



ЭКОНОМИКА

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НАЛОГОВАЯ РЕФОРМА КОРПОРАТИВНОГО НАЛОГА НА ПРИБЫЛЬ НА РЕГИОНАЛЬНОМ УРОВНЕ В США

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Введение. В статье анализируются реформы корпоративного подоходного налога на региональном уровне в США и рассматривается влияние изменения системы корпоративного налогообложения на экономическое, финансовое развитие и предпринимательский климат в регионе. **Эмпирический анализ.** В данной статье утверждается, что экономическая политика в области реформ корпоративного налогообложения доходов существенно влияет на валовой региональный продукт. Корпоративный подоходный налог может стать тормозом для конкурентоспособности промышленности некоторых штатов, препятствуя местным инвестициям в пользу инвестиций в штатах, где ставки корпоративного подоходного налога ниже или где налог не взимается. В статье приводятся примеры налоговых реформ корпоративного подоходного налога в штатах Канзас, Северная Каролина, Мичиган. **Выводы.** В данной работе показано, что реформа корпоративного налогообложения и налоговых кредитов на научные исследования; государственные бизнес-программы налогового стимулирования имеют значительное положительное влияние на рост инновационного сектора экономики в регионах США.

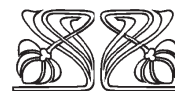
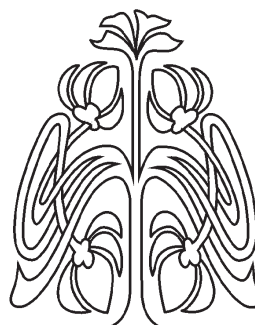
Ключевые слова: корпоративный налог на прибыль США, реформа корпоративного налогообложения.

Introduction

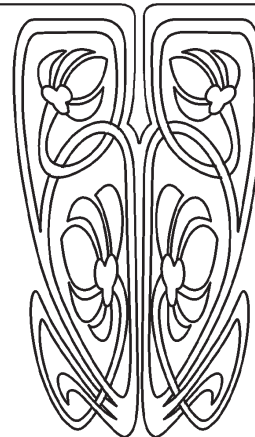
Forty-seven states in the USA tax corporate net income. Only Nevada, Washington, and Wyoming do not impose any taxes on corporate income. Washington's business and occupation tax is viewed as a business activity tax on gross income. Texas imposes a franchise tax on net worth or earned surplus. The three states most dependent on corporate income taxes are Alaska, New Hampshire, and Delaware; in this states, the tax accounts for 28.5, 20.3, and 9.1 percent of total state revenue [1]. Alaska and New Hampshire also do not tax personal income.

Corporate income taxation can hinder the competitiveness of domestic industry by discouraging local investment in favor of investment in areas where corporate income tax rates are lower or where the tax is not levied. In addition, the burden of the corporate income tax is difficult to measure; though it is levied on corporations, the ultimate incidence most likely falls on shareholders, consumers of the good produced by the corporation, or potentially employees [2]. The corporate tax reduces returns on capital and wages, and can have the effect of raising prices. According to a Congressional Budget Office estimate, domestic labor bears approximately 70 percent of the burden of this tax [3]. The distortions that the corporate income tax creates are larger than the revenue generated by the tax. By reducing these distortions, additional jobs may be created.

President Obama's general aim in reforming tax on businesses would «broaden the corporate tax base and eliminate special interest loopholes» [4]. This would have the effect of increasing business-related taxes by \$770



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billion over ten years, representing nearly 20 percent of projected corporate income tax receipts over that ten-year period. Obama has proposed to reduce the corporate income tax rate for companies that create or expand domestic operations, make permanent the research and development tax credit that is currently set to expire at the end of 2009, and to eliminate all capital gains taxes on small business investments.

The literature on state economic development has passed through two distinct phases. The first phase involved empirical studies that provided the support for the effectiveness of financial incentives for business. Bartik (1991) argued that economic development policies can significantly affect the growth of a state and metropolitan area, that increases in the growth of a local economy can benefit its unemployed. Furthermore, faster growth leads to significant occupational upgrading to better jobs, particularly for minority and less-educated persons. Growth of metropolitan areas also increased its property values. Buss (2001) found that the growing high-technology industrial sector is the key to better economic prospects. High-technology industries are important to economic development for several reasons. First, high-technology companies innovate and tend to gain market share, create new product markets, and use resources more productively (National Research Council, Hamburg Institute for Economic Research, & Kiel Institute for World Economics, 1996; Tasse, 2000). The R&D performed by high-technology industries helps to expand business and create high-wage jobs, and high technology companies are often successful in foreign markets (National Science Board, 1998). There is also empirical evidence to support the importance of high technology industries in economic growth. Therefore, the growth of the high-technology sector plays an essential role in linking the R&D tax credit program and its expected ultimate goals—better economic results for the states.

