



# AMERICAN BUSINESS COMPETITIVENESS ACT

A PATH TO ECONOMIC TRANSFORMATION

**A** plan to **wipe away the tax system** imposed on American businesses and **replace it with a simple, fair and flat alternative.**

*The American Business Competitiveness Act establishes a permanent tax rate of 25% on all businesses- no matter how they are organized. It eliminates all special deductions and credits, as well as complex inventory rules. In their place is 100% expensing.*

This revolutionary change in the way we tax business can be achieved **without adding a penny to the debt.**

# THE ABC ACT - JUST THE BASICS

**T**he American Business Competitiveness Act (ABC Act) would establish the most aggressive pro-growth business tax policy in the developed world. If implemented, it would result in massive investments and job creation throughout the United States.

## Lower Business Income Tax

All businesses, no matter how they are organized, will be taxed at the same low rate; **25 percent**.

The taxation of non-business income remains unchanged, except that interest income is taxed at the same rate as dividends and capital gains.

## Pro-Growth

The ABC Act will allow **100 percent expensing**, meaning firms will deduct their full investment costs from their current year tax liabilities.

- This includes land, buildings and inventory, as well as other tangible or intangible property.
- Expensing that exceeds taxable income can be carried to future tax years with interest or backwards to reduce taxes from prior years.

This will create a powerful incentive for businesses of all sizes to invest and grow, generating new jobs across America.

## No Loopholes

The ABC Act eliminates all special loopholes. The complex tax code, with its high compliance costs and distorting impact on the economy, is wiped away and replaced with a **simple, fair and flat tax**.

## Less Complex & Fewer Distortions

The elimination of deductions and credits simplifies the tax code and reduces compliance costs.

- Complex property and inventory rules such as depreciations, amortization and depletion are replaced by full expensing.
- The tax code's pressure on firms to carry debt is removed by eliminating the business interest deduction while lowering the individual income tax on interest income.

## International Tax Reform

Territorial tax rules will make U.S. businesses more globally competitive.

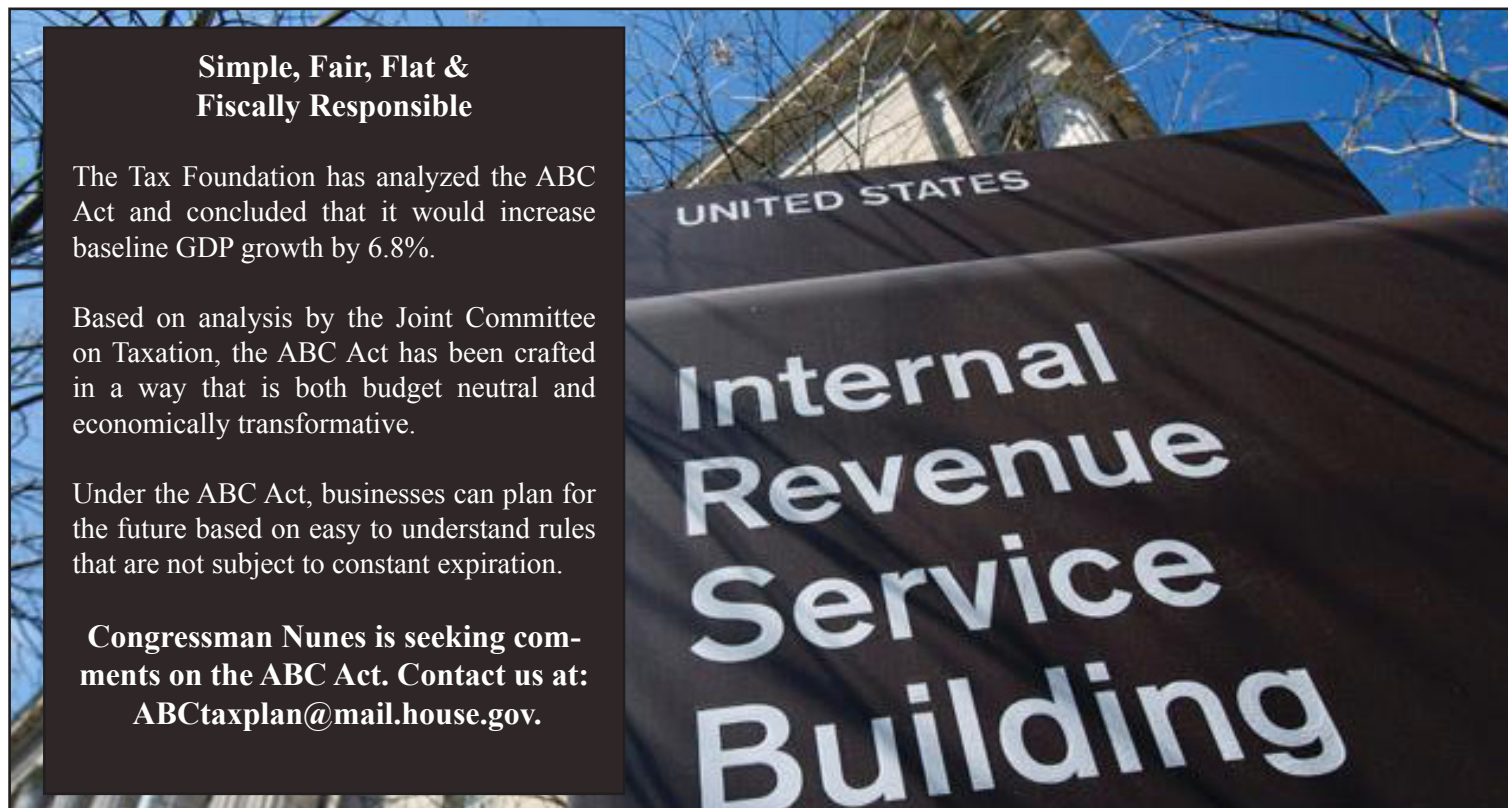
## **Simple, Fair, Flat & Fiscally Responsible**

