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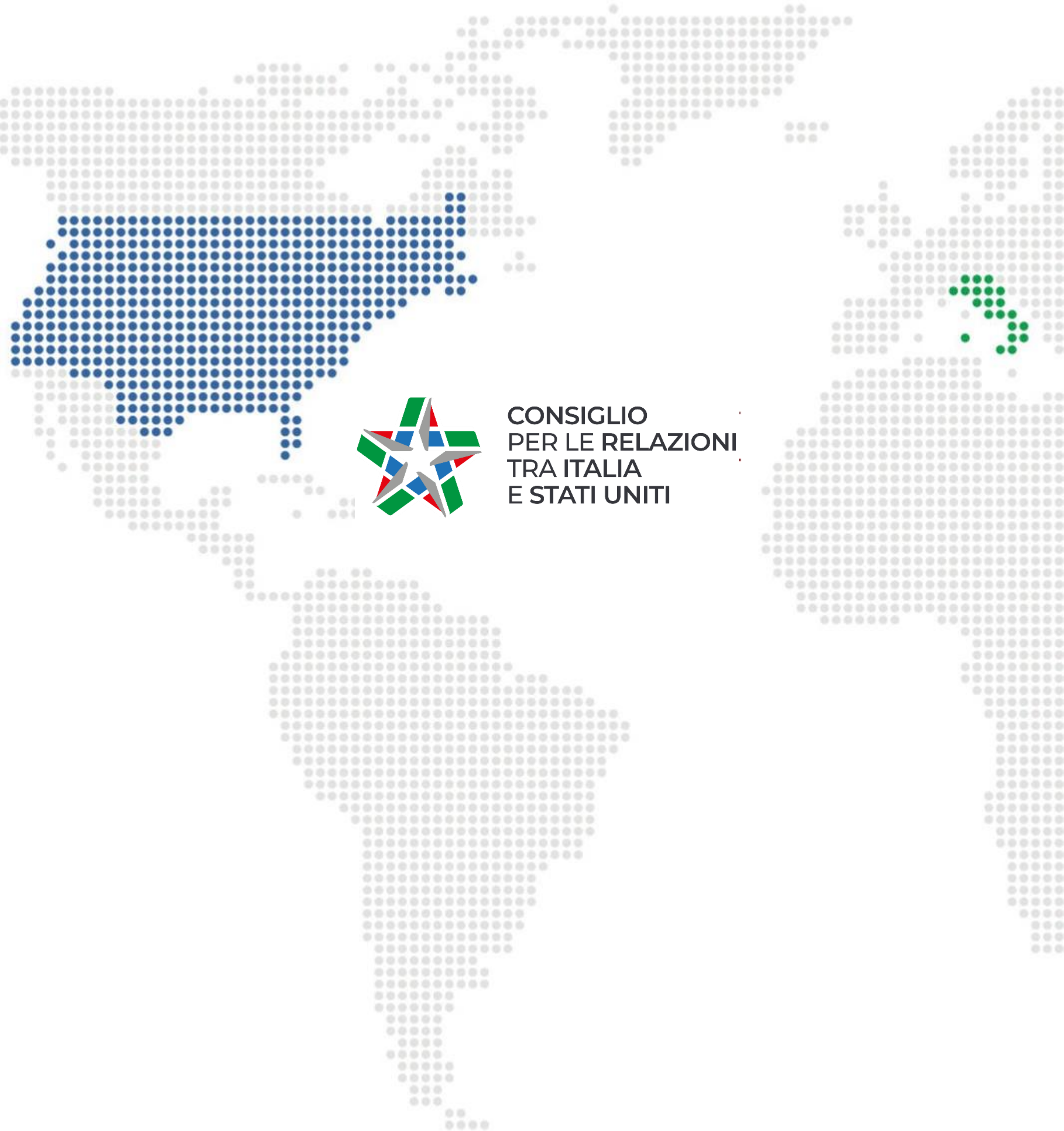

CONSIGLIO PER LE RELAZIONI TRA ITALIA E STATI UNITI

The Big Picture – April, 2021

"THE GREAT AMERICAN TAX GAMBIT"

US President Joe Biden is seeking to raise America's corporate tax rate from 21% to 28% and introduce a global minimum corporate tax in order to halt an international "race to the bottom." The bold proposal has sharpened the debate about how his administration should finance its ambitious spending plans, and, more broadly, how to tax increasingly footloose multinational companies.

