Corporate Tax Rates

Overview

Corporations are paying a smaller share of federal tax revenue than they did in the 1950s, dropping from one-third to only one-tenth of the total today. Yet, an army of lobbyists is pushing hard to convince Congress to cut the corporate income tax rate by nearly one-third – from the current 35% to 25%. This issue is at the epicenter of the coming battle over tax reform.

Conservatives have defined the debate in a highly-misleading manner. They focus on the top statutory rate – the rate specified by law – instead of the effective tax rate – what is actually paid. Because U.S. statutory rates are somewhat higher than other OECD countries, corporations claim that this makes them less competitive, and that it stunts job growth. But their argument is unpersuasive when the debate focuses on effective corporate tax rates.

The debate has been further skewed by calls for “revenue neutral” corporate tax reform, in which any revenue raised by closing tax loopholes is used to reduce rates. Corporations haven’t contributed a dime towards deficit reduction in recent budget deals. And they want to continue this special treatment while American families shoulder the entire burden. Meanwhile, the country is starved for resources needed to foster economic growth and job creation – from infrastructure to research to improved schools.

U.S. effective corporate tax rates are not a burden

The top statutory tax rate of 35% in the U.S. is somewhat higher than that of 30 other OECD countries, but the average effective tax rate – the actual rate paid after deductions and credits, is slightly lower than our competitors, according to the Congressional Research Service (CRS).

Several studies have found that U.S. corporations pay a similar or a lower effective tax rate – the rate actually paid – than corporations in other countries. For example:

- Our average effective tax rate is 27.1% compared with 27.7% for the other 30 OECD countries, according to CRS.
- Profitable corporations paid U.S. income taxes amounting to just 12.6% of worldwide income in 2010, according to the Government Accountability Office.
- Citizens for Tax Justice’s survey of 288 corporations, which included most of the Fortune 500 corporations that were profitable each year from 2008 through 2012, found that they paid an average effective federal tax rate of just 19.4% over that period.
- Of 125 corporations in that study that had significant foreign profits, 82 (two-thirds) paid a higher effective rate to foreign governments than they paid to the U.S.

Key Facts

Corporate share of federal tax revenue has dropped by two-thirds in 60 years – from 32% in 1952 to 10% in 2013.

General Electric, Boeing, Verizon and 23 other profitable Fortune 500 firms paid no federal income taxes from 2008-2012.

288 big and profitable Fortune 500 corporations paid an average effective federal tax rate of just 19.4% from 2008 to 2012.

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U.S. corporations dodge $90 billion a year in income taxes by shifting profits to subsidiaries—often no more than post office boxes—in tax havens.

U.S. corporations officially hold $2.1 trillion in profits offshore – much of it in tax havens—that have not yet been taxed here.

News Coverage

Many Big U.S. Corporations Pay Very Little in Taxes, Reuters

Big Companies Paid a Fraction of Corporate Tax Rate, The New York Times

Post Analysis of Dow 30 Firms Shows Declining Tax Burden as a Share of Profits, The Washington Post

Report: Corporations Pay Fraction of Top Rate, The Hill

G.E.’s Strategies Let It Avoid Taxes Altogether, The New York Times

With Tax Break, Corporate Rate Is Lowest in Decades, The Wall Street Journal

Some corporations pay nothing in taxes

- General Electric, Boeing, Priceline.com, Verizon and 22 other profitable Fortune 500 firms paid no federal income taxes from 2008 through 2012, according to Citizens for Tax Justice.
- 111 profitable Fortune 500 firms paid zero federal taxes in at least one of those five years.
- General Electric, one of the most notorious corporate tax dodgers, got $3.1 billion in refunds on $27.5 billion in profits from 2008 to 2012. The company paid less in federal income taxes in five years than a single American family pays in one year.

Lower tax rates do not boost growth and jobs

Conservatives claim reducing the corporate tax rate will substantially grow the economy. But a cut in the statutory rate from 35% to 25% would increase economic output by less than two-tenths of one percent, according to CRS. Economic growth over the past 60 years has actually been stronger when corporate tax rates were higher, according to the Economic Policy Institute. U.S. corporate tax rates also are not hurting profits – before-tax and after-tax corporate profits as a percentage of national income are at post–World War II highs.

There is no relationship between cutting corporate tax rates and job growth, according to a recent study by the Center for Effective Government. Twenty-two of the 30 profitable Fortune 500 companies that paid the highest tax rates (30% or more) from 2008 to 2010 created almost 200,000 jobs between 2008 and 2012. The 30 profitable corporations that paid little or no taxes over the three years collectively shed 51,289 jobs between 2008 and 2012.

A corporate tax rate cut will blow a hole in the budget

Those who want to cut the corporate income tax rate from 35% to 25% ignore that it will cost $1.3 trillion over 10 years, according to the Joint Committee on Taxation. They say that rate cuts will be paid for by closing corporate tax loopholes, but this will be extremely difficult given the power of the corporate tax lobby. Even if it was possible, there would be no new revenue for investments or deficit reduction. America can’t afford that.

Americans don’t want to cut corporate taxes

Recent polling shows that the public feels strongly that corporations need to step up and contribute their fair share. For instance:
- By 79% to 17%, voters want to “Close tax loopholes to ensure that American corporations pay as much on foreign profits as they do on profits made in the United States.”
- By 82% to 9%, voters believe that “reform[ing] the tax system by closing corporate loopholes and limiting deductions for the wealthy” should be used to “reduce the budget deficit and make new investments” rather than to “reduce tax rates on corporations and the wealthy.”

Opinion

- No Replacement for Corporate Taxes, The New York Times
- The Truth about Corporate Tax Rates, USA Today
- Corporate Tax Rates Plummet as Profits Soar, National Memo
- ‘A’ is for Avoidance, The New York Times

Resources

- The Sorry State of Corporate Taxes, Citizens for Tax Justice
- International Corporate Tax Rate Comparisons and Policy Implications, Congressional Research Service
- Corporate Income Tax: Effective Tax Rates Can Differ Significantly from the Statutory Rate, Government Accountability Office
- Corporate Tax Rates And Economic Growth Since 1947, Economic Policy Institute
- Lower Corporate Tax Rates Not Linked to Job Creation, Center for Effective Government

Contact

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Americans for Tax Fairness is a diverse coalition of 425 national and state organizations that collectively represent tens of millions of members. ATF was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs.