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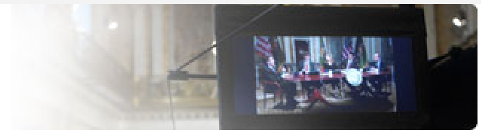

Remarks by Treasury Secretary Tim Geithner

2/22/2012

As prepared for delivery

WASHINGTON - Today, the President proposes comprehensive business tax reform to create better long-term incentives for investing in America.

The last time we fundamentally reformed the business tax code was more than 25 years ago. That was before the Internet, before the cell phone, before the rise of China and other emerging markets, before the latest expansion in global investment and trade, and before a global trend to lower corporate tax rates around the world.

The current tax code was written for a different economy in a different era. It needs to be reformed and modernized.

Our business tax system is not just outdated. It is unfair and inefficient.

Our corporate tax rate is now on pace to become the highest among all developed economies.

The rate is high in order to pay for a tax code full of special benefits for certain industries and certain activities. You can call these tax preferences, tax expenditures, loopholes, incentives, or tax benefits. But whatever you call them, they are subsidies. They are spending through the tax code. And they are expensive, costing billions of dollars a year.

Because many of these subsidies flow to certain industries and not others, they are fundamentally unfair. Right now, companies in some industries pay two or three times the effective tax rates as companies in other industries. For example, the effective tax rate on an investment in buildings or other structures by a manufacturing company might be twice as high as the rate that applies to an oil or gas company.

These subsidies distort choices about where companies should invest, and they distort the allocation of capital.

For these reasons, our business tax system today is bad for economic growth and job creation in the United States.

We want to restore a system in which American businesses succeed or fail based on the products they make and the services they provide, not on the creativity of their tax engineers or the lobbyists they hire.

The President’s framework for reform has five key elements.

First, the President believes we should eliminate dozens of tax subsidies and loopholes so that we can lower the statutory corporate tax rate to help promote economic growth and encourage investment in the United States.

By getting rid of special preferences for special types of activity and specific industries, we can reduce distortions that hurt productivity and economic growth, permitting us to lower corporate tax rates in a fiscally responsible way.

The President’s framework recommends lowering the corporate tax rate from the current top rate of 35 percent to 28 percent, which is close to the average of those that prevail across the other major developed economies. This will help make our corporate tax system more competitive and improve incentives for investing in the United States.

Second, the President believes tax reform should include strong incentives to encourage companies to create and build things in America. We propose a set of carefully designed, permanent incentives to lower the effective tax rates for manufacturing. We would replace a complex mix of temporary incentives that businesses cannot plan for or count on, with a more limited set of long-term incentives to help provide certainty for long-term investments.

Third, the President believes we should strengthen the international tax system. Today’s global economy provides strong incentives for companies to shift investment and profits to countries with low tax rates. We want to reduce the opportunities the tax code now provides to shift income and investment outside the United States. To do this, we propose a new minimum tax on foreign earnings, stronger safeguards against transfer pricing abuses, and replacing tax deductions U.S. companies can now get for relocating overseas with tax credits for expenses when U.S. companies bring operations back home.

Together with a lower statutory tax rate, these reforms will help improve the incentives for investing in the United States.

Fourth, the President proposes to reduce the tax burden on small business. We want to cut taxes on investment in and by small businesses, and we want to simplify the tax system for small businesses so that they can devote more of their earnings to investment and job creation and less to tax compliance.

Finally, the President believes that business tax reform has to be done in a fiscally responsible way so that we are not adding to future deficits. Tax reform can help economic growth, but tax cuts do not pay for themselves. We have to ensure that those incentives Congress chooses to preserve as part of tax reform are paid for.

The President’s proposal is designed to start the process of fundamental tax reform. This process will take time. It will be politically contentious. Some will say these proposals are too tough on business, and others will say that they’re not tough enough. Many will fight to preserve specific tax preferences and subsidies, but every preference Congress preserves for some requires the rest of America’s businesses to pay a higher rate.

A long-term growth strategy for the United States requires tax reform.

The United States has only 5 percent of the world's population. We produce about a quarter of the output and income of the entire global economy. And in the coming years, the most populous parts of the world are going to grow more rapidly than the American economy.

The rising fortunes of emerging economies offer tremendous economic opportunities for the United States. If we are going to be able to take advantage of those opportunities, we have to encourage companies—American companies and foreign companies—to design, create, and build things here in the United States.

This requires tax reform--not tax reform alone, but tax reform alongside investments in education, innovation, and infrastructure.

Our tax reform framework is designed to begin the process of building bipartisan consensus on a better growth strategy for the long term.

I have already spoken to Chairmen Baucus and Camp as well as Ranking Members Hatch and Levin, and we plan to meet in the coming weeks to begin the process of building a bipartisan consensus.

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