Scholars argued against these incentives on the grounds that they had no influence on business decisions—fiscal policy actions were viewed as ineffective instruments for achieving economic developmental impact. Bird (1996) found that it is hard to find any rationale at all for taxes on corporate capital, although a case might be made for a more neutral form of factor taxation in the form of a low «income-type» value added tax, particularly at the provincial level. Oakland and Testa (1996) explain that taxing businesses for the governmental costs they generate is necessary to implement the benefit principle of taxation. The services that governments provide to businesses translate into lower prices, higher wages, and/or higher profits for the persons who buy from, work for, or own the businesses; individuals are therefore the ultimate beneficiaries of government-provided services. The benefit principle requires that these individuals also pay the cost of providing the services, but taxing individual beneficiaries directly would be an insur-

mountable task. Lynch (1995) found that factors such as the cost and quality of labor, the quality of public services (schools, roads and highways, sewer systems, recreational facilities, higher education, health services), the proximity to markets, and the access to raw materials and supplies are more important than tax incentives in business-location decisions. He thinks that tax cuts and incentives cause state and local governments collectively to lose billions of dollars annually in tax revenues. Because of the lost tax revenues, tax incentives force state and local governments to cut back on the quantity or quality of public services. These reductions can damage the economy, because businesses often need these public services to thrive.

Analysis: Special State Tax Credits

State R&D Tax Credits (State research and development (R&D) Tax Credits and High-Technology Establishments)

The policy instruments in state and local economic development have been shifting from general tax abatements and public services to specific incentives and services for certain business activities with high economic returns.

With the increasing consensus that technology and innovation are important drivers of economic development, state governments have launched a variety of programs to facilitate technology-based economic development in their jurisdictions. As one important policy instrument to stimulate industrial innovation, the R&D tax credit has become increasingly popular at the state level since the early 1980s. Although R&D tax credits are incentives to encourage industrial R&D expenditure, state governments often expect that they will achieve better performance in economic development as a result of enhanced innovative capacity and industrial competitiveness through additional induced industrial R&D efforts within their boundaries.

As the primary recipients of R&D tax credits, high technology industries are the primary target of R&D tax incentives because they are more research intensive than other segments of the private sector [5]. The growth of the high-technology sector is an important and necessary step toward better economic prospects, given its contribution to market expansion, productivity enhancement, and industrial competitiveness. Therefore, the effects of state R&D tax credits on economic development depend on the response of the high-technology sector to this incentive program.

Based on a panel of 49 states in the period from 1994 to 2002, the statistical results indicate that R&D tax credits do have significant and positive impacts on the growth of high-technology sector in the states.

The R&D tax credit was first launched at the federal level under the Economic Recovery Tax Act of 1981. Companies were allowed to claim a credit



against their federal income tax liability for qualified spending on research and experimentation above a base amount. The value of the credit equals the excess of research expenses from a defined base multiplied by the credit rate.

Therefore, the base definition and the credit rate are two important elements that determine the magnitude of this tax incentive for individual companies. As a temporary provision of the Internal Revenue Code, this tax credit has been extended many times with substantive changes over the years. For instance, the credit rate was set at 25% in 1981 and then changed to 20% in 1989. In the period from 1981 to 1989, the base was the average of qualified research expenses of the previous 3 years. In 1990, the federal government adopted a «fixed-base percentage» method, and the base amount was determined by multiplying a company's average gross income in the previous 4 years by its fixed-base percentage. Two provisions were established to address the concerns of new start-up companies or companies that had no income or qualified research expenses for the computation of the fixed-base percentage. First, a constant 3% is assigned as the fixed-base percentage to these firms. Second, because the start-up firms often incur a substantial amount of R&D expenses but have little tax liability to materialize the credit, the federal government allows them to save their credit for future use. The unused tax credit could be carried forward up to 15 years, increased to 20 years since 1998.

The federal R&D tax credit program has diffused gradually to the state level, with the basic structure being copied by an increasing number of state governments.

One year after the federal R&D tax credit, the state of Minnesota passed the first state R&D tax credit program. Realizing the importance and mobility of industrial R&D activities, more and more states initiated their own R&D tax credit to encourage private R&D within their boundaries. The pace of initiation has been accelerated across 5-year intervals since 1983, from 6 initiator states in the period from 1983 to 1987 and from 1988 to 1992, to 9 in the period from 1993 to 1997, and to 10 in the period from 1998 to 2002. By the end of 2004, 34 states offered R&D tax credit.