In this Big Picture, MIT's **Daron Acemoglu** welcomes Biden's plan, saying that it would increase corporations' share of US federal tax revenues and potentially revolutionize corporate taxation worldwide. And fair taxation of multinationals, argue **José Antonio Ocampo**, Nobel laureate economist **Joseph E. Stiglitz**, and **Jayati Ghosh** of the Independent Commission for the Reform of International Corporate Taxation, must be a central part of any tax system aimed at driving economic growth and creating high living standards for all.

But **Alan J. Auerbach** of the University of California, Berkeley thinks Biden's corporate-tax proposal is designed for a bygone era, and instead advocates a destination-based cash-flow tax (DBCFT) similar to the one that Republican leaders unsuccessfully proposed in 2016-17.

Back then, New York University's **Nouriel Roubini** rebutted the claim by DBCFT proponents that such a tax would improve the US trade balance and boost domestic production, investment, and employment. Similarly, **Michael Heise** of HQ Trust argued that the economic, political, and legal risks of such a radical reform would likely far outweigh any rewards.

"BIDEN'S GREAT TAX REBALANCING"

(Project Syndicate – April 14, 2021)

Daron Acemoglu, professor of Economics at MIT, is co-author (with James A. Robinson) of *Why Nations Fail: The Origins of Power, Prosperity and Poverty* and *The Narrow Corridor: States, Societies, and the Fate of Liberty.*

US President Joe Biden's plan to overhaul America's outdated and self-defeating corporate-tax structure is as bold as it is necessary. With provisions to level the playing field for workers and end the global race to the bottom, it could revolutionize taxation worldwide, while stemming the increase in US government debt.

BOSTON – US President Joe Biden's spending plans have been grabbing headlines, and rightly so. The administration's relief package and infrastructure plan could remake the US welfare state by bolstering the social safety net and increasing spending on transportation, broadband, and education.

But with US government spending likely to remain high after the COVID-19 pandemic, tax revenues must increase, because additional borrowing can finance only so much. Hence, the Biden administration has proposed the equally sweeping Made in America Tax Plan, which would increase corporations' share of tax revenues.

Raising the corporate tax rate is the best option. In the first decade after World War II, taxes on individual incomes and social insurance receipts made up about 50% of federal tax revenues, while corporate taxes accounted for another 30%. But since then, the former category has increased steadily, reaching about 85% of total federal tax revenues, while the corporate share has fallen below 10%.

Moreover, US corporate profits have never been higher, while the share of national income accruing to labor has declined from about 66% to 58%, indicating that workers have been paying an ever-larger share of total taxes even as they have been getting a diminishing share of the economic pie. My own research finds similarly high imbalances in the effective marginal tax rates on labor (more than 25%) and on capital investments such as software and equipment (5%).

These marginal rates are what guide corporate investment decisions. Under the current US tax structure, corporations have much stronger incentives to pursue excessive automation than to employ, train, and properly pay workers. But automation is not the only technological path open to US businesses. With different incentives, they would instead invest in technologies designed to make workers more productive. All told, the deep imbalances in the current tax structure are costing the US economy not just in terms of employment, but also in decreased productive efficiency and growth.

While the Trump administration's 2017 tax bill slashed the corporate tax rate from 35% to 21%, the corporate share of total tax revenues has been declining for a half-century. Many businesses have become private partnerships or S-Corporations, which are exempt from corporate income taxes. Another major contributor to this trend has been depreciation allowances, which enable corporations to deduct investment expenditures from their taxable income.

Biden's promise to increase the headline corporate tax rate from 21% to 28% is therefore an important step, but insufficient in itself. It will neither level the playing field between capital and labor, nor stop US-based corporations from engaging in "tax inversions" to flee to other jurisdictions or from shifting their profits to foreign subsidiaries. Footloose corporate profits have been a leading factor in the long-term reduction of tax rates on capital and corporations, and multinationals would still have a full bag of tricks for reducing their reported US profits, such as internal financial transactions to increase their debt obligations in the United States and using foreign subsidiaries to overcharge their US branches (transfer pricing).

