A MISSED OPPORTUNITY:

>> The Economic Cost of Delaying Pro-Growth Tax Reform

Executive Summary

NATIONAL ASSOCIATION OF Manufacturers

WE NEED PRO-GROWTH TAX REFORM

Photo by David Bohrer/NAM.

Political gridlock on pro-growth tax reform imposes a cost on all businesses and leads to considerable uncertainty throughout the economy. Compounding this general uncertainty is the fact that many important business tax provisions are temporary and require regular renewal by Congress, which often leads to delays and retroactive extensions. At the same time, the U.S. business tax system has become increasingly out of sync with tax regimes in virtually all other developed economies. The maximum U.S. tax rates on corporate and other business income exceed those in other countries, and the United States is among the last countries to apply a worldwide system, which taxes all income of American corporations regardless of where it is earned.

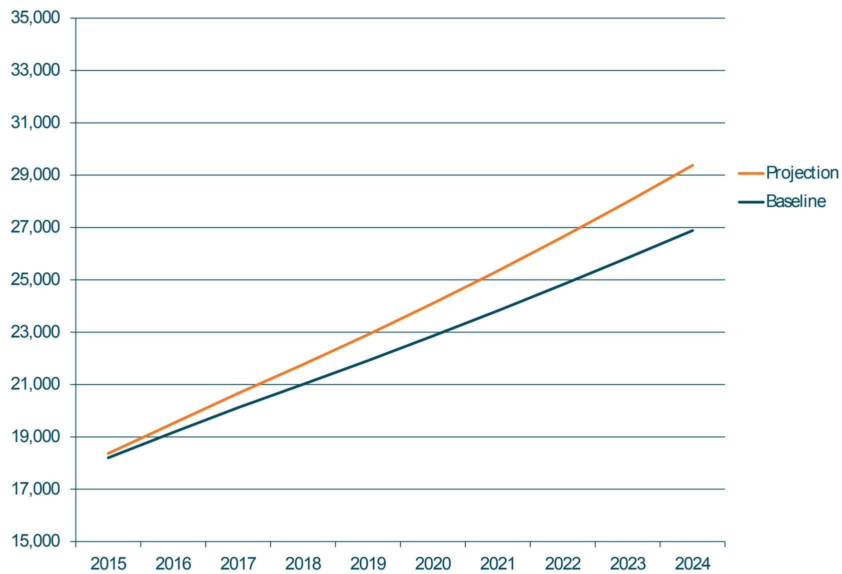
A Missed Opportunity: The Economic Cost of Delaying Pro-Growth Tax Reform takes a close look at the economic impact of enacting a five-pronged pro-growth tax package and concludes that the lack of action on pro-growth tax reform is costing the U.S. economy in terms of slower growth in GDP, investment and employment. In contrast, the study finds that **over a 10-year period, a pro-growth tax reform plan would increase GDP by more than $12 trillion relative to Congressional Budget Office (CBO) projections, increase investment by more than $3.3 trillion and add more than 6.5 million jobs to the U.S. economy.**

The analysis focuses on the macroeconomic impact of five policy changes:

- **A maximum corporate tax rate of 25 percent**
- **A globally competitive international tax system**
- **Full expensing for capital equipment**
- **Enhanced and permanent research and development incentives**
- **Parallel changes for non-corporate pass-through businesses**

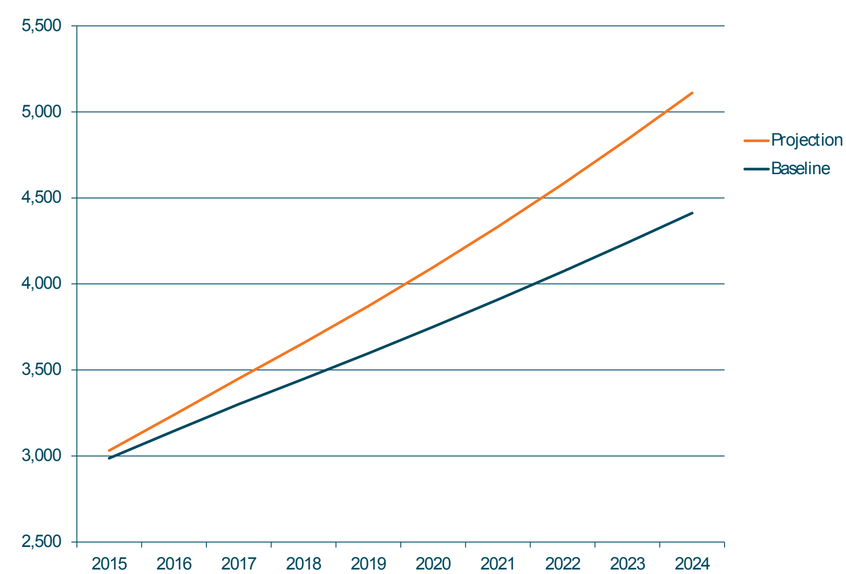
As illustrated in Figure 1, this pro-growth tax plan would add almost 1 percentage point (about 0.9) to GDP growth on an annual basis, and the initial-year impact would be slightly greater as a result of the territorial system transition tax. The cumulative 10-year impact between 2015 and 2024 would increase GDP by more than $12 trillion relative to CBO projections. About 42 percent of this impact would result from lower tax rates on corporate and non-corporate pass-through income. A higher share—about 58 percent—of the combined effect would be attributable to the expensing and R&D provisions.