The state R&D credit is offered to companies against their state corporate income tax liability for qualified expenses of research conducted in the state. Although states generally follow the basic design of the federal R&D credit program, there are some differences. Although the majority of states apply the credit rate to the excess of qualified research expenses over a defined base, some states use the total qualified research expenses to calculate the credit. The state credit rate on incremental expenses ranges from 2.5% (Minnesota after 1986) to 20% (Arizona before 2001 and Connecticut after 1993). The base amount is determined by either the fixed-base percentage or

the moving average of research expenses of some preceding years. The unused tax credits can be carried forward to the next 15 years in most of the states.

As the direct target of state R&D tax credits, the industrial dollars spent in R&D are monetary inputs that are expected to generate desirable economic results to the states. The relationship between R&D inputs and economic results that governments expect is by no means linear or straightforward, given the substantial amount of uncertainty in industrial technology development, application, and commercialization. Realizing the complex nature of technology-driven economic development, state governments intend to maximize the economic benefits by establishing multiple objectives when authorizing state R&D tax credit programs. For instance, in the state of Washington, the legislature set up multiple criteria to measure the effectiveness of its R&D tax credit program (Washington Department of Revenue, 2003):

- Job creation
- The number of jobs created for Washington residents
- Company growth
- Diversification of the state's economy
- Growth in R&D investment
- Introduction of new products
- Movement of firms or the consolidation of firms into the state.

This long list illustrates the state's intent to achieve technology-driven economic development through additional industrial R&D efforts. This single incentive program is expected to result in not only the growth of R&D investment and inward movement of high-technology companies but also other, longer term economic results, such as market expansion, company growth, job creation, and diversification of the state's economy.

State Business Tax Incentive Programs: The Case of North Carolina

During the past several decades, state governments have created and expanded business tax incentive programs to help recruit businesses from other states, assist existing businesses, and induce new start-ups. For example, whereas 24 states offered tax incentives for job creation in 1984, 43 states offered those incentives in 1998. North Carolina spent some \$74 million on business tax incentive programs in 1997 to 1999. In addition, the state and local corporate subsidies in the United States reached approximately \$48.8 billion in 1995 to 1996. This large tax expenditure justifies a careful look at the efficacy of the business tax incentive programs. Indeed, several states have sunset provisions or required reviews written into the legislation (e.g., North Carolina, Oregon, and Texas). The need for careful reviews has been amplified in the past fiscal year by serious budget crises in many states, 7 often accompanied by renewed cries from legislators to curtail incentive programs (an action also referred to as «close tax loopholes»).



The act provides tax credits for qualified employment, for investment in machinery and equipment (M&E) and central administrative offices (CAOs), for R&D, and for worker-training expenses. More tax incentive dollars are provided to firms located in distressed counties.

The North Carolina tax incentives program provides different tax credits to employers that create jobs by tier: \$12,500 per job in Tier 1, \$4,000 per job in Tier 2, \$3,000 per job in Tier 3, \$1,000 per job in Tier 4, and \$500 per job in Tier 5. The tax credit is shown to reduce a typical firm's labor costs by 0.07% to 3.38% throughout North Carolina. Firms located in distressed areas (Tiers 1 and 2) would have more cost-reduction benefits than those in the other three tiers. In absolute dollars, the act deliberately ensures a greater per job benefit in the lower tiers [6].

The tax credit does not reduce the real labor cost by much in percentage terms in any scenario or tier. For a typical firm in Tier 1, relative (or percentage) cost-reduction benefits range from 3.38% when the average wage is \$20,000 to 1.69% when the wage is \$40,000. They range from 1.08% to 0.54% in Tier 2, from 0.81% to 0.41% in Tier 3, from 0.27% to 0.14% in Tier 4, and from 0.14% to 0.07% in Tier 5. However, small percentage reductions can still translate into significant employment changes if employment levels are high and firms are wage elastic.

The program provides different tax credits to M&E investors by lowering the threshold amount of investment by tier: \$0 in Tier 1, \$100,000 in Tier 2, \$200,000 in Tier 3, \$500,000 in Tier 4, and \$1 million in Tier 5. The M&E tax credit would help businesses reduce their user costs of M&E from 2.52% to 7.57%, depending on their size and location. The tax credit also encourages a firm to undertake investment activity in economically distressed counties by offering more benefits there. Regardless of M&E investment amounts by a firm in Tier 1, its user cost falls by the same percentage, 7.57%. In absolute terms, however, its benefits vary with the size of its investment. With a \$50,000 investment its costs fall by \$548; at \$1.5 million its costs fall by \$16,447. In other tiers, a firm's user cost of M&E also decreases along with M&E investment amounts in both percentage and absolute terms [7].