Fortunately, the Biden plan includes a second pillar to address precisely this problem: a global minimum corporate tax.

In theory, the idea is simple. Ideally, tax rates would be hiked substantially in Ireland, Luxembourg, Switzerland, Panama, the British Virgin Islands, and other jurisdictions that allow corporations to evade their tax obligations through "arbitrage." If not, a company headquartered in the US and subject to the 21% global minimum corporate tax rate that reports all of its profits in Ireland, where the corporate tax rate is 12.5%, would be assessed additional US taxes equivalent to 8.5% of its profits.

Of course, the policy would be more complicated in practice. Low-tax jurisdictions have come to rely so much on tax-dodging international businesses that they have spurned coordination. Faced with the global minimum tax rate in the US, some may be tempted to relocate their headquarters to such countries (which is why the Biden tax plan also includes provisions to prevent evasive corporate flight). If some of the most notorious tax havens refused to cooperate, any new international framework would fail.

This is where US leadership comes in. The US has incredible fiscal power, not just as the world's largest economy, but also as the regulatory headquarters of the global financial industry. If US policymakers lead with enough conviction, other countries will be forced to follow. Biden's tax plan already contains provisions to prevent tax inversions and includes proposals for limiting tax deductions for multinationals engaged in tax arbitrage. The US can also take legal action against foreign financial institutions involved in tax fraud and systematic innovation, and can work multilaterally to bring greater harmonization to the international taxation of corporate incomes.

If implemented fully, a global minimum corporate tax rate would revolutionize international capital taxation. But even this would not solve America's fiscal problems. To reverse the unfair and inefficient reduction of the corporate tax burden, the Biden administration must also end excessively generous depreciation allowances and broaden the tax base, so that companies cannot avoid taxes simply by changing their legal status.

Greater corporate taxation should be accompanied by other measures to encourage investment and innovation. In addition to subsidizing research and development, the state can do more to help increase the supply of well-trained engineers, scientists, and skilled workers, and to facilitate the diffusion of technological know-how.

With a more level playing field between capital and labor, companies can be induced to develop and adopt new technologies that increase worker productivity, rather than continuing the trend of excessive automation that has shaped the US economy for the past two decades. Part and parcel of this effort will be action to end the dominance of just a few companies in the technology sector.

A fairer tax system would not solve all of America's economic problems on its own. But it would be a significant step in the right direction, helping workers and the economy while also stemming the alarming rise in federal debt.

"AN OPEN LETTER TO JOE BIDEN ON INTERNATIONAL CORPORATE TAXATION"

(Project Syndicate – February 26, 2021)

  

José Antonio Ocampo, a former finance minister of Colombia and UN under-secretary general

Joseph E. Stiglitz, a Nobel laureate in economics and University Professor at Columbia University

Jayati Ghosh, *Executive Secretary of International Development Economics Associates*

For too long, international institutions have failed to address one of the most toxic aspects of globalization: tax avoidance and evasion by multinational corporations. Fair taxation of multinationals must be a central part of any tax system aimed at driving economic growth and creating high living standards for all.

Dear Mr. President,

The world has welcomed your election and commitment to restore diplomatic engagement with the international community to the center of US foreign policy. By rallying governments to create the conditions for an equitable and environmentally sustainable global economic recovery, your leadership can encourage transformative changes.

For too long, international institutions have failed to deal with one of the most toxic aspects of globalization: tax avoidance and evasion by multinational corporations. Fair taxation of multinationals is needed to create the type of societies that we aspire to, and it must be a central part of any progressive tax system aimed at driving economic growth and creating high living standards for all. Ending corporate tax avoidance is also one of the best ways to tackle rampant inequality of wealth and income.

By shifting their profits to tax havens, large companies deprive governments worldwide of at least $240 billion per year in fiscal revenues. This shortfall affects not only the United States, where some 50% of overseas profits made by US multinationals are transferred to tax havens each year, but also the Global South, where revenue sources are more limited and hence reliance on corporate tax receipts to fund public services is greater.

