

REPLACE CORPORATE INCOME TAX

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APRIL 21, 2010 -- The United States Senate by a vote of 85-13 has without debate adopted a sense of the Senate resolution against a value added tax.

Editorials and articles against a VAT by *The Wall Street Journal*, Cato Institute and the Heritage Foundation no doubt prompted Senator John McCain to put the Senate on record against a VAT. Mention the word "tax" in Congress and both parties become a party of "no." But the resolution was presented under false pretenses. It was presented not in replacement of any tax, but as an additional burden to the "enormous burden of the federal income tax" – described as a "2000 page complex, antiquated, oversized, tax code that wreaks havoc" and "requires over \$100 billion in compliance costs." Senator McCain, by inference, attaches this description to the VAT. Apparently, the Senate is set to do nothing this year to stop off-shoring of production and jobs – to do nothing about deficits in excess of \$1 trillion for as far as the eye can see. The Senate waits until President Obama's budget study commission reports sometime next year. We don't have the luxury of waiting a year. This is where I agree with Senator McCain. Now is the time to talk taxes.

I have been recommending for the past year abolishing the corporate income tax to be replaced by a 5% VAT -- 2% to replace the corporate income tax; 1% to pay for health care reform; and 2% to pay down deficits. Having served in the U. S. Senate thirty-eight years and on its Budget Committee over thirty years, I know this is realistic and doable by Congress.

Last week *Business Week* stated: "If the nation turns too quickly to deficit reduction, the economy could get stuck in a rut that would be expensive to escape." The economy is already in a rut "expensive to escape." We gave President George W. Bush "surpluses as far as the eye could see." He cut taxes, causing a debt or rut of \$5 trillion, and now President Obama deepens the rut with a budget calling for trillion dollar deficits as far as the eye can see. (President's 2011 Budget, page 178). President Obama has our country on automatic pilot, borrowing, spending, and off-shoring our economy as fast as he can. This has got to stop.

Globalization is nothing more than a trade war with production looking for a country cheaper to produce. Every nation is fighting fiercely to build its economic strength while America finesses trade laws that would protect our economy. Under Section 201 of the Trade Act, we didn't have to wait for GM to go bankrupt, but we should have moved years ago when its production was being endangered by subsidized imports. With the dollar devalued and devastating deficits in the balance of trade, President Obama should impose a 10% surcharge on imports like President Nixon did in 1971. Our defenses are down. We don't have the equipment and materiel. Under the War Production Act of 1950, President Obama should long ago have imposed tariffs or quotas on imports ensuring domestic production and a ready supply of materiel necessary for our nation's security. But President Obama, lacking experience, espouses the same nonsense of previous

presidents: “Free trade,” “protectionism,” “more education, hi-tech,” etc.

As for education or skills, poor little South Carolina with 12.2% unemployment is producing BMW’s “ultimate driving machine” and Boeing’s Dreamliner. Tom Friedman is always looking for a silver bullet in advanced technology to restore the economy. Silver bullets Microsoft and Intel have left for China. The advanced technology program that we instituted twenty years ago to develop silver bullet technologies in the United States was abolished by President George W. Bush. It doesn’t pay to develop advanced technology in the United States. In fact, it’s difficult to produce for a profit. That’s a hell of a statement to make – but necessary.

Washington, responding to pollster politics, keeps calling for jobs, jobs. But “it’s the economy stupid.” Its investment, research, technology, development, production, jobs, and the economy that’s being off-shored. Rather than caterwauling for H1-B visas, Microsoft and GM off-shore research to China. Intel develops and produces chips in China. And like the Ford Foundation, Intel makes multi-million dollar grants to communities in China. We’re not only losing the economy, but middle-class jobs and community development. An entrepreneur who made wonderful contributions to the College of Charleston has moved his production to Vietnam, lives in Vietnam, and, thankfully, still supports the College. We’re losing our leadership as the nation stays buried in pollster politics.

The pollster politics of being against taxes now meets its Waterloo in the House Budget Committee. It can’t report a budget. No one can defend the President’s budget of deficits exceeding a

trillion dollars for as far as the eye can see. We elect people to solve the nation’s problems, not appoint study commissions. The President and Congress must act now to stop the borrowing and spending and off-shoring our economy -- and make it profitable to produce once again in the United States.

Unless someone has a better idea, we should eliminate the corporate income tax and replace it with a 2% VAT. That raises more revenues. Now we’ve cut taxes and have more money. This is a politician’s dream. Then add a 1% VAT to pay for health reform and a 2% VAT to pay down deficits. To the cries of “regressive, regressive” include exemptions for food, health and housing for the poor. TV has just reported that 47% of households paid no income tax last week; and multi-nationals like GE paid zero. Small business corporations have been paying the corporate income tax. I asked a small business corporate owner if he would like to replace his income tax with a 5% sales tax. He said, “I can take that in a New York minute.” Finally, if they want to blab politically about taxing the middle-class, remember a VAT is on consumption, not income. The more you consume, the more you pay. And canceling the corporate income tax, which averages 27%, reduces production’s profit 27%, which reduces the cost to all consumers. The 5% VAT is a winner for the poor, the middle-class, and the rich, and it is absolutely necessary in the trade war. One hundred thirty-two countries engage in the trade war with a VAT that’s rebateable on exports. Producing in the United States for delivery in China, there’s an average payment of 27% corporate income tax, with a 17% VAT added when it arrives in Hong Kong, for a total of 44%. But producing the same article in China for delivery in the United States, the 17% VAT is rebated when it leaves

Hong Kong; arriving in the United States, no income tax, for 44% less cost. Corporate America's profits from production in China are not subject to the corporate income tax unless repatriated. So by canceling the corporate income tax outright you've given the same advantage to production in the United States that you have been giving Corporate America to produce in China. Now Congress has started rebuilding our economy and paying down the deficit.

Now the Budget Committee and Congress can pass a budget. But vote!

Senator Hollings of South Carolina served 38 years in the United States Senate, and for many years was Chairman of the Commerce, Space, Science & Transportation Committee. He is the author of the recently published book, [Making Government Work](#) (University of South Carolina Press, 2008).

Those filibustering or voting against this proposal will be voting against cutting taxes, against relieving Corporate America of income taxes; to continue "the highest business tax" and making sure that you can't produce for a profit in the United States; against promoting exports by 32%; against paying for health care; against paying down the debt; against stemming the flow of off-shore jobs; voting against middle-class jobs and saving the economy of the United States, and against cutting taxes and continuing to borrow and spend. Let's vote!