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Obama proposes cutting corporate tax rate to 28% from 35%

The president says the corporate tax system is unfair, adding his voice to the bipartisan chorus calling for a break. But Democrats and Republicans differ sharply on the extent of the cut.

By Jim Puzzanghera and Kathleen Hennessey, Los Angeles Times

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Reporting from Washington

President Obama's proposal to lower the corporate tax rate to 28% from 35% shows a growing consensus in Washington that many companies need to pay less in taxes for the U.S. to stay competitive globally.

But exactly how to do that — and which companies should pay more to make up the difference — remains elusive in a volatile election year.

Democrats and Republicans have starkly different ideas about how far to lower corporate tax rates and whether changes to individual tax rates, including the Bush-era cuts that expire at the end of the year, should be part of the reform debate.

Obama laid down his marker Wednesday with a 23-page framework for a plan to eliminate dozens of breaks for specific industries, particularly oil and gas production, and new incentives for domestic manufacturing and alternative energy.

"Our current corporate tax system is outdated, unfair and inefficient," he said. "It provides tax breaks for moving jobs and profits overseas and hits companies that choose to stay in America with one of the highest tax rates in the world."

Key Republicans welcomed Obama's call for a lower corporate rate. But they said his proposal wouldn't reduce the rates enough and that his broad framework needed much more detail.

The GOP also wants to tackle corporate and individual taxes at the same time, laying the groundwork for a nasty and complex battle this fall as Republicans fight to save all the Bush tax cuts. Obama wants to let the tax cuts expire for households making more than $250,000 a year.

"It's official: President Obama, congressional leaders of both political parties and the Republican candidates for president all support lowering corporate tax rates," said John Engler, president of the Business Roundtable, a top industry trade group. "Now let the debate begin."

Legislative action on taxes probably will have to wait until after the November elections because the topic is tightly intertwined with key campaign issues, including how best to boost job creation, how to limit the growing size of government and whether large corporations and wealthy individuals are paying their fair share.

Highlighting the political stakes, Republican presidential candidate Mitt Romney chose Wednesday to release a tax plan of his own, one that calls for slashing individual rates by one-fifth. He already was on record calling for a deeper corporate tax-rate cut, to 25%, which is the same as proposed by a key House Republican.

Other Republican presidential candidates want to go further. Rick Santorum is calling for a 17.5% corporate rate, and Newt Gingrich wants it to drop to 12.5%.

Engler, as well as Thomas Donohue, president of the U.S. Chamber of Commerce, criticized Obama's plan for not lowering taxes on foreign earnings. Both industry groups want corporate profits abroad to be taxed only by the country in which they are earned. The U.S. now taxes those earnings when they are brought back to the country.

Obama rejected that idea.

Instead, he proposed a new minimum tax rate for foreign earnings that companies would be required to pay even if they did not bring those profits back to the U.S. That provision is part of Obama's effort to use the corporate tax code to provide incentives for domestic manufacturing while reducing the tax advantages for companies to build facilities overseas.

His plan, so far, doesn't specify what that new minimum rate on foreign earnings would be, one of many details the administration is leaving to Congress.

Through the expansion of some widely used breaks, such as one for research and development, the administration wants to reduce the overall rate that domestic manufacturers pay — known as the effective tax rate — to no more than 25% from the current 32%.

The administration's tax plan would not add to the budget deficit because the elimination of dozens of existing breaks would raise an additional $250 billion over the next 10 years, enough to offset the cost of the lower rate and a smaller set of targeted tax breaks.

The administration wants to get rid of several oil and gas industry tax breaks, such as the ability to write off certain costs related to drilling and the use of wells. Offsetting those cuts would be an expansion of tax incentives for alternative energy investment, including a permanent tax credit, now temporary, for the production of electricity from renewable sources.

The plan also would eliminate a tax break for hedge fund managers, private equity partners and other managers in partnerships. Most of their pay, known as carried interest, now is subject to a capital gains tax of 15%. Under Obama's plan, that income would be taxed at their ordinary income level, which could be as high as 35%.

Obama's proposal tries to spur U.S. manufacturing and innovation by focusing and expanding a domestic production tax break on manufacturing.

A current research-and-development tax credit would be expanded, simplified and made permanent. Congress now extends that credit for a year or two — and at times has allowed it to expire temporarily —

and some businesses said that the uncertainty has dampened their R&D efforts.

Small businesses would see their taxes cut and simplified with changes that would allow them to write off the cost of certain investments, up to $1 million, the White House said.

More elements, however, weren't available. Sen. Orrin G. Hatch (R-Utah), the top Republican on the Senate Finance Committee, said he was "profoundly disappointed" in the lack of detail.

"America's tax system is broken to the point that it's putting our nation at a competitive disadvantage around the world," Hatch said, complaining that the White House produced "a set of bullet points designed more for the campaign trail than an actual blueprint for fixing our tax code."

The White House said it was holding out some hope that the politically divided Congress may find a way to advance some elements of the proposal. But in an election year, it is far more likely that the fight over taxes will be used largely to underline each party's campaign message, rather than a starting point for compromise.

"This process is going to take some time," Treasury Secretary Timothy F. Geithner said. "It will be politically contentious."

Douglas Holtz-Eakin, an economic advisor to GOP Sen. John McCain's 2008 presidential campaign and the president of the American Action Forum think tank, said he saw no chance that reform plans would pass this year. But the Obama plan and others could lay the groundwork for action next year.

"The reason there are no details …is that it makes enemies," he said of the Obama plan, and neither Democrats nor Republicans want to do that in an election year.

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