As members of the Independent Commission for the Reform of International Corporate Taxation (ICRICT), we urge you to fulfill your promise to "lead efforts internationally to bring transparency to the global financial system, go after illicit tax havens, seize stolen assets, and make it more difficult for leaders who steal from their people to hide behind anonymous front companies." To do that, your administration should engage actively in ongoing efforts to overhaul the international tax system to ensure fair taxation of multinationals, which is currently being discussed within the G20-mandated OECD process.

Unfortunately, these negotiations have not gone well. The governments of leading member states (including the previous US administration) have negotiated under the misplaced assumption that their national interest is best served by protecting those multinationals headquartered within their borders. Discussions on the reform of international taxation have thus sacrificed common ambition to the lowest common denominator.

Meanwhile, multinationals continue to avoid taxes that could help pay for public expenditure to support the post-pandemic recovery. The world cannot afford this.

The negotiating process has, nonetheless, reached agreement that multinationals should be considered unitary businesses. This means that their worldwide profits should be taxed in line with their real activities in each country. This is a familiar concept in the US, where corporate profits are allocated to different states on a formulaic basis, according to the key factors that generate profit: employment, sales, and assets. But the current proposal applies this allocation criterion to only a small share of a firm's global profits – particularly those of highly digitalized multinationals, which are mainly US-based.

E-commerce grew by nearly a third during the pandemic, and it is critical that not only digital multinationals, but all multinationals' digital business operations pay their fair share of taxes. An ambitious and comprehensive reform therefore should be adopted to replicate the US system at the international level, without distinction between digital and non-digital businesses. Such a rule would help to establish a more level playing field, reduce distortions, limit opportunities for tax avoidance, and provide certainty to multinationals and investors.

This system should be supported by a global minimum tax on multinationals, putting an end to harmful tax competition between countries and reducing the incentive for multinationals to shift profits to tax havens. But the 12.5% minimum rate being discussed at the OECD and elsewhere could become the global ceiling, in which case the laudable initiative to oblige multinationals to bear their fair share of taxes would end up doing the opposite.

Your campaign promised to raise the US minimum tax on US corporations' foreign earnings (known as "GILTI") to 21%. This measure would not only have the merit of increasing your country's fiscal resources; it would also provide the political support for other countries' policymakers to follow suit.

An ambitious global minimum tax could be a game changer in the fight against tax avoidance. If G20 countries were to agree to impose a 25% minimum corporate tax (as the ICRICT advocates) on the global income of their multinational firms, more than 90% of worldwide profits would automatically be taxed at 25% or more. Of course, it is also essential that such a tax should be designed to allocate taxing rights fairly between firms' home and host countries.

Treasury Secretary Janet Yellen said at her confirmation hearing that your administration looked forward "to actively working with other countries" in order to "try to stop what has been a destructive, global race to the bottom on corporate taxation." There is no evidence that the recent trend toward lower corporate tax rates has stimulated productive investment and growth. The 2017 US rate cut mainly ended up funding dividend payments and stock buybacks.

Corporate taxation is in effect a tax on pure profits, and so lowering the rate has little effect on economic activity. In other words, corporate taxes are essentially a withholding tax on dividends, and thus an income tax on the wealthy, because equity holdings (directly, or indirectly through, say, pension funds) are even more unequally distributed than income.

We ask you to ensure that the US once again leads by the power of example and cooperates with other countries willing to deliver a comprehensive reform that is equitable for the US and the rest of the world. Until such equitable reform is adopted, trade sanctions against countries that have already decided to tax digital businesses – many of them developing countries desperate for additional revenues – will be counterproductive.

Re-engaging with the multilateral system while accepting a weak international compromise on taxation of multinationals will further erode, not restore, trust in the system. It is fully within our power to build a post-pandemic world that is more sustainable, cooperative, and fair, where multinationals pay the taxes they should. The ICRICT would be honored to support your administration in achieving this crucial goal.

This commentary is also signed by Edmund Valpy Fitzgerald, Kim Jacinto-Henares, Eva Joly, Ricardo Martner, Suzanne Matale, Léonce Ndikumana, Irene Ovonji-Odida, Thomas Piketty, Magdalena Sepúlveda Carmona, Wayne Swan, and Gabriel Zucman.

"A Commonsense Corporate Tax"

(Project Syndicate – April 15, 2021)

Alan J. Auerbach is Professor of Economics and Law at the University of California, Berkeley, and co-author of Taxing Profit in a Global Economy (Oxford University Press, 2021).

