Reform the corporate tax code to eliminate two tax breaks: $404 billion over 10 years

The Idea: Corporate tax expenditures are rules in the tax code that essentially give some corporations tax breaks or subsidies. Eliminating just two key corporate tax expenditures - one that allows firms to deduct the costs of capital improvement quickly and another that subsidizes firms producing goods and services in the U.S. - could raise $404 billion[8] in revenues over the next 10 years.

The Rationale: Tax expenditures are tax breaks that cost the federal government revenue and have shifted the cost of government away from corporations to payroll taxes and individual income taxes. They seriously erode tax fairness by giving special breaks to firms in some industries or regions and not others and by giving preferential tax treatment to corporations that are able to hire lobbyists or make campaign contributions. The Joint Tax Committee estimates that there are over 120 tax expenditure programs that cost the U.S. government over $1 trillion dollars in revenues.[9] Eliminating just two loopholes would generate $404 billion over 10 years.

Two corporate loopholes, in particular, stand out because together they account for the majority of the benefits from corporate tax expenditures. The ***accelerated depreciation tax break*** allows corporations to "write down" capital investments quickly, so instead of gradually counting the depreciation costs of new equipment, firms can take most of the upgrade costs off their taxes in the first couple of years. Accelerated depreciation costs the government at least $241 billion in revenues over 10 years and may encourage corporations to unnecessarily invest in large capital projects.

The ***domestic production activities deduction***, passed in 2004, essentially provides a tax break/ subsidy for almost all businesses (with employees) operating in the United States. The deduction allows companies to shield a percentage of their profits simply because they are producing goods in the country. Over the next ten years, this deduction will cost the public at least $163 billion.

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Eliminating these two corporate tax breaks would ensure that corporations pay enough revenue to actually support the physical and institutional public structures they use when doing business in America.

Support for the Idea: Of the plans reviewed for this revenue project, the following support reforming the corporate tax code to reduce loopholes: Our Fiscal Security's (Economic Policy Institute, Demos, and The Century Foundation) *Investing in America's Economy*, Center for American Progress' *First Step*, the House Democratic *2012 budget*, the Institute for America's Future *Citizens' Commission*, President Obama's *2012 budget* and *Living within Our Means*, and the Congressional Progressive Caucus' *People's Budget*.

[8] *Reducing the Deficit: Spending and Revenue Options*, CBO, pg. 180-2.
[9] *Estimated Revenue Effects of Corporate Tax Reform Revenue Raising Provisions That Repeal or Modify Tax Expenditures*, Joint Committee on Taxation, pg. 1-7.