of the Corporate Tax**



What caused the four percentage point decline?

- 2.9 percentage points due to lower taxes on foreign earnings
- 0.5 percentage points due to lower state and local income taxes
- 0.5 percentage points due to increase in favorable audit adjustments

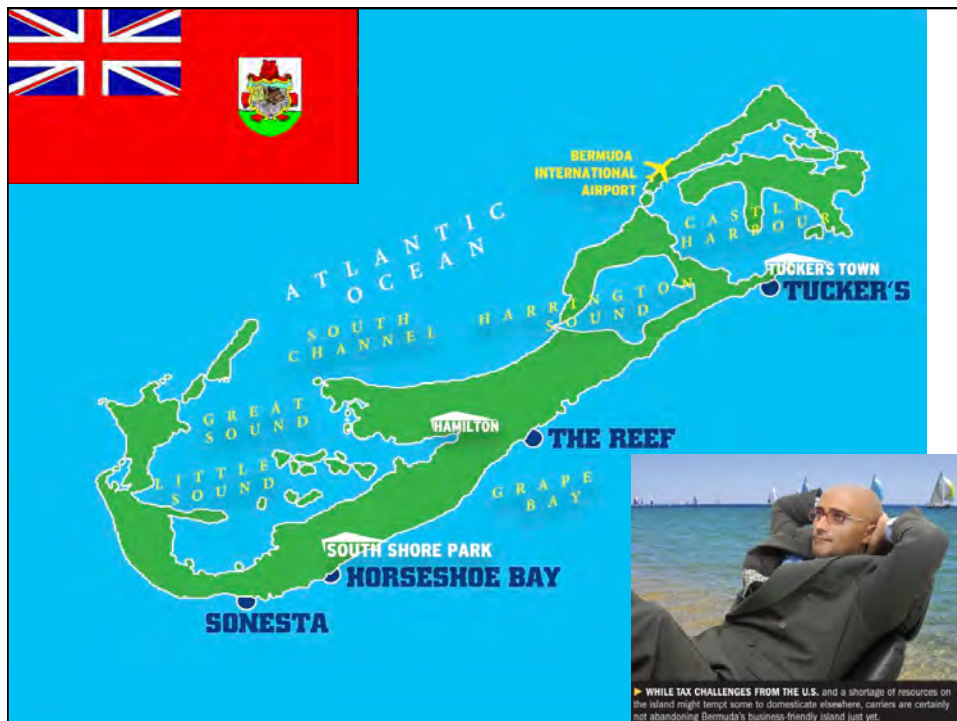
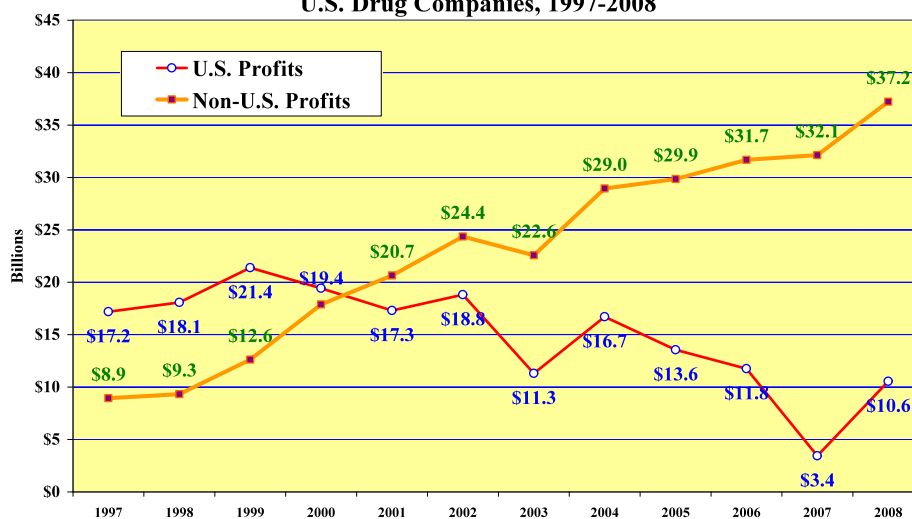
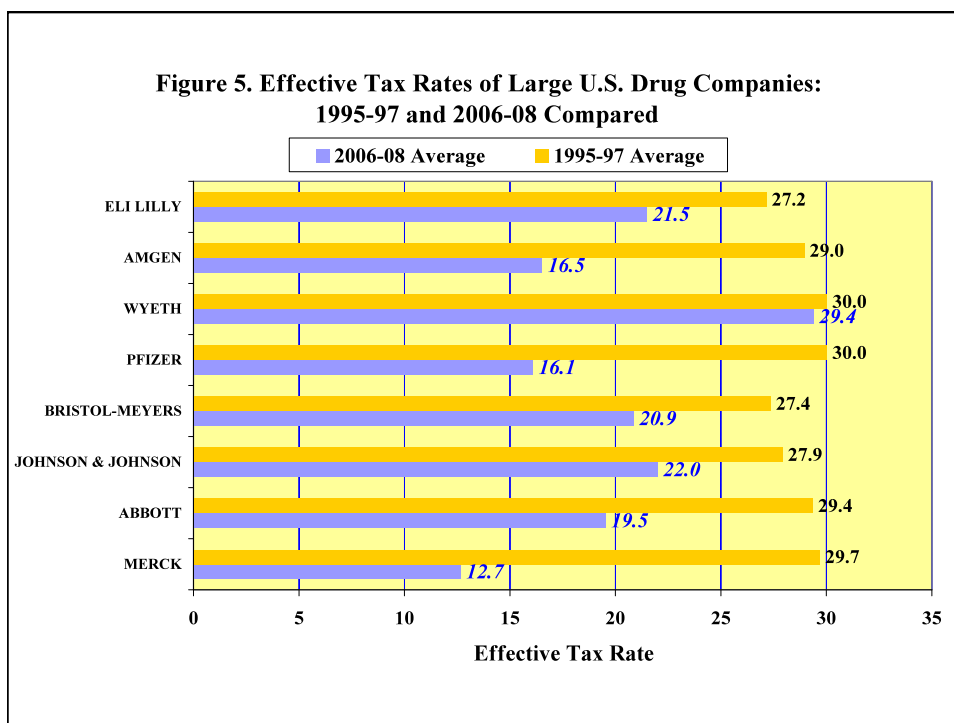
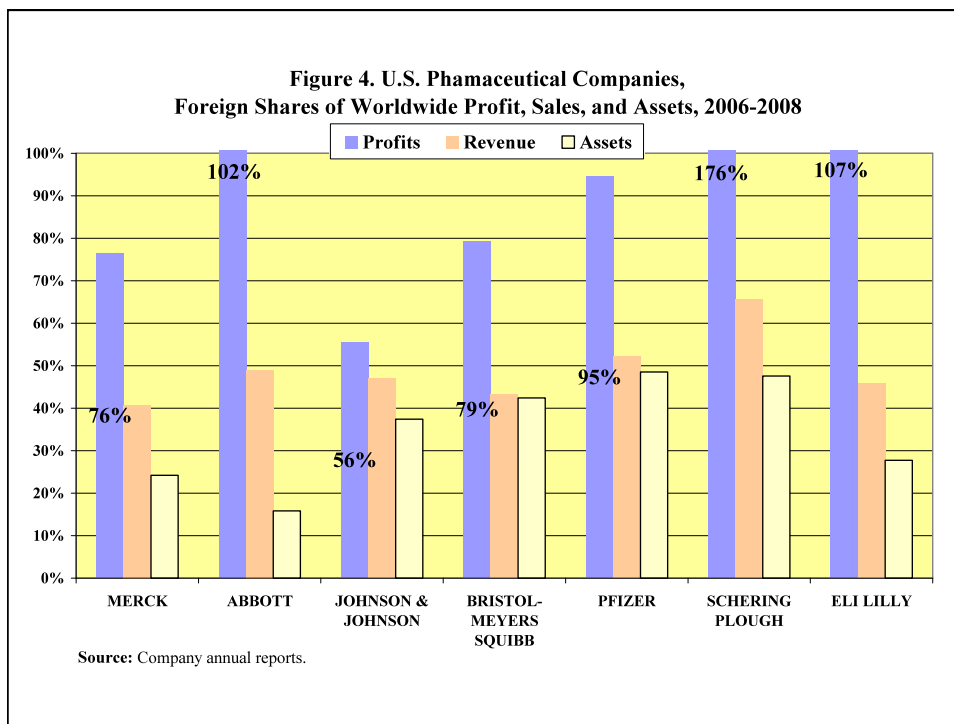