In its efforts to generate more revenue to fund a massive infrastructure spending package, US President Joe Biden's administration is seeking to add more red tape to a corporate tax regime that already has too much of it. Fortunately, there is a perfectly sensible alternative.

BERKELEY – As part of its massive infrastructure plan, President Joe Biden's administration is seeking to raise the US corporate tax rate from 21% to 28%, with a 21% "minimum" tax on profits earned abroad by US corporations. In the words of Secretary of the Treasury Janet Yellen, the goal is to arrest an international "race to the bottom" by getting other countries to adopt similar minimum corporate taxes.

Unfortunately, the measures being proposed seem designed for an earlier era, when it was easy to identify the factories and refineries where companies produced and earned their profits, and when a corporation's nationality was largely determined by the location of its main operations and its shareholders. In the modern era, multinational companies with international shareholder bases operate global supply chains, creating value using intangible capital with no natural location. As such, trying to modify a tax system based on a company's residence and where its profits are earned amounts to trying to replace the race to the bottom with a race to the past.

If the United States adopts the proposed measures but fails to get others to go along, it will have saddled itself with a less competitive tax system. But even if it succeeds, it will have locked in a system that will require constant modification to keep up with economic realities that are departing ever further from the core concepts on which the system is based.

Fortunately, there are alternatives that are much more attuned to the realities of the modern economy. Policies enacted in the US at the state level in recent decades have steadily moved toward taxing corporations based on the location of their sales. For these jurisdictions, shifting away from taxes based on the location of payroll and tangible assets has proved salutary for investment and employment. Moreover, if adopted at the national level, "destination-based" taxation could solve the problem of international profit shifting that the Biden reforms are intended to confront.

The most decisive reform would be a "destination-based cash flow tax" (DBCFT). Among other things, this would provide immediate expensing for all investment, eliminate the tax advantage for corporate borrowing, and impose border tax adjustments to eliminate taxes on export revenues and tax deductions for import costs. At the end of the day, only domestic cash flows would be taxed. And, because transactions between domestic companies and related foreign parties would have no US tax consequences, the practice of profit shifting would disappear.

Moreover, the border tax adjustments would move the locus of taxation from where products are produced to where they are sold. Because domestic production would impose no additional tax on companies, America's attractiveness as a location for employment-generating investment would be enhanced. A major added benefit would be that the welter of complicated tax rules aimed at preventing corporations from shifting profits and production abroad could be repealed as unnecessary artifacts of a bygone era, rather than being augmented even further under the Biden plan.

Likewise, with the tax system imposing no special burdens on US corporations, all measures aimed at preventing them from moving their headquarters abroad in order to escape US nationality could be consigned to history, rather than confounding matters further. And tying tax liability only to transactions within the US would relieve the Internal Revenue Service of the burden of chasing down information about companies' foreign operations.

Readers may recognize the DBCFT from its appearance in 2016, when House Republicans Paul Ryan and Kevin Brady proposed it. The scheme ultimately did not make it into the 2017 Tax Cuts and Jobs Act, because its sponsors' insistence on the immediate, full-scale adoption of a then-unfamiliar reform drew opposition from other Republicans. Moreover, the Trump administration's belligerence toward America's traditional allies created an adversarial relationship in which there was little attempt to explain the rationale for the reform, let alone push for its adoption abroad.

But the Biden administration, with its expressed desire for international cooperation and domestic bipartisanship, has a better chance at success. As an effective tax on corporate profits, the DBCFT is not only progressive; it is actually more progressive than the current US corporate tax, which makes US workers less productive by discouraging investment.

A straightforward tax that provides a sustainable, progressive source of revenue and incentives for domestic investment and employment (even if the tax rate is increased) should appeal to many in Congress, regardless of their political orientation. The choice between a modern corporate tax and a race to the past should be clear.

"AMERICA'S BAD BORDER TAX"

(Project Syndicate – March 3, 2017)

Nouriel Roubini, Professor of Economics at New York University's Stern School of Business and Chairman of Roubini Macro Associates, was Senior Economist for International Affairs in the White House's Council of Economic Advisers during the Clinton Administration. He has worked for the International Monetary Fund, the US Federal Reserve, and the World Bank. His website is NourielRoubini.com, and he is the host of NourielToday.com.

