Analysis for the States:
The Made in America Tax Plan

Overview of the Made in America Tax Plan

On March 31st, President Biden proposed the American Jobs Plan Act, intended to increase investment in infrastructure, manufacturing, clean energy and the care economy. To fund these efforts, the Biden administration recently proposed the Made in America Tax Plan (Plan) which is slated to generate approximately $2 trillion over the course of the next 15 years. According to The White House, the Plan would fully cover the costs of the American Jobs Plan and subsequently “reduce deficits on a permanent basis.” The plan is also intended to make American companies and works more competitive through instituting corporate tax reforms.

Corporate Tax Reforms to Address Profit Shifting and Offshoring Incentives

The Made in American Tax Plan proposes the following corporate tax reforms to address profit shifting and offshoring among U.S. multinational corporations:

- An increase in the corporate income tax rate to 28%.
- Strengthening the global minimum tax for U.S. multinational corporations.
- Encouraging global adoption of minimum taxes.
- Instituting a 15% minimum tax on “book income” of large companies.
- Repealing the Foreign Derived Intangible Income and generating incentives for research and development.
- Reducing fossil fuel subsidies and increasing incentives for clean energy production.
- Enhancing tax code enforcement to address tax evasion and abuse.

The remainder of this brief will provide further details on each of the reforms proposed above.

Increasing the Corporate Income Tax Rate to 28%

Currently, U.S. tax code applies a 21% tax on corporate profits. **Raising the corporate tax rate to 28%** is intended to increase corporate revenues relative to GDP, reversing recent downward trends in this ratio compared to that of other advanced economies in the Organization for Economic Cooperation and Development (OECD). This increase will also return corporate tax revenue as a share of the economy to around its 21st century average, while remaining below where it stood prior to the 1980s. Funds generated through this tax are intended to help fund infrastructure developments, clean energy and research and development, among other things.

Strengthening the Global Minimum Tax for U.S. Multinational Corporations

Under current tax code, U.S. multinational corporations receive a tax exemption for the first 10 percent return on foreign assets. Remaining returns are taxed at half the domestic rate. As proposed, the Made in America Tax Plan will **eliminate this tax exemption and increase the minimum tax on U.S. corporations to 21%**. Moreover, **this tax minimum will be calculated on a country-by-country basis** to address profits that are routed through tax havens. These changes are intended to incentivize companies' investment in the United States.

Encouraging Global Adoption of Minimum Taxes

To enhance the effectiveness of the global minimum tax for U.S. multinational corporations, the Plan proposes the adoption of a minimum corporate tax rate globally. According to a recent White House press release, coordinated global action will disincentivize the transfer of corporate headquarters overseas - a practice that allows companies to avoid paying domestic tax rates.

The Made in America tax plan not only seeks to negotiate the adoption of global minimum tax rates but also **replace the Base Erosion and Anti-Abuse Tax (BEAT) regime** when entities reside in countries that have adopted the agreed upon minimum tax. The BEAT will be replaced with the SHIELD (Stopping Harmful Inversions and Ending Low-Tax Developments) regime which would, "deny multinational corporations U.S. tax deductions by reference to payments made to related parties that are subject to a low effective rate of tax." SHIELD was also drafted to strengthen anti-inversion rules[1].

Establishing a 15% Minimum Tax on Book Income

The plan will seek to prevent large corporations - corporations reporting a net income of $2 billion or more – from utilizing current gaps in tax law that enable them to avoid paying federal income taxes despite earning significant profits. The Plan proposes establishing a **15% minimum tax on the income used by corporations to report profits to investors**, also known as "book income." For example, this tax would require even a firm with zero federal income tax liability to pay a 15% tax on profits reported to investors.

[1] Anti-inversion rules are intended to prevent tax inversion, a process by which a U.S. multinational company relocates their operations overseas, often through a merger with a smaller, foreign company, to reduce their tax income burden.

Generating Incentives for Research and Development

Following the enactment of the Tax Cuts and Jobs Act in 2017, the Foreign Derived Intangible Income tax incentive came into effect, providing a 37.5% tax break to corporations for gross income derived from products and services in foreign markets. The Plan intends to **repeal this tax break and utilize the revenues generated to expand incentives for research and development.**

Reduction of Fossil Fuel Subsidies, Increase in Incentives for Clean Energy Production

Under current tax code, the oil and gas industry receive significant tax preferences and subsidies. Although the Plan does not specify which subsidies will be targeted, it is anticipated that intangible drilling cost deductions and percentage depletions, among other direct subsidies will be impacted. The plan also proposes:

- A ten-year extension of the production tax credit and investment credit for clean energy generation and storage and making those direct payments.
- An Energy Efficiency and Clean Electricity Standard tax incentive.
- A tax incentive for long-distance transmission lines to ensure energy is transported safely and efficiently throughout the U.S.
- A tax incentive for carbon capture and sequestration projects.
- Incentives to encourage Americans to transition to electric vehicles.
- Restoring required payments from polluters to the Superfund Trust Fund[2] to help cover the cost of cleanups, among other things.

Enhancing Tax Code Enforcement - Investment in the Internal Revenue Service (IRS)

Tax incentive structures proposed in the Plan will be accompanied by the **allocation of funds to the IRS so the agency is better equipped to enforce the tax code**. According to recent estimates by the Department of the Treasury, IRS audit rates of large corporations have fallen to less than 50% of those conducted in 2011. Funding allocated to the IRS is intended to reverse this trend through **supporting efforts to investigate tax evasion and abuse**, a time-consuming and costly process.

Sources and Additional Resources

- Made in America Tax Plan Report, U.S. Department of the Treasury
- Fact Sheet: The American Jobs Plan

[2] According to the National Service Center for Environmental Publications, the Superfund is the federal program for protecting the public and the environment from uncontrolled releases of hazardous substances.