NATIONAL TAX-LIMITATION COMMITTEE

From: Lew Uhler, President
Subject: **THE "TAX REFORM TRUTH SQUAD": UNDERSTANDING AND COMMUNICATING THE UNIFIED REPUBLICAN TAX REFORM PROPOSAL**
Date: October 6, 2017

Background: As a close ally and friend in the battle for a conservative America, we want you on board a vitally important effort – assuring the passage of major growth-inducing Tax Reform. The setback we have experienced in repealing and replacing Obamacare has been disappointing, but instructive. Important elements of our society at large were not convinced and we found the same with our conservative base – AND we didn't have in place the support system ("Healthcare Reform Truth Squad") that understood the issues and could help us. We must change this for tax reform with a "Tax Reform Truth Squad."

Kickoff: We held our first Training Session for the "Tax Reform Truth Squad" in Sacramento August 18th with Steve Moore as our principal "trainer." We will hold webinars and use other training tools, including a social media campaign featuring short videos and YouTube – and printed materials as well (you can view our first YouTube ad at this site on our website https://goo.gl/stmRWs. We will make available highlights of the Moore presentation to be used locally).

Team Up: If you agree that we must team up on this – and work to educate our kindred spirits on these objectives – please become part of our tax cut "Tax Reform Truth Squad" and be willing to participate in outreach to our fellow taxpayers. We're ready to do as much and reach as far as our resources will take us. We need your help!

Key Issues / Experts: The following discussion focuses on issues / benefits flowing from each separate element of the Trump / Congressional Republican tax reform plan, recognizing that together they amount to the greatest boost to national economic growth, job and wage increases, competitiveness of the US and fairness for the American tax system since the Reagan era.

And these results rely upon the studies and evaluations by the most competent tax research and information sources in the world, including the Tax Foundation, Inc. (Scott Hodge / Steve Entin), the Goodman Institute (John Goodman, Larry Kotlikoff, et al.), Heritage Foundation (Ed Fuelner, David Burton, et al.), CATO Institute (Dan Mitchell, Chris Edwards, et al.) and many more.

The single most important element of the Republican proposal is to correct the terrible imbalance internationally of the corporate tax rate and territoriality, followed by "double taxation", multiple taxation (Death Tax, capital gains), etc. – as it affects returns, wages, jobs and corporate locations.

Making the Best Case: Here are the issues and arguments you can use most effectively to make our case (we plan webinars with experts to help you hone your skills on these key issues and want to involve your best people as experts in these presentations):

- **Lower America's Outdated, Highest in the World Corporate Tax Rate.** America today suffers from the highest corporate marginal tax rate in the developed world at nearly 40% (counting state corporate rates on average, driving American companies and jobs to other nations). Corporate rates in Asia average half that at 20.1%, Europe less than half at 18.9%. The Unified Republican Tax Reform plan proposes lowering the federal corporate tax rate to 20%, with a new, maximum 25% rate applying to "pass through" income on mostly smaller businesses organized as partnerships, sole proprietors and Subchapter S Corps.

  These tax rate reductions on American businesses will benefit working people with millions of new jobs and the restoration of rising wages. Studies confirm that 70% to 90% of corporate taxes are born by workers in terms of lost jobs and wages. That is why the rest of the world has been so busily cutting corporate taxes over the last 25 years. This tax incidence results because capital is more mobile than workers, more able to flee burdensome tax jurisdictions for more tax friendly business climates in today's global economy.

- **End Double Taxation of Foreign Earnings of US Corporations.** Almost all countries today follow the principle of "territoriality" in taxation, which provides that income is taxed in the country where it is earned. But the United States does not follow this principle for American companies doing business abroad. If American companies earn income overseas through foreign operations, they pay applicable taxes on that income to the country where it is earned. When they bring that money back to America, they must pay taxes on the income again, up to the 39.2% top marginal U.S. corporate rate. This has led American companies to hold rapidly accumulating funds offshore, now totaling over $2 trillion.

  The Unified Republican tax reform plan proposes applying US taxes on a territorial basis to business income earned abroad and a one-time corporate rate of 10% on foreign earnings now held overseas. If that money is brought home and invested in America it will create and finance new jobs here and could trigger substantial infrastructure improvements.

- **Expensing Capital Investments.** The general rule is business expenses, and all other expenses incurred for the production of income, are deductible in the year such expenses are incurred. But that rule does not apply to capital expenses incurred to support the production of income. Such expenses are subject to depreciation rules, which means deductions for the cost must be arbitrarily spread over many years. This policy discriminates against **capital** investment, making it arbitrarily more expensive, resulting in sharply reduced capital investment and worker productivity. Capital investment should be treated equally with all other expenses for the production of income: deductible in full in the year incurred.

  Studies by The Tax Foundation, Inc. confirm that such *immediate* expensing for capital investment provides the greatest impact on economic growth of any component of tax reform. That is why the Unified Republican Tax Reform Plan proposes such immediate expensing of capital.

- **Simplify and Lower Personal, Family Tax Rates and Increase the Standard Exemption and Child Tax Credits.** President Trump and the Congressional Tax Committees are in agreement on reducing the current 7 tax rate brackets to just three – 12%, 25%, and 35%. Those rates, plus doubling the standard exemption and increasing child tax credits, would make the tax reform plan a significant tax cut for all taxpayers, increasing their take home pay and growing the economy.
- **"Kill" the Hated "Death Tax."** The Unified Republican tax reform plan proposes to end the 100-year-old estate tax passed to help fight World War I. It produces less than 1% of federal revenues but has significant disruptive and unfair effects on family businesses and farms. It drives those subject to the tax to "protect" themselves by "insuring around" the tax with annual premiums of up to $13 billion. This is a "dead weight" loss to our economy. This tax is deemed unfair by over 75% of our people whether or not they are affected by it.
- **Other Issues.** A handful of other issues are being considered as part of the tax reform package: deductibility of state and local taxes, business interest expenses, "carried interest" tax rate, elimination of the Alternative Minimum Tax (AMT), etc. Through debate, give and take in the legislation process, etc. these issues will be resolved.

CAUTION

What is key is to avoid the "trip wire" of revenue neutrality (demanding a new tax dollar for each dollar cut). The Unified Republican Tax Reform Plan will expand the economy and increase tax dollar flows, as did the Kennedy and Reagan tax reform plans because of rapid and substantial growth of the economy. Tax revenues doubled during Reagan's presidency confirming his understanding of the link between tax reform and economic growth.