US Republican leaders claim that a border-adjustment tax – which would effectively subsidize US exporters and penalize importers – would improve the US trade balance and boost domestic production, investment, and employment. They are wrong.

NEW YORK – The United States may be about to implement a border adjustment tax. The Republican Party, now in control of the legislative and executive branches, views a BAT – which would effectively subsidize US exporters, by giving them tax breaks, while penalizing US companies that import goods – as an important element of corporate-tax reform. They claim that it would improve the US trade balance, while boosting domestic production, investment, and employment. They are wrong.

The truth is that the Republicans' plan is highly problematic. Along with other proposed reforms, the BAT would turn the US corporate income tax into a tax on corporate cash flow (with border adjustment), implying far-reaching consequences for US companies' competitiveness and profitability.

Some sectors or firms – especially those that rely heavily on imports, such as US retailers – would face sharp increases in their tax liabilities; in some cases, these increases would be even greater than their pre-tax profits. Meanwhile, sectors or firms that export, like those in manufacturing, would enjoy significant reductions in their tax burden. This divergence seems both unwarranted and unfair.

The BAT would have other distributional implications, too. Studies indicate that it may hit consumers among the bottom 10% of income earners hardest. Yet it has been promoted as a way to offset the corporate-tax cuts that Republicans are also pushing – cuts that would ultimately benefit those at the top of the income distribution.

Making matters worse, the BAT would not actually protect US firms from foreign competition. Economic theory suggests that, in principle, a BAT could push up the value of the dollar by as much as the tax, thereby nullifying its effects on the relative competitiveness of imports and exports.

Moreover, the balance-sheet effects of dollar appreciation would be large. Because most foreign assets held by US investors are denominated in a foreign currency, the value of those assets could be reduced by several trillion dollars, in total. Meanwhile, the highly indebted emerging economies would face ballooning dollar liabilities, which could cause financial distress and even crises.

Even if the US dollar appreciated less than the BAT, the pass-through from the tax on imports to domestic prices would imply a temporary but persistent rise in the inflation rate. Some studies suggest that, in the BAT's first year, the new tax could push up US inflation by 1%, or even more. The US Federal Reserve may respond to such an increase by hiking its policy rate, a move that would ultimately lead to a rise in long-term interest rates and place further upward pressure on the dollar's exchange rate.

Yet another problem with the BAT is that it would create massive disruptions in the global supply chains that the US corporate sector has built over the last few decades. By undermining companies' capacity to maximize the efficiency of labor and capital allocation – the driving motivation behind offshoring – the BAT would produce large welfare costs for the US and the global economy.

The final major problem with the BAT is that it violates World Trade Organization rules, which allow border adjustment only on indirect taxation, such as value-added tax, not on direct taxes, like those levied on corporate income. Given this, the WTO would probably rule the BAT illegal. In that case, the US could face retaliatory measures worth up to $400 billion per year if it didn't repeal the tax. That would deal a serious blow to US and global GDP growth.

So how likely is the US to enact the BAT? The proposal has the support of the Republican majority in the House of Representatives, but a number of Senate Republicans are likely to vote against it. Democrats in both houses of Congress are likely to vote against the entire proposed corporate-tax reform, including the BAT.

The executive branch is also split on the issue, with President Donald Trump's more protectionist advisers supporting it and his more internationalist counselors opposing it. Trump himself has sent mixed signals.

Disagreement over the BAT extends to business as well, with firms that export more than they import supporting it, and vice versa. As for the general public, low- and middle-income households should oppose the BAT, which would drive up prices of the now-cheap imported goods that these groups currently consume, though Trump's blue-collar constituents, particularly those who work in manufacturing, may support the measure.

Ultimately, the case for the BAT is relatively weak – far weaker than the case against it. While this may be enough to ensure that it doesn't pass, there are strong protectionist forces in the US government pushing hard for it and similar policies. Even if the BAT is rejected, the risk of a damaging global trade war triggered by the Trump administration will continue to loom large.

"What's Better Than a Border Adjustment Tax?"

(Project Syndicate – March 8, 2017)

Michael Heise is Chief Economist of Allianz SE and the author of *Emerging From the Euro Debt Crisis: Making the Single Currency Work*.

