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Obama's Tax Plan a Bad Bargain for Small Business

By Frank Knapp Jr.

President Obama is right to address the urgent need to modernize our once grand infrastructure. Unfortunately, the president's corporate tax reforms would leave us in a deeper hole down the road.

The President's plan to cut corporate tax rates responds to the tireless mantra of U.S. multinational corporations that America's tax rates hurt their global competitiveness. In reality, American corporations are enjoying their highest level of profits in 60 years while their federal income taxes are close to the lowest level. The Government Accountability Office recently reported that large profitable U.S. corporations paid an effective federal tax rate of just 12.6 percent in 2010, a rate lower than many small businesses and middle-class families.

Large corporations like Pfizer, Bank of America and Google have avoided paying their fair share of U.S. taxes by abusing offshore tax havens and using accounting gimmicks to disguise U.S. profits as foreign profits. U.S. corporations are holding about \$2 trillion offshore to shield it from U.S. taxation. These corporations have gamed the tax system, contributing mightily to the deficit while leaving small businesses and households to pick up a greater share of the cost of public services and infrastructure – from schools and police to roads and safe drinking water.

While the details aren't clear, the President's plan includes a one-time fee on offshore profits – much lower than the regular corporate tax rate – that he wants to use for investing in our country's aging infrastructure and other priorities. Small businesses applaud increased investment in bridges, ports and other needed infrastructure that will also create jobs and put money on Main Street. However, history shows that rewarding corporate tax dodgers with hundreds of billions of dollars in tax breaks – as happened with the 2004 tax holiday that promised job creation and delivered a windfall to CEOs and shareholders instead – only accelerates tax haven abuse in the future. It would incentivize the armies of corporate accountants and lobbyists to create and exploit new loopholes even as old ones may be closed.

Ending corporate tax dodging is not a Republican issue or a Democratic issue; it's an American issue. In a nationally representative poll, in which Republicans outnumbered Democrats, more than 90 percent of small business owners said it is a problem when large corporations use accounting gimmicks to shift their U.S. profits to foreign tax havens in order to avoid taxes pay. Whether called a one-time fee or a tax holiday, a corporate tax amnesty policy is completely unacceptable to small businesses.

The President could close offshore tax loopholes without temporarily or permanently cutting corporate tax rates through a number of bills currently pending in Congress. These include bills to end deferral of taxes on corporate profits held offshore so that corporate income is taxed as it is earned and requiring offshore transactions to have an economic purpose beyond simply avoiding taxes.

Moreover, lobbyists who could not prevent the top-bracket Bush tax cuts from being reversed are saying that the President's plan for reducing corporate tax rates to 28 percent, with a lower 25 percent rate for manufacturers, should be accompanied by a reduction in top tax rates for individuals in order to be fair to small business owners – most of whom report their business profits on their personal tax returns. This is another effort to use middle-class small business owners as a foil to help hedge fund managers, wealthy lawyers and big businesses like Bechtel, the nation's largest engineering firm, that are formed as pass-through income organizations. These are the two to three percent of high-income "small business" owners who would reap a big windfall if income tax rates for those at the top were reduced; the rest of the real small business owners would not be affected.

The reality is that what small businesses really need is dependable modern infrastructure and more demand for their goods and services, not tax breaks for big corporations and wealthy individuals. We can strengthen this demand by making big corporations pay their fair share of taxes and investing the new revenue in economic development.

Tax reform should be about building a vibrant 21st century economy for all businesses, not rewarding big corporations for free loading on the rest of us.

Knapp is the president and CEO of the South Carolina Small Business Chamber of Commerce and Co-Chair of the American Sustainable Business Council Action Fund. This article previously appeared in The Hill.

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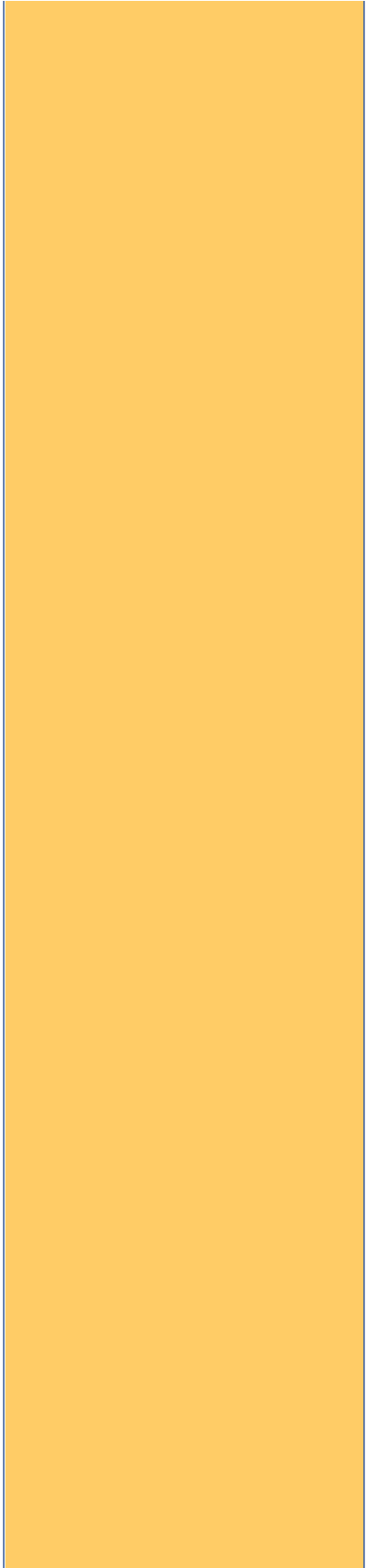
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