AMERICANS FOR TaxFairness

9 REASONS CORPORATIONS SHOULD PAY THEIR FAIR SHARE OF TAXES

Big corporations are aggressively pushing two types of "tax reform." One is "revenue-neutral" reform that closes loopholes and limits deductions and uses the savings to lower the corporate income tax rate from the current 35 percent to as low as 25 percent. This means corporations would not contribute a dime towards deficit reduction or to invest in our economic future. A second priority is creation of a "territorial" tax system. This would allow multinational corporations to pay no U.S. tax on their foreign earnings, thereby accelerating the shifting of profits and jobs to low-tax countries and reducing taxes paid to the U.S. Treasury.

This version of corporate "tax reform" should be rejected; instead corporations should pay their fair share of taxes for many reasons:

1. **Some big corporations pay little to nothing in taxes now.**
   More than two dozen big corporations – including General Electric, Verizon and Boeing – paid no federal income taxes in the last four years while reaping billions of dollars in profits, according to Citizens for Tax Justice.[1] Seventy-eight of 280 *Fortune 500* companies paid zero or less in federal income taxes in at least one year from 2008 to 2010.[2]

2. **The corporate share of federal tax revenue has dropped by two-thirds in 60 years.**
   Corporate tax revenue accounted for 32.1 percent of federal revenue in 1952, but by 2012 the share of corporate tax revenue had fallen to 9.9 percent, according to the Office of Management and Budget.[3]

3. **The U.S. already has a low *effective* corporate income tax rate.**
   While the statutory corporate income tax rate is 35 percent, because of loopholes, corporations paid an average *effective* tax rate of 25.6 percent between 1987 (the beginning of the last major corporate tax reform) and 2008, according to the Congressional Budget Office. In 2011, U.S. corporations paid just a 12 percent income tax rate.[4] The Government Accountability Office found that big, profitable corporations paid just a 12.6% tax rate in 2010.[5]

4. **The United States raises less tax revenue from corporations than many of our competitors.**
   U.S. corporate tax revenue at all levels of government as a percentage of GDP was 2.7 percent in 2010, compared to 2.9 percent in other Organisation for Economic Co-operation and Development (OECD) countries. The U.S. ranked 17th out of 32 OECD countries paying a lower tax rate, behind competitors such as Canada, Great Britain and Japan.[6]

5. **Abuse of tax havens benefits Wall Street at the expense of Main Street businesses.**
   Tax-avoidance schemes involving tax havens in places like the Cayman Islands are estimated to cost as much as $100 billion a year in lost revenue, according to a U.S. Senate subcommittee.[7] A nationwide poll found that 91 percent of small business owners think the use of offshore tax loopholes by big business is a problem for the country.[8]

6. **Eliminating U.S. taxes on offshore corporate profits through a "territorial tax system" would send profits and jobs overseas and let U.S. corporations dodge paying taxes.**
   U.S. corporations already pay a far lower effective tax rate on overseas income than on domestic income, according to the Government Accountability Office.[9] This tax advantage encourages corporations to shift profits overseas to low-tax countries. Apple, Google and Microsoft avoided U.S. taxes on $80 billion in income over a three-year period by using offshore tax loopholes to shift their profits overseas, according to a U.S. Senate subcommittee.[10] Adopting a "territorial tax system" would make these problems worse by eliminating all U.S. taxation on overseas corporate income. It is estimated that such a system would encourage U.S. corporations to create 800,000 jobs in low-tax countries rather than here at home,[11] and would increase the deficit by $130 billion over 10 years, according to the President's Economic Advisory Board.[12]

7. **Lowering the corporate income tax rate is costly and unaffordable.**
   Lowering the corporate income tax rate from 35 percent to 25 percent would cost $1.1 trillion over 10 years, according to the Tax Policy Center[13] – about the cost of the across-the-board budget cuts known as "sequestration."[14] Rather than lower corporate rates, Congress should close loopholes to generate billions in additional tax revenue that could be used for deficit reduction or investing in our economic future.

8. **Cutting the corporate income tax rate is an ineffective and wasteful way to create jobs.**
   Corporate income tax cuts are a very ineffective way to stimulate the economy, according to the Congressional Budget Office[15] and the economist Mark Zandi, of Moody's Analytics.[16] Corporations are not investing and hiring enough because they lack confidence in future demand for their products, not because their income tax rate is too high.

9. **Americans strongly support requiring corporations to pay their fair share of taxes.**
   A Hart Research Associates poll of 1,000 likely voters in January 2013 found the following:[17]
   - 64% of voters believe that large corporations should pay more in taxes than they do now.
   - 78% of voters believe that making sure big corporations pay their fair share of taxes is an important budget goal (55% extremely important), and 80% say the same about closing tax loopholes that benefit big corporations.
   - By a 73%-25% margin, voters approved of closing loopholes that allow corporations and wealthy individuals to avoid paying U.S. taxes by shifting income to overseas tax havens.
   - By a 73%-20% margin, voters disapproved of allowing corporations to not pay any U.S. taxes on profits that they earn in foreign countries – essentially rejecting the basis of a "territorial tax" system.