US President Donald Trump wants not only to lower the overall tax burden, but also to "rebalance" the tax system to encourage domestic production and exports, possibly with a border-adjustment tax. But the economic, political, and legal risks of such a radical reform would likely overwhelm any rewards.

MUNICH – One of US President Donald Trump's most significant reform proposals is aimed at the American tax system. His administration wants not only to lower the overall tax burden, but also to "rebalance" the tax system to encourage domestic production and exports, possibly with a destination-based cash-flow tax we may call a border adjustment tax (BAT). Unfortunately, the risks of such a radical reform would most likely overwhelm any rewards.

The United States currently taxes corporate profits at 35%. This is a high rate by international standards (though there are many deductions and loopholes); so congressional Republicans and some of Trump's advisers now want essentially to replace the corporate income tax with a cash-flow tax that resembles a BAT.

Under this plan, imported goods and services would be taxed at a rate of 20%, while exports would be subtracted from the tax base, and thus not taxed at all. If the dollar remains stable, the costs of imports into the US would increase by 20%, and American exporters would enjoy a tax subsidy relative to domestic producers.

The proponents of a cash-flow BAT argue that it would merely level the playing field, because most of America's trading partners refund their value-added tax on exported goods and services. But this is a false comparison. These refunds are not a hidden subsidy, but a logical part of a destination-based tax system, whereby taxes are levied in the country where a good is consumed.

For example, exports from Europe to the US are taxed twice: first with a corporate-profit tax in the country of origin – say, Germany, where the corporate tax rate is around 29% – and again with varying sales taxes in the US. Meanwhile, US exports are taxed at home as corporate income, and again according to the VAT rate that applies in the importing country, just like any other product consumed there.

The difference between the US and other countries is not its lack of a BAT, but its strong reliance on direct taxation. If the US were to introduce a cash-flow tax system with border adjustment, it would exempt its own exports from all domestic taxes. This would give it a competitive tax advantage, so long as other countries do not follow suit and eliminate their own corporate-income taxes on export production. But, because a cash-flow BAT would act like a trade barrier, America's trading partners would rightly view it as a protectionist measure.

A BAT in the US could have far-reaching legal and economic implications. Legally, it might contravene World Trade Organization rules that permit border adjustments for value-added taxes, but not for income taxes. And if US trading partners proved unwilling to wait through lengthy dispute-resolution proceedings at the WTO, they could pursue a policy of tit-for-tat retaliation. Punitive tariffs or other crude economic measures taken by US trading partners could then precipitate a trade war – the last thing the world economy needs right now.

It is doubtful that the economic rewards for the US would justify taking such a risk. Much would depend on how the dollar reacted to a new BAT. If the dollar remained stable, the tax would simply push up import prices, and these higher costs would fall on US households and industries that rely on imported inputs. Ultimately, demand for imports would fall, as would the benefits for consumers and new tax revenues for the government.

If the dollar appreciated in proportion to the BAT, then import prices in dollar terms would not change. In this scenario, foreign producers would bear the cost, because they would receive fewer dollars for the goods they sell to the US. At the same time, the stronger dollar would make exporting harder for US companies, and nullify the benefit of having a zero-tax rate on foreign sales. The US current-account deficit, meanwhile, would remain largely unchanged: the tax would put money into government coffers, but the US would continue to run up debts abroad.

All told, a BAT is not the best way to support US companies and raise government revenue. The US has no VAT and only limited sales taxes, so it instead relies mostly on personal and corporate income taxes. But, owing to its large external deficit, this system falls short on revenue collection. If the US were to raise taxes on domestic consumption, it would collect more revenue from imports, which would allow the government to cut income taxes stemming from US firms' domestic and foreign sales.

From an economic standpoint, therefore, a better way to "rebalance" the tax system would be to reduce the rate of corporate-income tax, and simultaneously introduce or increase sales taxes on imported and domestically produced goods and services. The added benefit of this approach is that it would also strengthen incentives for businesses to invest and innovate.

Rather than fundamentally overhauling the entire tax system, the Trump administration could simply improve it. This more reasonable approach would vastly reduce the risks of destructive trade wars and exchange-rate uncertainty that are all but inevitable with a cash-flow BAT.