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# US Corporate Tax Reform

## Why in news?

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US is likely to enact a new corporate tax reform.

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## What is the present US corporate taxation rule?

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- The current US rule is unique among all major advanced economies.
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- For instance a subsidiary of a US corporation that earns profits in Ireland and it pays the Irish corporate tax at 12 per cent rate.
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- It is then free to reinvest the after-tax profits in Ireland, in financial securities, or in operating businesses anywhere in the world except the US.
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- If the foreign subsidiary's parent company brings the after-tax profits back to the US, it must pay the current US corporate tax rate of 35 per cent.
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- The tax is collected on its original pre-tax Irish profits, with a credit for the 12 per cent that it has already paid.
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- US companies generally choose not to repatriate the profits of their foreign subsidiaries as there is 23 per cent penalty on repatriation.
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## What is US new tax reform?

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- US is likely to adopt the “territorial” method of taxing the profits of US corporations’ foreign subsidiaries.
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- This will reduce the present a 35 per cent statutory tax rate on corporate profits to 15- 20 per cent.
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- Under the territorial method, US corporations will be able to repatriate their foreign subsidiaries’ after-tax profits with little or no extra tax.
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- It is also likely to enact a “deemed repatriation tax” on the $2.5 trillion of profits that have been accumulated abroad but never subject to US tax.
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- The basic idea of deemed repatriation tax would be to levy a tax of about 10 per cent on the untaxed overseas profits, to be paid over a period of years.
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- Companies in abroad will have an incentive to shift their headquarters to the US, without incurring the current tax penalty.
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### What will be the impacts of this new taxation?

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- US corporations will no longer have an incentive to shift their country of incorporation to other countries.
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- A large share of foreign subsidiaries’ profits in abroad is likely to be returned to the US, reducing investment in Europe and Asia.
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- A portion of the $2.5 trillion of past profits now held abroad would be repatriated as well.
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- This would raise US productivity and GDP, leading to increases in tax revenue that would partly offset the direct effect of the corporate rate reduction.
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- The reduction of the US rate will cause other developed countries to reduce their corporate tax rates to improve their relative attractiveness to

internationally mobile capital.
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**Source: Business Standard**

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