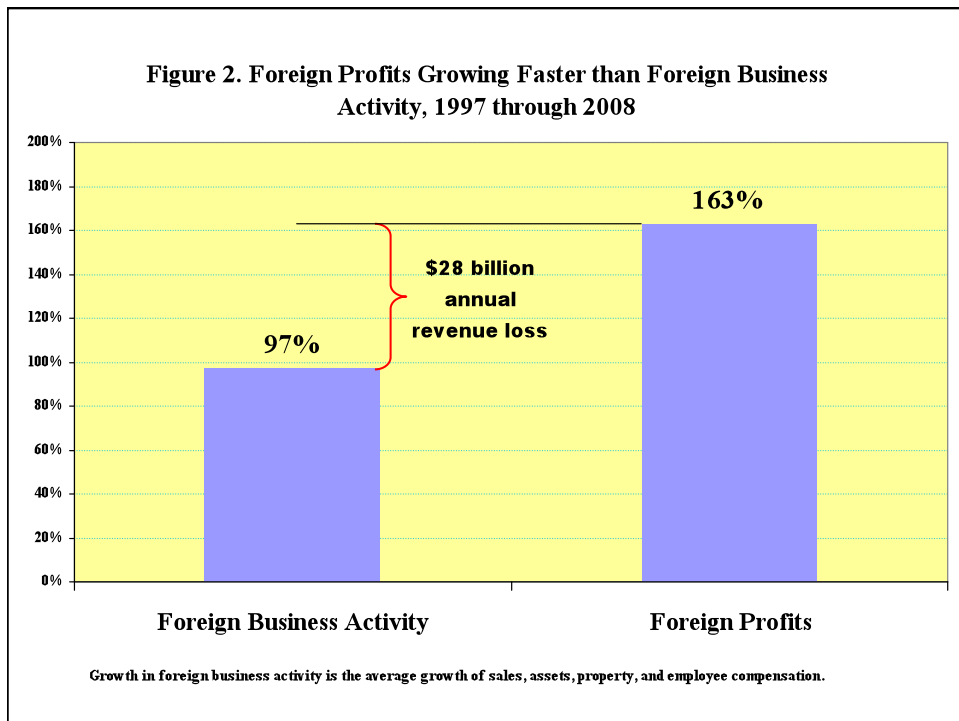


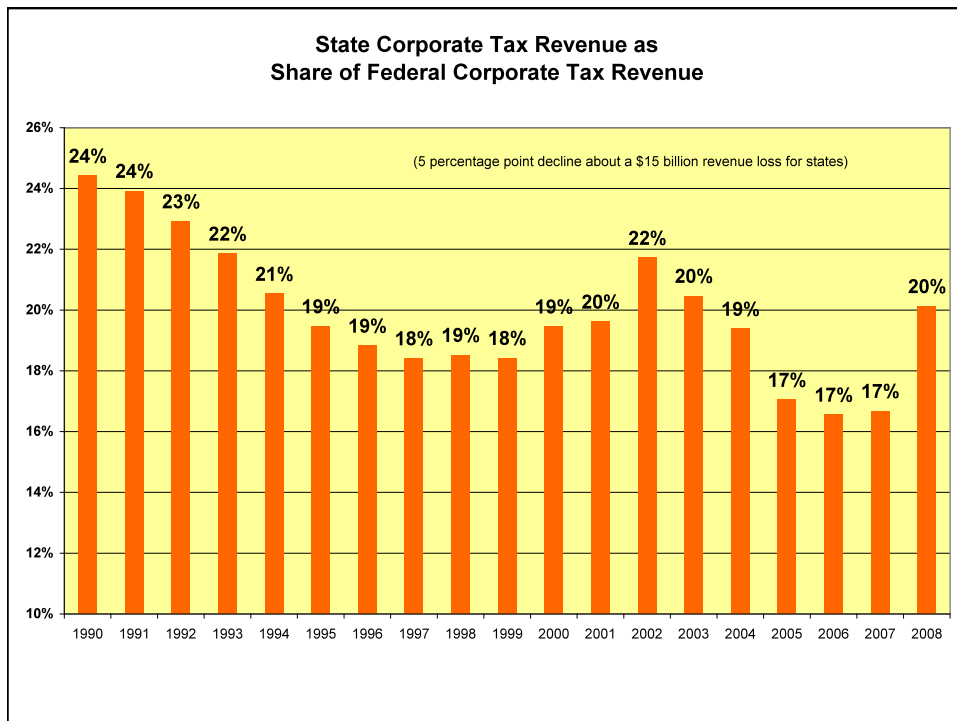
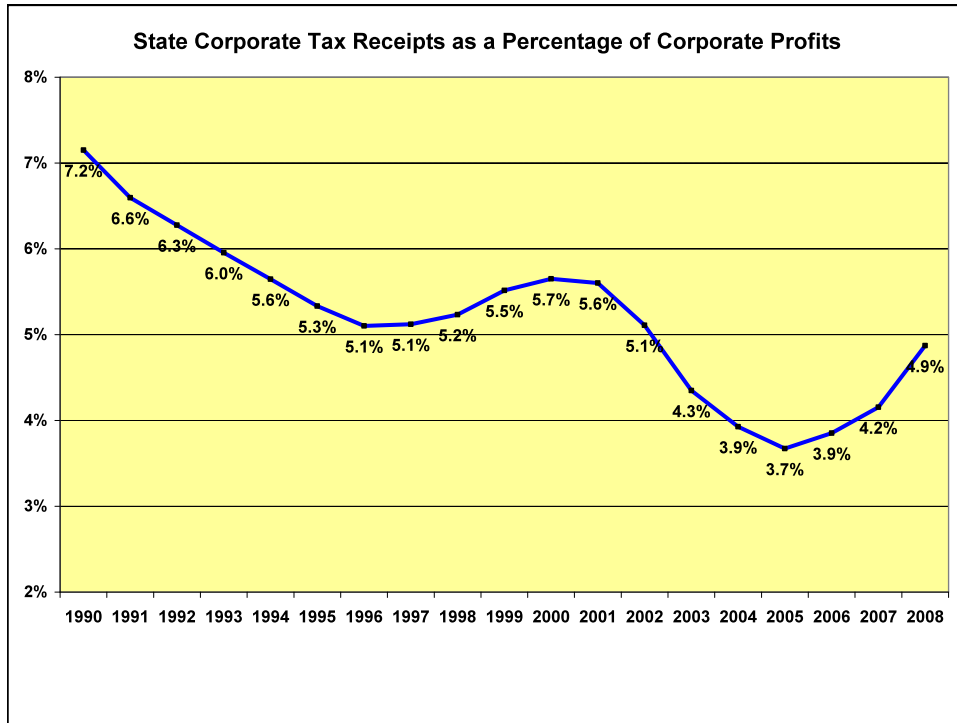
Figure 3. Foreign and Domestic Profits of Seven Large U.S. Drug Companies, 1997-2008