The tax credit is also effective in inducing new M&E investment in economically distressed counties. For instance, if a firm invests \$1.5 million in M&E in counties in Tier 1, its M&E demand would increase by \$122,807 (8.19%). The same investment would increase M&E demand by \$113,998 (7.6%) in Tier 2, \$105,283 (7.02%) in Tier 3, \$79,696 (5.31%) in Tier 4, and \$38,817 (2.59%) in Tier 5.

Even though a typical firm in Tier 1 has the same expected increase (8.19%) in M&E demand regardless of M&E investment levels, the induced effect on M&E demand increases as M&E investment levels increase [8]. As a firm in Tier 1 increases M&E in-

vestment from \$50,000 to \$1.5 million, its expected M&E demand grows from \$4,094 to \$122,807. The above results apply to a firm's expected M&E demand in the other four tiers [9].

Increases in M&E demand should lead to increases in new employment because firms need workers to operate and manage purchased M&E. The As R&D investment rises from \$10,000 to \$1.5 million, the induced employment effect increases by almost the same proportion (from 0.04 to 5.97 workers).

The reform of Business Taxation on state level in the USA

Corporate income tax in the State of Michigan

The Single Business Tax (SBT) was the only general business tax levied by the State of Michigan from 1976 to 2008. Before Tax reform Michigan's combined state-local tax burden is 22nd highest, and its business tax climate ranks 26th. Michigan's combined state-local tax burden is 22nd highest, and its business tax climate ranks 26th. Michigan already is losing a lot more than \$30 million a year from mass layoffs and major bankruptcies [10]. In 2006 year, amid the national expansion, Michigan was the only state outside the Gulf Coast to lose jobs and see a decline in economic output. Comerica Bank recently moved its headquarters to Texas, in part because of Michigan's hostile business climate. Michigan's 7.4% jobless rate is the highest of all states and far above the 4.6% national rate in 2006.

The SBT was a Value Added Tax (VAT). Value added taxes are levied on a «services consumed» or «benefits received» principle. The SBT purports to be a tax on value-added, but it deviates from that base in numerous, complex ways [11].

The SBT base consisted of essentially three components: labor, capital and profit. Labor is measured by the compensation (including benefits) an employer pays to its employees. Capital is measured by depreciation, interest, dividends, and royalties paid by the taxpayer. Profit is measured by the taxpayer's federal taxable income as adjusted for SBT purposes. The tax base of SBT is «business activity», which included:

- (1) The sale of real or personal property in exchange for a tangible or intangible consideration;
- (2) Property rental, including both real property and personal property; and,
- (3) Performance of a service for a fee, except services rendered as an employee or services rendered as the director of a corporation.

Any «person» engaged in a business activity in Michigan whose gross receipts allocated or apportioned to Michigan were \$350,000 or more was required to file a return. Gross receipts include all receipts derived from a business activity, including rental and lease receipts. If a business operated for less than 12 months (and was not a sole proprietor), it must annualize allocated or apportioned gross re-



ceipts to determine whether it met the filing requirement. Special rules applied for controlled groups.

Taxpayers doing business in Michigan and in other states during the SBT era apportioned their tax base to Michigan using a formula based on their percentage of property, payroll, and sales in Michigan. Financial organizations and transportation companies used a single factor formula based on gross business and revenue miles, respectively. Only firms actually engaged in business activity in Michigan were subject to the SBT.

Tax exemptions: A foreign subsidiary or parent corporation with no Michigan business activity was not subject to the SBT.

The Michigan Business Tax (MBT) is the current tax on Michigan business income and modified gross receipts (except for insurance companies and financial institutions). In addition, every taxpayer is subject to an annual surcharge equal to a percentage of their MBT liability after apportionment or allocation. MBT replaced the Single Business Tax (SBT) effective January 1, 2008. «We have some serious concerns that the new MBT will be not much better than the Single Business Tax», said Tricia Kinley of the Michigan Chamber of Commerce [12]. The SBT was scrapped in part because it was confusing, especially to companies dealing with it for the first time. The SBT also was labeled as anti-business, with both Republicans and Democrats saying it was time for it to be replaced with a friendlier, more competitive structure.

The Michigan Business Tax is due only if a taxpayer's apportioned or allocated gross receipts are \$350,000 or greater for the tax year. Taxpayers include a single person, entity or a unitary business group. MBT estimated payments are not required for taxpayers with a short year of less than four calendar months. Payment of the annual tax liability remains due on the last day of the fourth month after the end of the year.