The Tax Foundation has analyzed the ABC Act and concluded that it would increase baseline GDP growth by 6.8%.

Based on analysis by the Joint Committee on Taxation, the ABC Act has been crafted in a way that is both budget neutral and economically transformative.

Under the ABC Act, businesses can plan for the future based on easy to understand rules that are not subject to constant expiration.

**Congressman Nunes is seeking comments on the ABC Act. Contact us at:**  
**[ABCTaxplan@mail.house.gov](mailto:ABCTaxplan@mail.house.gov)**



# HOW TO MAKE AMERICA A GLOBAL TAX HAVEN

An expert from Bloomberg - March 25, 2013

....*Nunes* suggests a new approach: a “business consumption tax” that treats all businesses the same, whatever their organizational form. Instead of taxing their income, it taxes their cashflow -- income minus expenses, except for interest payments. That way, businesses would no longer write off their investments according to a complicated depreciation schedule. Investments would be tax-free.

Both U.S. and foreign companies would have more reason to invest here, Nunes says. “This would make the U.S. the largest tax haven in human history.”

I’ve run across two objections to Nunes’s idea. The first is that it is simply too ambitious to be politically viable: If Congress is having trouble reforming the corporate tax, goes the argument, it won’t be able to digest an entirely new approach to taxing business income. What this objection ignores is that the moderately ambitious proposals all face obstacles that are probably insuperable -- obstacles this proposal avoids.

The second objection is that Nunes’s proposal would cost the federal government a lot of revenue. A Joint Committee on Taxation estimate of the proposal’s budget impact would make it possible to evaluate this claim, but it sounds plausible. If it turns out to be expensive, though, the concept can still work: The tax rate would just have

to be higher than the 25 percent that Nunes has tentatively put forward.

Even if the rate were left at the 35 percent that currently applies to corporations, the shift to the new tax would still be a boon for the economy. The statutory rate would be higher than that of other countries, but the number that matters -- the effective tax rate on investments -- would be a very competitive zero, thanks to companies’ ability to write off their costs immediately. Eliminating the deduction for interest, meanwhile, would end a destabilizing distortion in the economy: the federal tax code’s preference for corporate financing via debt rather than equity. That preference also gives an advantage to established firms that have greater borrowing capacity than startups.

If Congress still finds the Nunes proposal too ambitious to contemplate, it could undertake reform on a much smaller scale. Leave tax rates alone, keep the separate schedules for different types of companies, and just make a trade: Companies would get immediate write-offs on investments and in return lose the interest deduction. That trade would probably leave the government’s revenue at roughly the same level. It would certainly be simpler than most other proposals to reform business taxation. And it would encourage more investment and less debt.