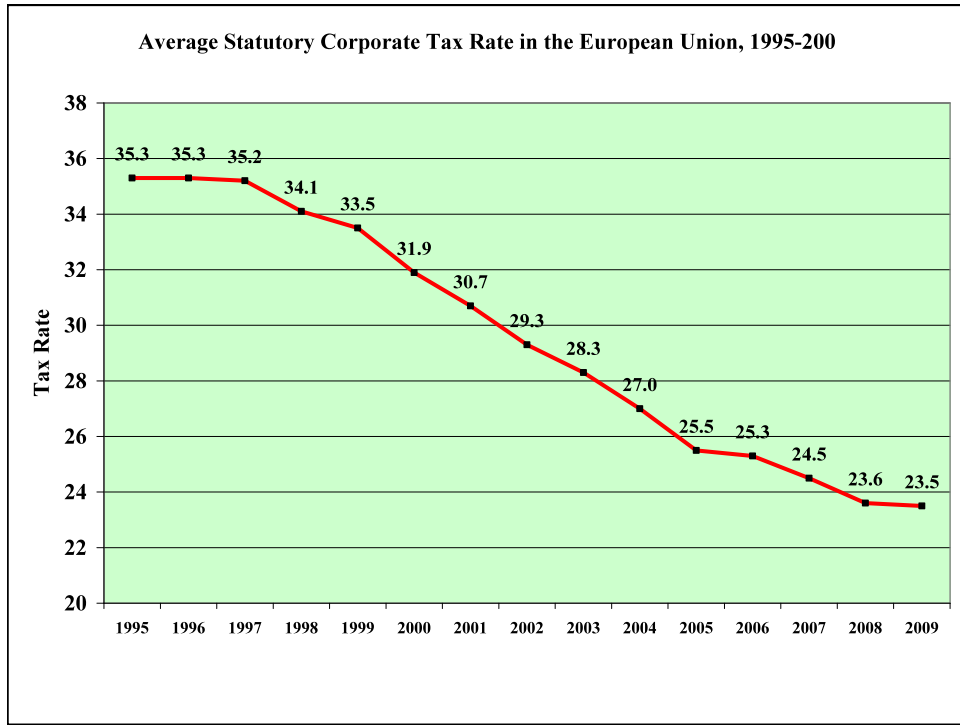


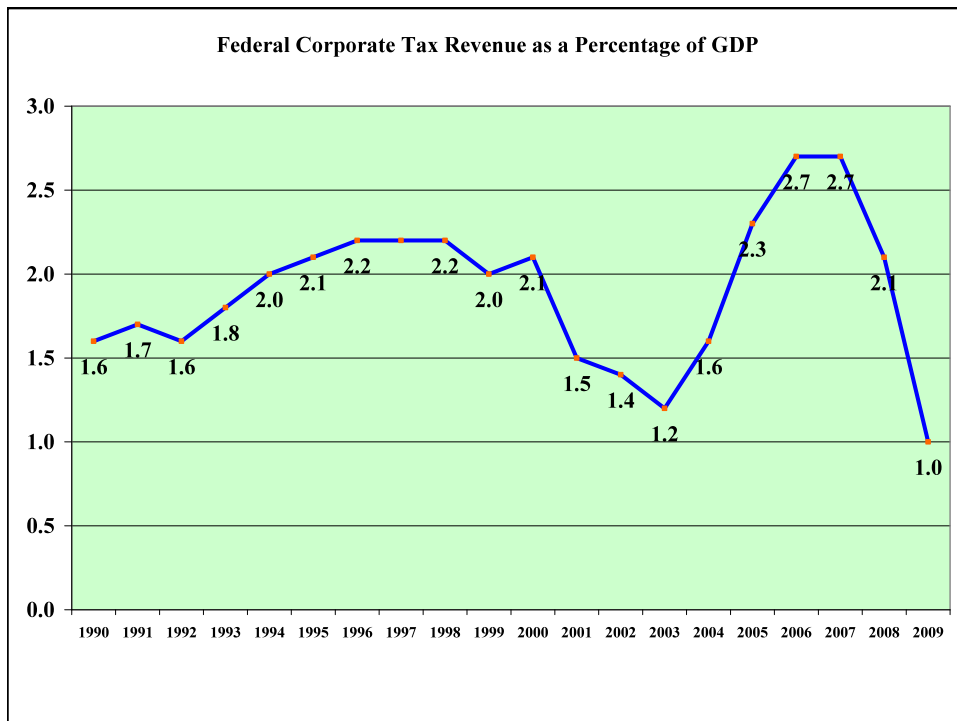
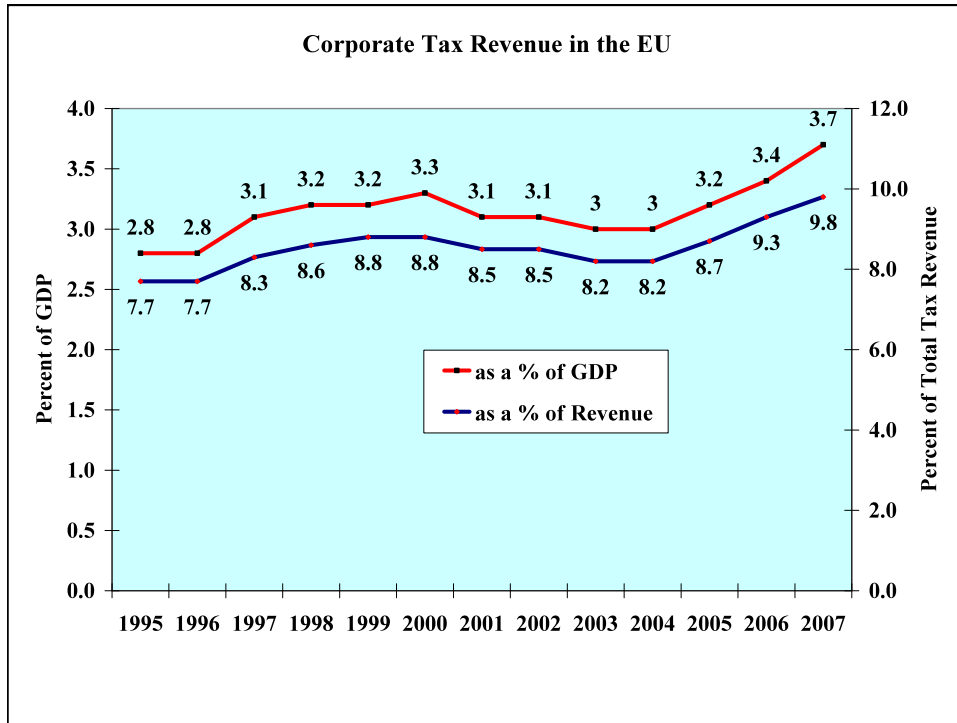
Source: Annual reports of Merck, Abbott, Johnson & Johnson, Bristol-Meyers Squibb, Pfizer, Schering-Plough, and Eli Lilly.