Figure 1: GDP Projections (in Billions of Dollars)



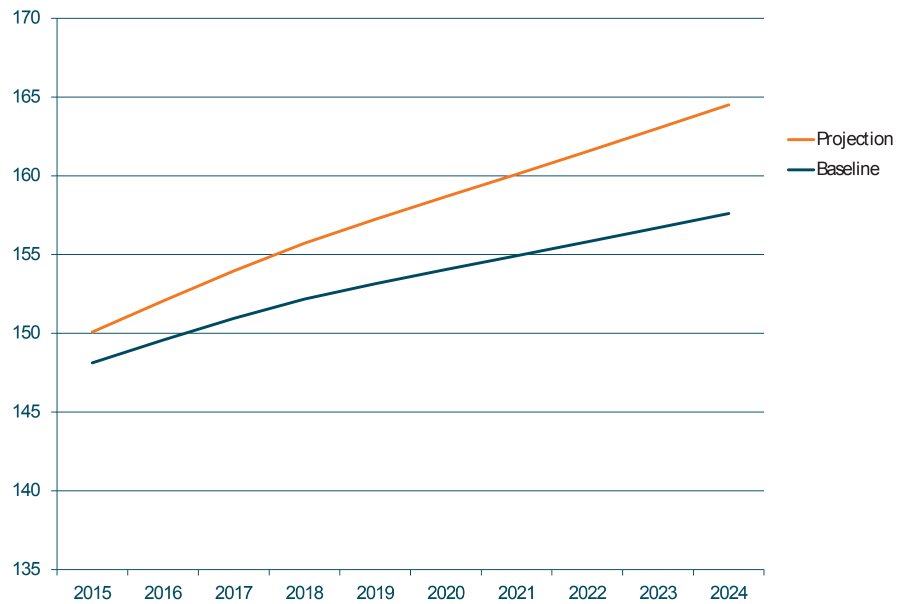
Turning to Figure 2, these tax policy changes would add nearly 1.5 percentage points to investment growth on an annual basis, amounting to a cumulative increase of more than $3.3 trillion between 2015 and 2024. Again, the territorial system transition tax would add a modest amount in the first year. Most—about four-fifths—of the combined impact is the result of full expensing, with the corporate and individual tax rate reductions contributing about 10 and 3 percent, respectively. The R&D incentive contributes most of the remainder.

Figure 2: Investment Projections (in Billions of Dollars)



Finally, as shown in Figure 3, the tax plan would add between 492,000 and 522,000 jobs per year, or more than 6.5 million jobs over 10 years. Estimates of the effect of the territorial system transition tax increase the initial-year impact by 1.46 million jobs. About 31 percent of the combined ongoing employment impact arises from the corporate tax rate reduction, and a similar share results from the shift to a territorial system. The expensing and individual tax rate reductions contribute about 15 percent each, with the remainder resulting from the R&D incentives.

Figure 3: Employment Projections (in Millions)



Conclusion

Current inaction on reforming the U.S. tax system is taking its toll on the macroeconomy, slowing growth in GDP, investment and employment below potential growth in a more favorable business tax environment. In contrast, reduced tax rates on corporate and non-corporate pass-through income, robust capital cost recovery in the form of full expensing, enhanced and permanent R&D incentives and a territorial system for taxing income of multinationals could add significantly to economic growth in the United States.

A Missed Opportunity: The Economic Cost of Delaying Pro-Growth Tax Reform looks at a tax reform package with these key elements and quantifies the lost economic benefits of delaying broad-based pro-growth tax reform that applies both to corporations and businesses operating as pass-through entities. These estimated impacts—upward of $12 trillion in GDP, $3.3 trillion in investment and 6.5 million jobs over 10 years—are significant and worthy of consideration in the ongoing discussion about the future of pro-growth tax reform.