## Tax Foundation Analysis of the ABC Act

### Individual And Business Changes Modeled:

Cut Corporate Rate to 25%

Assorted changes in Corporate Tax Base

Revenue Effect due to reduced Profit Shifting

Full Expensing\*

Cap Tax Rate on Noncorp Business Income at 25%

Tax Individual Interest Income at Capital Gains Rate\*\*

### ECONOMIC AND BUDGET CHANGES VERSUS 2013 LAW

(billions of 2013 dollars except as noted)

GDP	6.80%
GDP (\$ billions)	\$1,107.8
Private business GDP	7.07%
Private business stocks	20.63%
Wage rate	5.72%
Private business hours of work	1.28%
Full-time equivalent jobs (in thousands)	1,228.4

Static federal revenue estimate, GDP assumed constant (\$ billions)	-\$129.0
Dynamic federal revenue estimate after GDP gain or loss (\$ billions)	\$96.2

Weighted Average service price	% Change
Corporate	-11.40%
Noncorporate	-10.87%
All business	-11.24%

## High Rates Are A Large Burden For Small Business



# We need more jobs, in California and throughout the country.

By Devin Nunes: Originally printed in the Orange County Register

America's official 7.6 percent unemployment rate reflects a worse situation than it seems, since the figure does not account for millions of jobless Americans who have stopped looking for work. In fact, the number of Americans who work or are seeking work fell by a half million people in March, yielding the lowest monthly rate – 63.3 percent – since May 1979.

What it takes to create jobs is no secret. We need to provide a reasonable, stable regulatory and tax environment that encourages business start-ups and coaxes existing companies to invest, expand and hire new workers. But that's not what we have.

The revolutionary "green economy" promised by the Obama administration has turned out to be a textbook example of the failures of command economies. As central planners issue a morass of regulations, taxes and subsidies designed to support certain companies and industries while punishing others, they create perverse incentives that make lobbying and government favoritism – not good business models – the arbiter of a company's success. This system enables corruption and empowers big government and big business at the expense of small businesses and everyday Americans.

We need comprehensive economic reform that promotes simplicity, fairness, economic growth and job creation. A good place to begin is by reforming business taxes.

There is widespread bipartisan agreement that we need more jobs, in California and throughout the country. We need to reform the federal business tax code – an impossibly complex array of rates and rules featuring a top rate of 35 percent that is the highest in the industrialized world. Most reform proposals focus on lowering the rates while leaving the code's complex structure mostly intact. I am proposing something different – that we completely overhaul the code to make it simple, fair, and most important, to create jobs.

My plan, called the American Business Competitiveness tax reform, is designed to complement current congressional efforts to reform taxes. It would replace the business tax structure with a new form of consumption tax. This is neither a sales tax nor a value-added tax (VAT). Instead, the ABC

tax reform would encourage business investment by allowing 100 percent expensing in the current year. This means that companies of any size, no matter how they're organized, would pay no taxes on any of their spending for personnel, equipment, property, or other expenditure related to the operation of their business in the United States.

Expensing, essentially tax deductions for business investment, is allowed under the current tax code but is subject to innumerable and ever-changing conditions and limits; what a company can expense depends on a firm's size and industry, the type of asset bought and its cost, the amount of time over which the firm can deduct costs ("depreciation") and whether the business is entitled to "bonus depreciation" measures. By replacing this convoluted system with a uniform rule of 100 percent expensing, the ABC tax reform would quickly spark economic growth and job creation. Simply put, the more a company invests and expands, the more it reduces the percentage of its income that is taxed.

To boost growth even further, non-expensed income for all businesses would be taxed at one low, globally competitive rate – 25 percent – and all credits, special deals and loopholes on the business side would be eliminated. That would subject all businesses, whether a mom-and-pop grocery or a billion-dollar conglomerate, to the same clear rules and the same tax rate, eliminating the ability of special interests and big business to manipulate the tax code.

Democrats and Republicans alike should support a reform that levels the playing field for all businesses, brings certainty and clarity to the tax code, undercuts the power of special interests, incentivizes the return of money parked in foreign tax havens, and encourages business start-ups.

Free-market reform is urgently needed throughout the country, but especially in California. Our excessive tax and regulatory regime is killing businesses and driving them to other states. The ABC tax reform will create jobs here and in all other states, in all industries, to the benefit of all Americans. Instead of tinkering with tax rates, let's make a bolder move to get the economy moving again.