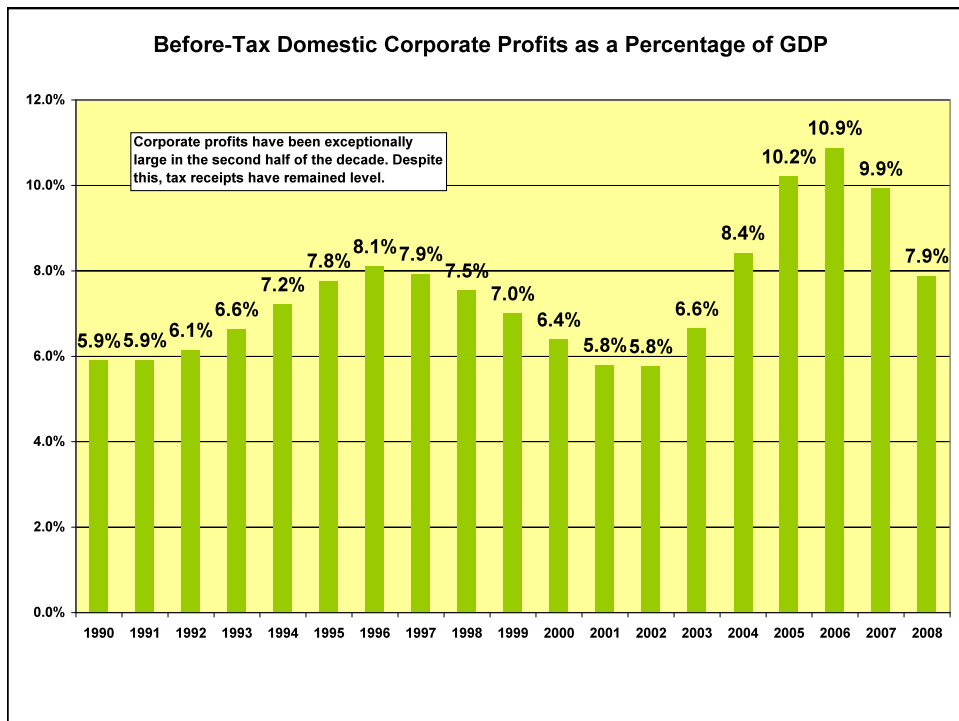
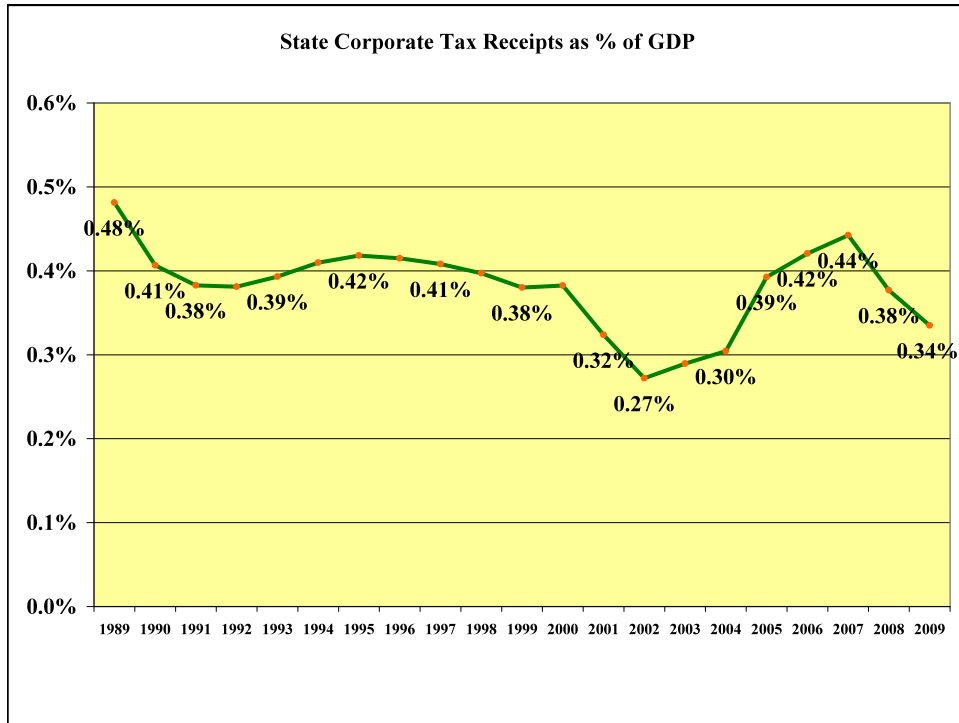