Tax base: the MBT is based on modified gross receipts and income. The modified gross receipts tax base consists of gross receipts less purchases from other firms. Gross receipts means the entire amount received by a taxpayer from any activity carried on for direct or indirect gain, benefit, or advantage to the taxpayer. The MBT is designed to give tax credits to companies that add jobs, invest in equipment, or do research and development in Michigan. The credit also provides some personal property tax relief for businesses on equipment and machinery.

Tax rate of MBT: for taxpayers with apportioned or allocated gross receipts of \$350,000 or more, the MBT is comprised of a 4.95 percent tax on business income and a 0.8 percent tax on modified gross receipts.

Tax credit is used to phase in the tax liability for taxpayers with gross receipts between \$350,000 and \$700,000. In addition, an annual surcharge is imposed

on each taxpayer equal to 21.99 percent of their MBT liability after allocation or apportionment to the State, but before the calculation of credits available under the Act. The amount of the surcharge levied against a taxpayer is capped at \$6,000,000 in any single tax year.

Financial institutions pay different taxes with different tax bases, without regard to any filing threshold and the annual surcharge is imposed at a different rate. For most taxpayers, the business income tax base is that part of federal taxable income derived from business activity, with certain adjustments.

In my opinion, the tax reform in State of Michigan replaced SBT for gross receipts taxes- a long discredited type of tax that states first enacted during the 1920s and '30s and later repealed in most cases. There is a real danger that lawmakers will replace the SBT with a business tax system that is decidedly less than optimal from an economic perspective. These taxes appear simple but they have the potential to badly distort business investment. No state that has ever enacted a gross receipts tax has kept it in its "pure" form; thus there is no reason to expect that Michigan would have a different experience.

A good option would be to impose a standard corporate income tax at a rate between 6 and 8 percent. According to one Department of Michigan study, that would raise as much money as the SBT. If it were estimated to fall short of revenue, a good supplementary option would be to broaden the consumer sales tax base to services not currently taxed. This plan would give Michigan a business tax structure that is consistent with those in most other states, rather than a new system that is just as odd as the SBT.

Conclusion

With the evolution of the technology-based economy, the high-technology sector has been playing an increasingly important role in promoting business growth, market expansion, new employments, and global competitiveness.

Numerous incentives and assistances have been provided to facilitate the development of high-technology industries in the past two decades. The choice of the high-technology sector is based on its essential role in linking R&D tax incentives with longer term economic results. Additional industrial R&D efforts that are likely to take place in response to the tax incentives are also expected to expand the state's high-technology sector, the primary recipient of R&D tax incentives. The improvement in economic results is primarily dependent on the size of the high-technology sector in the state, and hence the high-technology establishments are a good measure of the high-technology sector to examine the effectiveness of the state R&D tax credit program.

In proposing reforms for the capital income tax, it is necessary to consider the incentives generated by the current system of taxation and the effects that



changing those incentives would have on economic behavior. The predominant plan for reform involves taxing consumption, which would effectively incentivize private saving. This would in turn boost national saving, generate additional capital investment, and may also cause an increase in asset prices [13]. A value-added tax (VAT) is one of the most common proposals to replace the corporate income tax. In addition to incentivizing saving and investment, the VAT could remove the common distortion of the physical location of capital.

The business community tends to prefer tax changes that encourage investment and saving (thereby decreasing the effective cost of capital), minimize the double taxation of corporation earnings, and encourage research and development as well as technological investment. Granted, the business community does not always have the nation's greater good in mind. However, profitable firms are more likely to expand and invest, hire more workers, and increase national productivity. This ultimately benefits the nation as a whole [14].

Tax Reform of Corporate Income Tax on State Level in the USA

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Introduction. In proposing reforms for the corporate income taxation, it is necessary to consider the incentives generated by the current system of taxation and the effects that changing those incentives would have the significant impact on the economic behavior. **Analysis.** This paper proves that economic development policies and reform of income corporate taxation can significantly affects the growth of a state area, that increases in the growth of a local economy can benefits the overall national economy. Corporate income taxation can hinder the competitiveness of domestic industry by discouraging local investment in favor of investment in areas where corporate income tax rates are lower or where the tax is not levied. There are the examples of tax reforms of corporate income tax in States of Kansas, North Caroline, Michigan. **Conclusion.** This paper shows that R&D tax credits and State Business Tax Incentive Programs have significant and positive impacts on the growth of high-technology sector in the states.

Key words: corporate income taxation in USA, reforms of income corporate taxation.

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