# Obama administration proposes corporate tax cut

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The Obama administration has released preliminary details of a proposed overhaul of corporate taxes that would lower the tax rate for companies from the present 35 percent to 28 percent, and down to 25 percent for US manufacturers. Administration officials say that the revenue lost as a result of the cut would be recouped by eliminating dozens of loopholes utilized by corporations to lower their rates and avoid paying taxes.

In fact, the administration's proposal to slash corporate taxes is a major step toward the forging of a bipartisan agreement after the November elections, whichever party wins the presidency, to shift the tax burden even further from the corporate elite to the general population.

Announcing the plan on Wednesday, Treasury Secretary Timothy Geithner said that the US corporate tax rate "is now on pace to become the highest among all developed economies." In reality, the current 35 percent rate exists only on paper. According to data from the Organization for Economic Cooperation and Development (OECD), US corporations actually pay about *half the tax rate* of companies in other major economies.

Statistics presented in the administration's proposal do indeed show that "effective actual corporate tax rates"—i.e., what corporations really pay—are nowhere near the 35 percent rate. For instance, in 2007-2008, transportation and warehousing businesses were taxed at 19 percent, mining companies at 18 percent, and utilities at only 14 percent.

Corporations and their mouthpieces in the political establishment and media rail against the supposed unfair tax burden on big business, despite the fact that US income inequality continues to grow. The share of the US national income that goes to workers in the form of wages has fallen to its lowest level since records began after World War II.

As workers' wages have plummeted, corporate profits have soared. Economic Policy Institute figures show that profits in the corporate sector are 25-30 percent higher than they were before the current slump. Any decrease in the corporate tax rate will only increase the chasm between the wealthy elite and the vast majority of the population.

"The President's Framework for Business Tax Reform" has five elements. The first would lower the tax rate to 28 percent, while eliminating loopholes and subsidies "to reform the business tax base to reduce distortions that hurt productivity and growth." When the plan finally makes it to Congress for debate, talk of "closing loopholes" will inevitably provoke a frenzy of lobbying to defend tax breaks for varying business interests.

The second component of the plan would reduce the effective tax rate on US manufacturing to no more than 25 percent, and even lower for research and development and the "green" industry sector. The false claim is made that "Encouraging manufacturing investment and production supports higher wage jobs." This comes from an administration that has held up the auto industry's "recovery"—based on the halving of workers' wages—as a model to be emulated throughout the country.

The third element of the plan would establish a new minimum tax on foreign earnings. The report notes that corporations utilize offshore tax havens and deferral of income to evade paying taxes. One chart shows that in Bermuda, US company profits amount to 646 percent of the island nation's total gross domestic product.

The proposal states: "The President believes we must prevent companies from reaping the benefits of locating profits in low-tax countries… and help end the race to the bottom in corporate tax rates." The proposal does not specify the actual rate of this new "minimum tax" or how much the Internal Revenue Service expects to bring in by implementing it.

This promotion of US manufacturing is, in part, a sop to the trade union bureaucracy, whose bread and butter is economic nationalism, which simultaneously pits US workers against their class brothers and sisters internationally and lines them up behind “their” American bosses.

The fourth element of the proposal is aimed at simplifying and cutting taxes for small businesses, which would be allowed to expense up to $1 million in investments. Businesses with up to $10 million in gross receipts would also be allowed to utilize cash accounting methods.

Finally, the administration claims that the tax overhaul would promote fiscal responsibility and “not add a dime to the deficit.” Although the White House originally said that the proposal would be deficit neutral, the *Financial Times* reports that administration officials now say it is expected to raise an additional $250 billion over 10 years.

To put this in perspective, in the fiscal year ending September 30, 2012, the US expects to collect $236.8 billion in corporate taxes, which is only about 1.5 percent of the gross domestic product. This means that even if all the proposals in the president’s “framework” were implemented, only about one year’s worth of the minuscule level of corporate tax revenues would be gained.

Obama’s tax proposal is one element of an agenda designed to shift an ever-greater proportion of wealth from the working class to the super-rich. The only component of the plan that stands a good chance of surviving congressional debate is the proposal to cut the overall corporate tax rate.

The cut from 35 to 28 percent is already being attacked as too small. Among the Republican presidential candidates, Mitt Romney is calling for the rate to be cut across-the-board to 25 percent, while Newt Gingrich calls for slashing it to 12.5 percent.

While Obama’s proposal would cut taxes for big business, there have been no serious proposals forthcoming from either the Democrats or Republicans for reducing the tax burden on working class families. One proposal coming out of the National Commission on Fiscal Responsibility and Reform, commissioned by the president in 2010, would eliminate the mortgage interest deduction for millions of middle- and low-income homeowners and raise what they owe in taxes, in many cases by thousands of dollars a year.

There is no doubt that the tax code needs an overhaul—but in the opposite direction of that proposed by the Democrats and Republicans. As the Socialist Equality Party states in its program:

“Immediate measures must be taken to promote social equality and a radical redistribution of wealth, including a progressive income tax that places the burden of taxation on the rich, while lowering taxes for the vast majority of the population. Taxes on the profits of all major corporations must also be sharply increased.”

The Obama administration, which claims with this proposal to “even the playing field” and promote “fairness” in the tax code, in fact represents the interests of a corporate and financial aristocracy that stands in opposition to the most basic social needs of working people. A political system that defends the interests of a narrow corporate elite cannot tolerate even a modest reform of the tax system that would benefit the majority of people.

The Socialist Equality Party is running in the 2012 elections to advance a socialist perspective to advance the interests of the working class in opposition to the two parties of big business.

As part of this socialist program, our candidates call for all corporations valued at more than $10 billion to be transformed into publicly owned enterprises. Rather than receiving tax breaks and consuming a greater proportion of the national income, industries critical to the basic functioning of society should be subject to public ownership and democratic control.

The present political system cannot be reformed. Rather, it must be replaced by a workers’ government committed to establishing social equality and the advancement of the economic, social and cultural interests of those who actually produce the wealth in society.