The Daily Dish

The Worst of a Bad Lot?

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As the soap opera entitled "Build Back Better: the Search for Self" continues, the policy integrity of the proposed legislation is disintegrating rapidly. But perhaps nothing is less defensible than the reports that the tax proposals will include a 15 percent minimum tax on book income.

Recall that Institute on Taxation and Economic Policy (ITEP) regularly publishes a report with a banner headline "55 Corporations Paid $0 in Federal Taxes on 2020 Profits" (the year and number of firms vary, of course). This is the dubious "science" behind the president's frequent assertions that 50-odd profitable firms pay no tax. The assertions and the report are intended to convey the impression that corporate America is an unprincipled tax cheater. None of this stands up to any serious scrutiny.

The ITEP report is based on the "book" income of firms, which is a completely different animal than taxable income on returns. First, taxable income is a cash flow measure for a specific calendar year. Book income is based on present values of future cash flows over fiscal years of the firm's choosing. A minimum tax on book income is a tax on the entire future of a firm and is not in any way related to the financial conditions of the firm in the tax year. Why does that make sense?

In addition, with book income, firms can only deduct or expense a portion of a given capital investment, but under federal tax law firms could deduct a greater share of their capital investments (perhaps even the full value). If policymakers want full deduction of investment, why should the minimum tax permit only partial deduction, thus punishing the behavior that was incentivized? How does that make sense?