Proposed Tax Hikes Would Hurt U.S. Competitiveness

President Biden proposes to raise the corporate tax rate to 28% from its current 21% level. The 2017 Tax Cuts and Jobs Act (TCJA) lowered the rate from 35% to the present level.

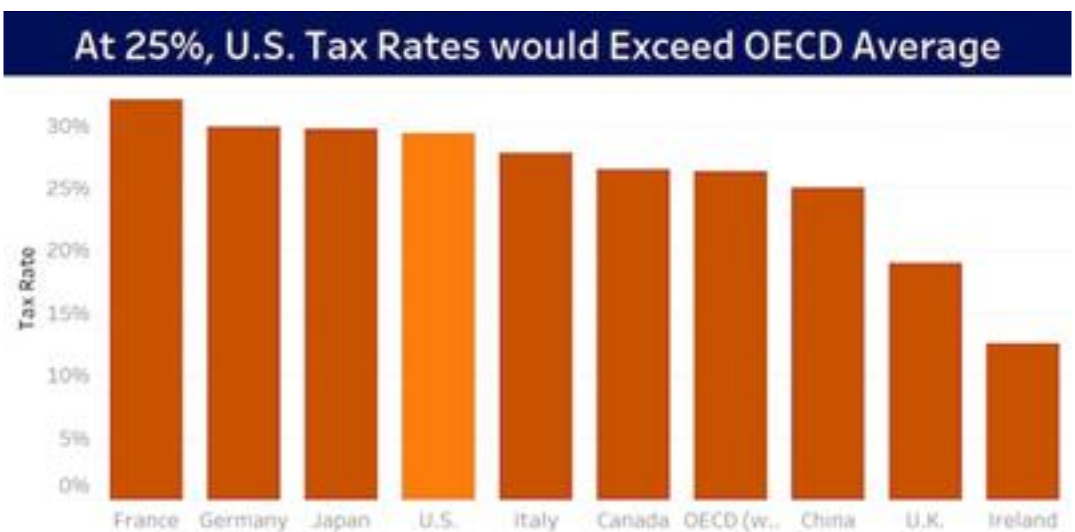
Big picture: Prior to that reduction, the U.S. was bleeding investment and jobs to other developed countries because our rate was so much higher than the norm. The (weighted) OECD average is 26.3% (the OECD is an organization of developed nations). When adding on the average state rates, the combined rate was close to 40%. China is 25%. Ireland is 12.5%. These key facts alone show why tax reform was badly needed. The strong economy prior to COVID showed it was working.

The TCJA was not a rate reduction alone though. It was truly tax reform because it broadened the tax base to the tune of [almost $700 billion](). The business community paid for a big chunk of its tax rate cut.

Raising the rate up to 28% is losing steam in Congress, but there appears to be a desire to raise it to 25% instead. President Biden has indicated willingness negotiate so the 25% rate may have more legs.

The President often argues that he wants to raise the rate less than the TCJA cut it. The implication being the rate increase won't be too damaging because we won't be going back to the prior rate. In fact, raising the rate to even 25% would be extremely harmful.

Competitively it would put us back near where we were prior to tax reform. Combined with the average state rate, our rate would be 29.3%, back above the OECD average. And well above China's 25% rate.



Further, comparing raising the rate under the now-broader tax base to the tax code prior to tax reform is an apples-to-oranges comparison. A recent report from the National Association of Manufacturers (NAM) shows just how [damaging a rate increase to 25% would be](). The NAM report finds a 25% rate would cost the economy 1 million jobs in the first two years and an average of 500,000 over ten years. It would reduce GDP by $107 billion in the first two years as well. These are large, painful effects.

Bottom line: The corporate tax hike is supposed to pay for infrastructure spending. We need that spending, but Congress would be better off finding a different way to pay for it than undoing the progress of tax reform.

—Curtis Dubay, Senior Economist, U.S. Chamber of Commerce