Obama's Tax Plan Neither Simplifies Nor Reduces

President Obama's tax plan announced yesterday claims to simplify the tax code and make it fairer. This being an election year it is more likely his proposal is designed to attract votes instead of Congressional approval. His plan proposes to reduce the top corporate income tax rate from 35 to 28 percent in exchange for eliminating some "loopholes" placed in the tax code in the past to reward cronies, promote public policy and misdirect investment. But as Danielle Kurtzleben wrote, "How effective the proposal might be is a matter of perspective."

If one is a tax attorney the tax plan could reduce his workload as a lower tax rate, if it worked, would reduce somewhat the incentive to find so-called tax shelters. It might cost less to pay the lower taxes than hire accountants to find ways around them. As Thomas Lys, professor of accounting at Northwestern, keeping tax rates where they are means that "We're not better off, but lawyers and accountants are better off, because they make money on creating these monsters."

If one owns a company that invests heavily in research and development, he will like Obama's plan to expand some of his tax credits. And his plan to limit manufacturers from paying more than an effective rate of 25 percent will be music to those most likely to contribute big bucks to keep Obama in office. Steven Schier, a political science professor at Carleton College, said "I really don't think that a lot of businesspeople are going to be changing who they support based on Obama's new proposal. But what it may do is…allow him to raise more money from people in the business community who are already sympathetic to him."

His proposal to reduce corporate rates will likely be perceived as "pro-business," offsetting his increasingly strident anti-capitalist behaviors over the last three years. As Schier put it, "This will position him better to make that spiel that he is not a wild socialist [after all, but] that he's interested in pro-growth, pro-business policies and so forth."

There is an additional advantage for the president to offer up another piece of legislation that is likely to go nowhere in an election year: at least he is perceived as "doing something," which allows him once again to decry the "do-nothing" Congress for lack of progress on his proposals.

Mainstream economists are seeing through some of this political mist. Editors at Bloomberg wrote that "in stitching new bits and pieces to an already Frankenstein-like income-tax code, the [proposed] budget is a showcase for muddled aims producing bad policy…" Obama's plan would allow the Bush tax cuts to expire and levy additional taxes on incomes over $1 million a year. There aren't very many people making that much, and that additional revenue will scarcely make a dent, but it makes for great copy. Martin Sullivan, writing for Tax Analysts, said the plan "is not making sense. The whole idea of corporate tax reform is to get rid of loopholes and this plan is adding loopholes back in."

And what about forcing multinational companies to pay tax on income earned abroad? They already pay taxes where they are earned — this would amount simply to double taxation. In fact, no other country in the world imposes such a tax on foreign earnings. As Gary Huffbauer, a senior fellow at the Peterson Institute, put it, such a tax "is totally misguided both from a competitive standpoint and a jobs standpoint. Obama's plan, if enacted, will shrink the U.S. footprint in world markets and lose jobs."

Even the good news of reducing the corporate rate to 28 percent isn't all that good: including state corporate taxes brings the rate back up to 32 percent. This still would secure the United States at near the top of all industrialized countries in corporate tax rates.

Summing it all up, Peter Ferrara, writing at Forbes, "if the Bush tax cuts simply expire for these higher income earners, the top 2 income tax rates will go up by nearly 20%, the capital gains tax rate will soar by nearly 60%, the tax on dividends will nearly triple, the death tax rate will rise by nearly a third, and the Medicare payroll tax will explode by 62% for these targeted taxpayers."

Happily, Obama's budget is just for political show. With little chance of enactment during this election year, the president has carefully crafted his budget proposal to look like he's doing something that might help his reelection chances. The rest is persiflage.

Photo: President Barack Obama signs H.R. 3630, February 22, 2012: White House Photo