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Congress Asked to eliminate Partnership and S Corp treatment

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According to Bloomberg news, U.S. Treasury Secretary Timothy Geithner told the Senate Finance Committee Feb. 15 that Congress should “revisit” long-standing rules that give businesses a choice of paying taxes as a corporation or through a structure such as a partnership through which they can report business income on individual tax returns.

When that suggestion is put into context with the fact that the United States has the highest effective corporate tax rate in the OECD and fifth overall among 83 countries surveyed by the Cato Institute, the question of overall U.S. competitiveness must be raised. The average effective rate among the 83 countries was just under 18%.

The implication that if the pass through treatment of tax attributes of investment partnerships and S corporations was eliminated overall corporate rates would be reduced is in part the predicate for suggestion. However, in a high deficit period, there is no guaranty of that a harmonized system would be a lower effective federal tax rates.

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