

## **What Will Happen to State Corporation Taxes After Federal Tax Reform?**

*Symposium on Federal Tax Reform and the States*

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### **Four Types of Tax Reform**

- Replacement Consumption Taxes
- Add-on Consumption Taxes
- Income Tax Reform
- Move Income Tax Further Toward Consumption Tax

**FOUR-WAY ECONOMIC CLASSIFICATION A. REPLACEMENT CONSUM**


**THREE-WAY BUSINESS TAX CLASSIFICATION AA. NNOO BBUU**




**Four Types of New Business Tax**


**Federal Business Tax Under**

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## Conclusion and Criticism

**Conclusion:** States should conform to new federal business tax to (A) increase efficiency and (B) to reduce complexity.

**(A) Equity vs. Efficiency:** New federal tax would far more economically efficient than corporation tax.

**(B) Conformity vs. Sovereignty:** The administrative and compliance costs of nonconformity far outweigh benefits of letting states do their own thing.

## Further Research

*Right now VAT and Flat Tax are not serious options. If there is any indication in the future that this will change:*

**(1) States need to in-depth study of cost of continuing corporate tax (if only to convince the skeptics)**

**(2) States need to study in-depth the possible methods of apportioning new federal business tax.**