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Association for Corporate Growth

Tax Reform Issue Brief

Preserve Interest Deductibility on Corporate Debt

The tax deduction of interest paid on corporate debt has been an essential component of the tax code for over 100 years. Corporations use debt financing as a means of accomplishing everything from running day-to-day operations to pursuing growth. The ability to deduct interest on debt has been responsible for making capital affordable, helping to provide much needed liquidity to our capital markets. The removal of this important provision in the tax code would hurt America's status of having the most attractive capital markets in the world.

The preservation of the tax deduction on corporate debt is of utmost importance to small and mid-sized businesses. Large corporations are able to issue equity and bonds as a means to raise capital; small and mid-sized companies have comparably fewer options, making debt financing essential. Many businesses may take on debt at the beginning of the fiscal year to finance operations, and have that debt fully paid off by the end of the same year.

Nor does the proposed replacement of full and immediate expensing of capital expenditures provide a reasonable replacement for the interest deduction. If a corporation cannot afford a piece of equipment in the first place, the ability to fully expense the piece of equipment will provide no material benefit or incentive to expand one's company. 75 percent of start-ups use some sort of debt financing at inception, and four in five small businesses use some form of debt in their capital structure.[1]

The maintenance of interest deductibility is essential to sustained U.S. economic growth. A 2013 study by Earnest & Young's Quantitative Economic and Statistics group revealed that limiting interest deductibility to finance lower tax rates reduced long-run economic growth by $33 billion in 2013 dollars. The study shows that all industries and all states will see reductions in economic growth as a result of this crucial element of the tax code being repealed.[2]

For further reading, we recommend the BUILD Coalition's website: http://buildcoalition.org/the-issue/

Lower the Corporate Tax Rate

The statutory corporate tax rate in the United States is 35 percent, with an average combined (federal and state) rate of 39.1 percent. Global competitors, on the other hand, have a combined average rate of 25 percent, [3] making America's current corporate rate the second-highest in the world – a significant competitive disadvantage. This is of concern to companies in the middle market as they are neither provided with the tax incentives many small businesses are, nor are they able to allocate the resources necessary to have a large team devoted to parsing through the onerous and complex tax code.

ACG recommends a simpler and fairer tax environment for middle market businesses and capital providers and lowering of the corporate tax rate. This will lead to continued job growth, business creation and investment in companies of all sizes.

Please contact policy@acg.org with any questions or comments.

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[1] Why Businesses Use Debt – And How Debt Benefits Businesses (2017), http://buildcoalition.org/wp-content/uploads/2013/06/BUILD_WhyBusinessUseDebt_RebelCole.pdf

[2] Macroeconomic analysis of a revenue-neutral reduction in the corporate income tax rate financed by an across-the-board limitation on corporate interest expenses (2013), http://buildcoalition.org/wp-content/uploads/2013/07/EY-Build-Study-July-2013.pdf

[3] CBO International Comparisons of Corporate Income Tax Rates (2017), https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52419-internationaltaxratecomp.pdf