[1] Citizens for Tax Justice (CTJ), "Big No-Tax Corps Just Keep on Dodging" (April 9, 2012). http://www.ctj.org/pdf/notax2012.pdf

[2] CTJ, "Corporate Taxpayers & Corporate Tax Dodgers 2008-10" (Nov. 3, 2011). http://www.ctj.org/corporatetaxdodgers/CorporateTaxDodgersReport.pdf

[3] U.S. Office of Management and Budget, Fiscal Year 2013 Budget, Historical Tables, 1934-2017 (Table 2.2) (2012). http://www.whitehouse.gov/omb/budget/Historicals

[4] Congressional Budget Office (CBO), The Budget and Economic Outlook, Fiscal Years 2012 to 2022 (January 2012), Figure 4-3, p. 89. http://www.cbo.gov/sites/default/files/cbofiles/attachments/01-31-2012_Outlook.pdf

[5] U.S. Government Accountability Office, "Corporate Income Tax: Effective Tax Rates Can Differ Significantly from the Statutory Rate," GAO-13-520 (May 30, 2013). http://www.gao.gov/products/GAO-13-520

[6] Organisation for Economic Co-operation and Development, OECD.StatExtracts. http://stats.oecd.org/Index.aspx?QueryId=21699. Accessed March 20, 2013.

[7] Permanent Subcommittee on Investigations, Committee on Homeland Security and Government Affairs, United States Senate, "Tax Haven Banks and U.S. Tax Compliance" (July 17, 2008), p. 1. http://www.hsgac.senate.gov/download/report-psi-staff-report-tax-haven-banks-and-us-tax-compliance-july-17-2008

[8] National Opinion Poll: Small Business Owners' Views on Taxes and How to Level the Playing Field with Big Business (Feb. 6, 2012). http://mainstreetalliance.org/wp-content/uploads/2012/02/report-small-business-taxes-Feb-6-2012.pdf

[9] According to the Government Accountability Office (GAO), "the average U.S. effective tax rate on the domestic income of large corporations with positive domestic income in 2004 was an estimated 25.2 percent. The average U.S. effective tax rate on the foreign-source income of these large corporations was around 4 percent, reflecting the effects of both the foreign tax credit and tax deferral on this type of income." GAO, "U.S. Multinational Corporations: Effective Tax Rates Are Correlated With Where Income Is Reported" (August 2008). http://www.gao.gov/new.items/d08950.pdf

[10] Statement of Sen. Carl Levin (D-Mich.), before the U.S. Senate Permanent Subcommittee on Investigations, On Offshore Profit Shifting and the U.S. Tax Code (Sept. 20, 2012), p. 3. http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code

[11] Kimberly A. Clausing, "A Challenging Time for International Tax Policy," *Tax Notes* (July 16, 2012). http://www.taxanalysts.com/www/website.nsf/Web/HomePage/$file/clausing.pdf.

[12] The President's Economic Advisory Board, *Report on Tax Reform Options: Simplification, Compliance, and Corporate Taxation* (August 2010), pp. 89-91. http://www.treasury.gov/resource-center/tax-policy/Documents/PERAB-Tax-Reform-Report-8-2010.pdf

[13] Center on Budget and Policy Priorities (CBPP), "Proposed 'Tax Reform' Requirements Would Invite Higher Deficits and a Shift in Taxes to Low- and Moderate-Income Families," July 31, 2012, p. 2. http://www.cbpp.org/files/7-31-12tax.pdf

[14] CBPP, "How the Across-the-Board Cuts in the Budget Control Act Will Work," April 27, 2012. http://www.cbpp.org/cms/index.cfm?fa=view&id=3635;

[15] CBO, "Policies for Increasing Economic Growth and Employment in 2012 and 2013" (November 15, 2011), p. 38-39. http://www.cbo.gov/sites/default/files/cbofiles/attachments/11-15-Outlook_Stimulus_Testimony.pdf.

[16] Mark Zandi, Chief Economist and Co-Founder, Moody's Analytics, Testimony before the Joint Economic Committee (Feb. 7, 2012), p. 7. https://www.economy.com/mark-zandi/documents/2012-02-07-JEC-Payroll-Tax.pdf.

[17] Hart Research Associates memo, "Tax Reform and the Federal Budget," (January 2013) http://www.americansfortaxfairness.org/files/Hart-Memo-on-Fiscal-Cliff-Poll-Hill.pdf