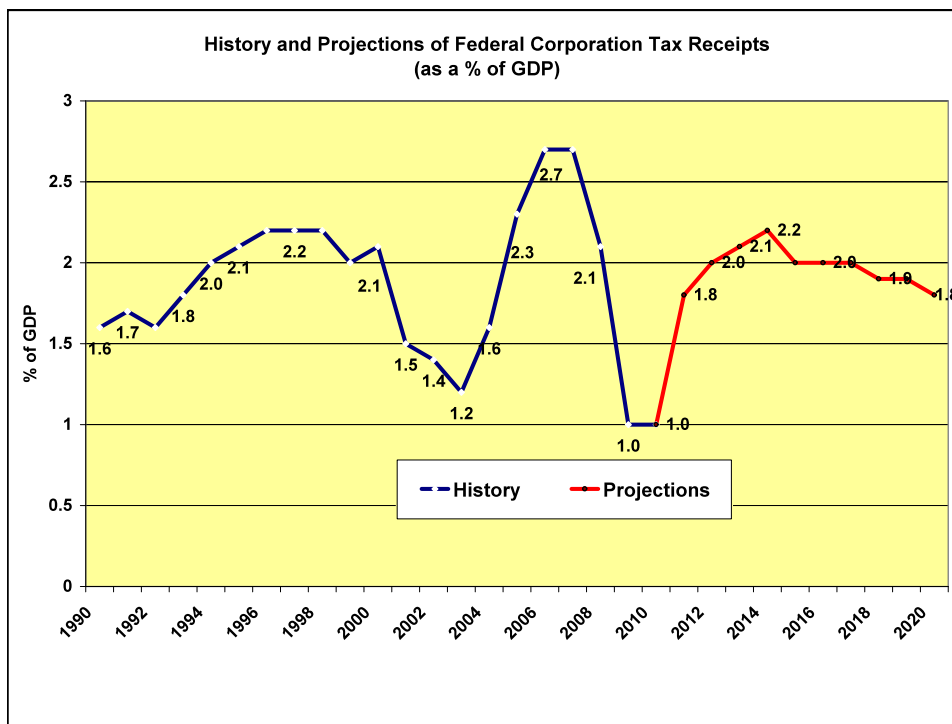












Part 2.

A Proposal to Reform State Corporate Taxes

Base-Broadening Reforms

- Combined Reporting
- Expanded nexus rules
- Uniform apportionment

Reform Proposal

- (1) Requires federal corporate tax base to be used as state corporate tax base
- (2) Uniform apportionment
- (3) Tax administered by IRS
- (4) States choose their own rates

Provincial Taxation in Canada

- 8 of 10 provinces use tax collection agreement with federal govt. to collect corporate tax
- “one return, one set of rules, one audit, one appeals process, one tax administrator”
- Recently adopted by Ontario, estimated to save Ontario business C\$100 million in compliance costs

EU Proposal for Common Consolidated Corporate Tax Base

- Multiplies rates, common base, uniform apportionment, voluntary, administered by individual countries
- Renewed push with new EU Tax Commissioner, Irish “yes” vote, and relaxed rules for voluntary adoption

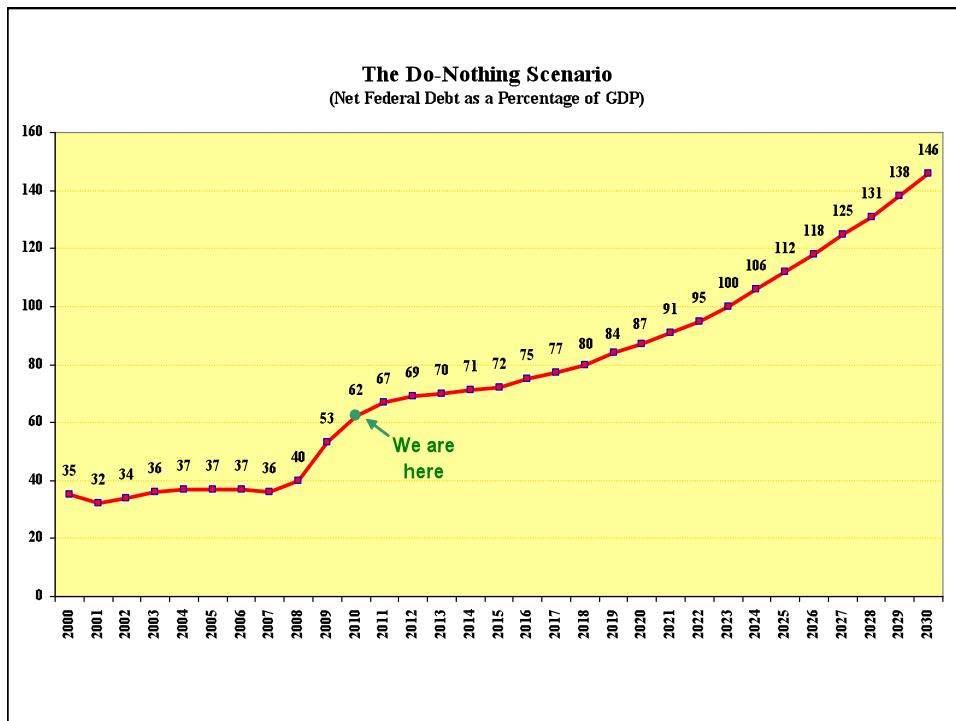
ARGUMENTS FOR

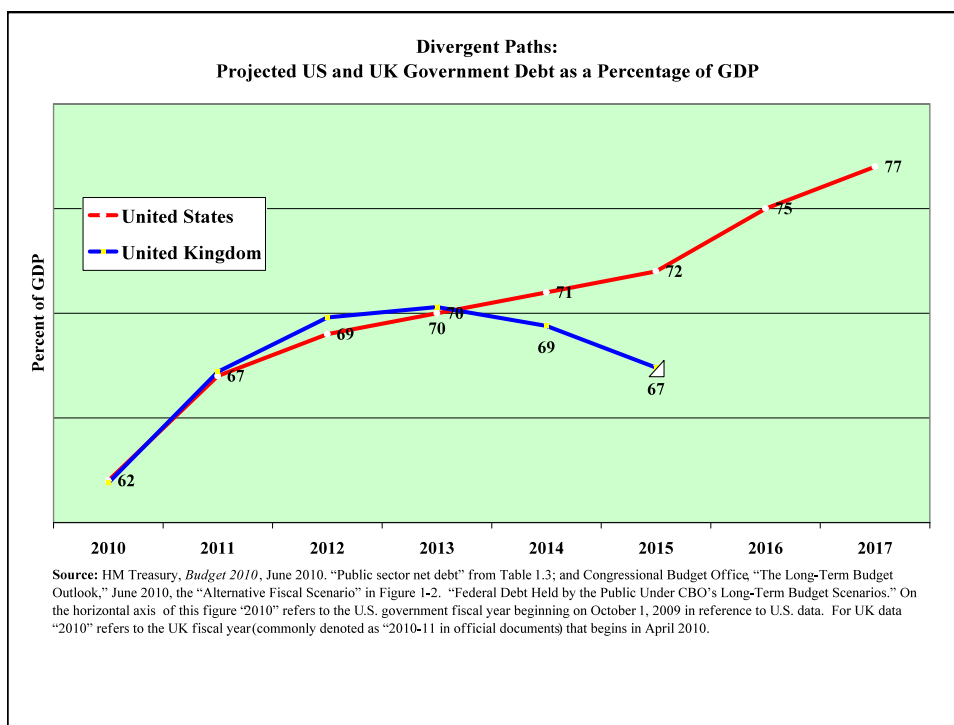
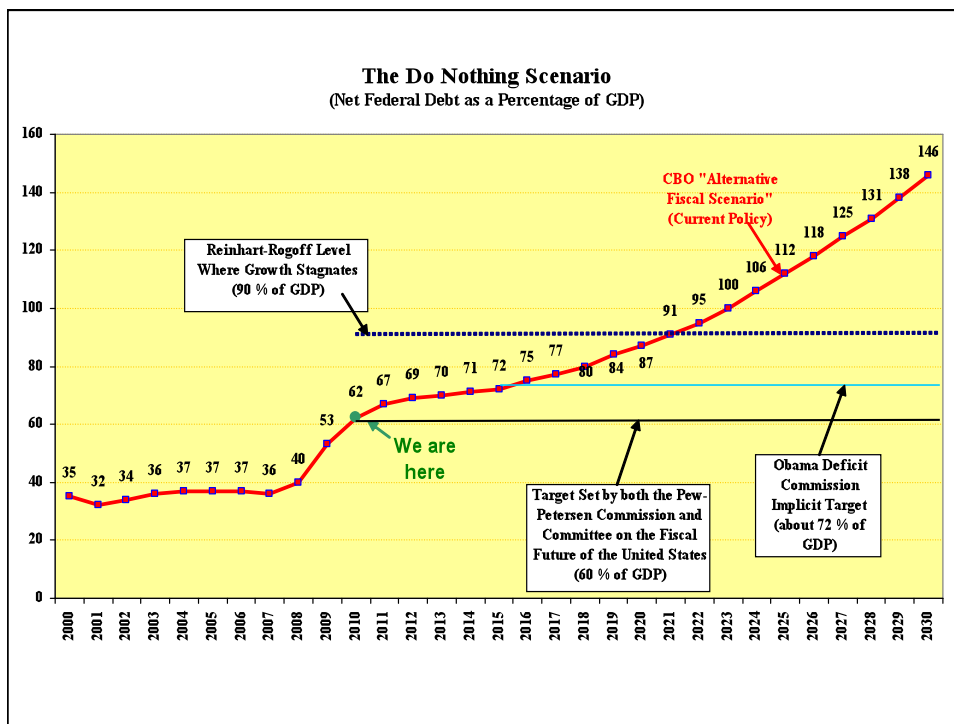
- **Reduced compliance costs for business**
- **Reduced administrative costs for govt.**
- **Rate competition remains**
- **Revenue**

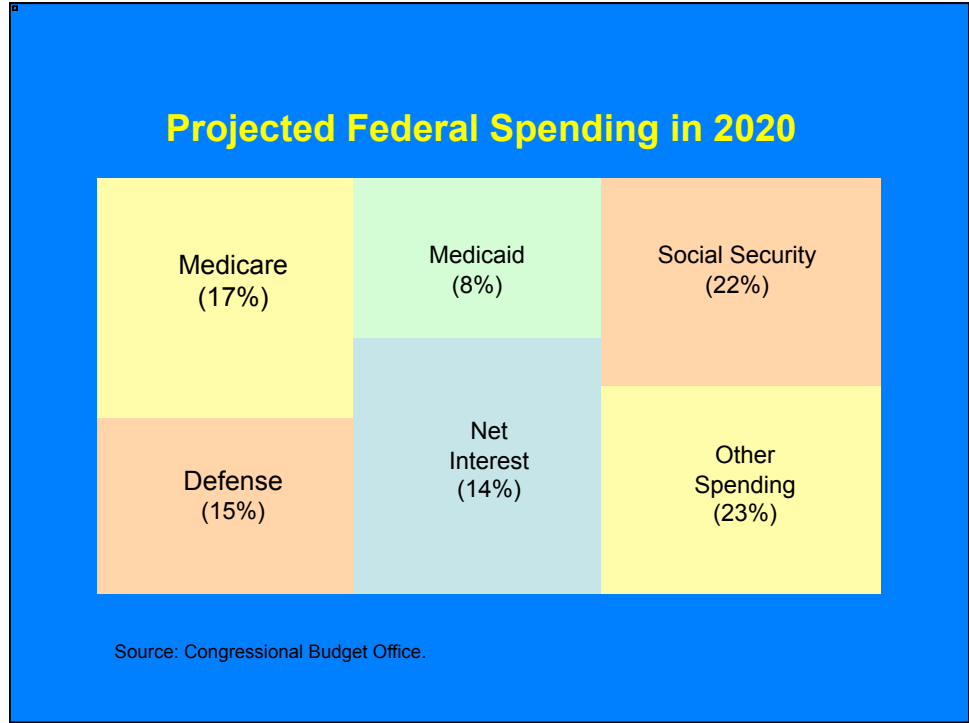
ARGUMENTS AGAINST

- **Sovereignty**
- **Volatility**
- **Realism**

Part 3. Future Shock







Rising VAT Rates Worldwide

Germany 16 to 19% (2007)	Spain 16 to 18% (2010)
Poland 22 to 23% (2010)	New Zealand 12.5 to 15% (2010)
Greece 19 to 23% (2010)	Finland 22 to 23% (2010)
Czech Rep. 19 to 20% (2010)	Portugal 20 to 21%
Hungary 20 to 25% (2010)	Slovakia 19 to 20%
Estonia 18 to 20% (2010)	Ireland 20 to 21%
Romania 19 to 24% (2010)	United Kingdom 17.5 to 20%

Declining Corporate Tax, Rising Consumption Tax

United Kingdom

- Massive deficit
- Cut corporate rate (from 28 to 24%)
- Raise VAT rate (from 17.5 to 20%)

Japan

- Massive debt
- Cut corporate rate (highest in the world)
- Raise VAT rate (from 5 to 10 or 15%)

State Interest in Alternatives to the Corporation Tax

- **Michigan** - Single Business Tax
- **Texas** – Margin Tax
- **Ohio** – Commercial Activity Tax
- **California** (proposed) – Net Business Receipts Tax

In the United States . . .

Business Activity Tax*

(or the business component of a Flat Tax,
or its progressive counterpart, the Bradford X-tax)

- Replace corporate tax
- Can look a corporate tax (subtraction method)
- Low rate, broad base
- No tax on non-US activity
- Far less revenue volatility

* Yes, it's really a VAT.

