THE CASE FOR A 28% CORPORATE TAX RATE

TOPLINES

- Raising the corporate tax rate from 21% to 28%, as President Biden proposes, is a **moderate reform that would raise nearly $900 billion for vital public investments**—including many helpful to business.
- **Because of loopholes, most corporations are not paying the 21% rate, let alone paying anything close to their fair share of taxes.** Last year, 55 big corporations with collective profits of $40.5 billion paid nothing in federal income taxes. In 2018, over 1,500 U.S.-based multinational firms paid an average U.S. tax rate of under 8%—less than most workers pay.
- **A 28% official rate would not put American corporations at an international disadvantage** because it would be very similar to the tax rates of other industrialized nations. What's more, a recent study of over 50 U.S.-based multinational corporations found that even after Biden's proposed rate hike, their average *effective tax rate* would still be below that of their main foreign rivals.
- **The infrastructure investment that a higher corporate tax rate would help fund boosts the economy much more than a lower corporate tax rate does.** A dollar spent on infrastructure generates $1.50 in growth; but a dollar in corporate tax cuts generates just 51 cents in growth.
- **Big firms are enjoying sky-high profits and so can well afford to pay more in corporate taxation—among the most progressive ways to raise revenue.**
- **Cutting the rate to 21% from 35% in 2017 failed to deliver the economic benefits promised before the pandemic struck, so there's little risk to raising it to 28%.**

U.S. corporations lean heavily on public investments but do not pay anywhere close to their fair share of taxes to support them. They feed off public research; use public roads and ports to move their goods; rely on public schools for an educated workforce; depend on public healthcare to tend to their employees and customers; thrive in a free market moderated by a publicly regulated banking system and publicly provided judicial system; and can make foreign investments ultimately secured by U.S. diplomacy and American military might.

President Biden wants to start making corporations pay their fair share of taxes by raising the corporate tax rate from 21% to 28%; assessing a 15% minimum tax on profits corporations report to investors to curb excessive use of loopholes; and reforming the international corporate tax system. (International reforms are discussed in a separate fact sheet.)

A 28% tax rate is a moderate reform in line with past demands from corporations.

- The 2017 Trump-GOP tax law slashed the corporate rate by two-fifths, from 35% to 21%—far below proposals of rate-cut proponents. Corporations had generally been lobbying for a 25% rate, such as a coalition of big firms including AT&T, Boeing, and Disney.
- President Obama proposed a 28% corporate tax rate in 2012 and renewed that proposal at other times during his presidency.

- In 2014, the Republican chairman of the House Ways and Means Committee, Dave Camp, proposed a 25% corporate rate as part of a major overhaul of the tax system.

A 28% corporate tax rate would raise nearly $900 billion to fund infrastructure projects, which are critical to employers and workers alike and to a more competitive economy.

- America needs the massive investment in infrastructure—both "hard," like highways and "soft," like caregiving—that Biden proposes in his $2.3 trillion American Jobs Plan. The Treasury Department estimates a 28% corporate tax rate would raise nearly $900 billion, funding almost 40% of the total cost. But the 25% rate proposed by some as a weak alternative would raise $300 billion less.
- If left unaddressed over the next two decades, America's failing physical infrastructure will cost the economy over $10 trillion in lost growth. Infrastructure investments spur long-term economic growth through stronger systems, fewer delays and less disruption.
- In addition to long-term economic benefits, infrastructure investments offer a much bigger immediate "bang for the buck" than do low corporate tax rates. Moody's Analytics finds that every $1 spent on infrastructure generates $1.50 in growth, compared to just 51 cents for every $1 in corporate tax cuts.
- Many Wall Street analysts say Biden's proposed investments and tax hikes will boost growth and not hurt the economy or stock prices.

Because of loopholes, most corporations are not paying the 21% rate, let alone paying anything close to their fair share of taxes.

- A federal government survey of over 1,500 U.S.-based multinational firms found that for 2018, they paid an average effective U.S. tax rate of just 7.8%—far below the 14% median household tax rate. Raising the *effective tax rate* even as high as the 21% opponents of reform are defending requires raising the statutory rate much higher.
- Another report found that for that same year, 91 giant corporations—including Amazon, Netflix, IBM and General Motors—paid zero federal income taxes, and even got rebates.
- In 2020, 55 big corporations—including FedEx, Nike and Salesforce.com—with collective profits of $40.5 billion during the pandemic paid nothing in federal income taxes.
- In fiscal year 2019, during a booming economy but with the corporate tax rate at just 21%, corporate taxes made up only 6.6% of federal revenue. [Table 2.2] Corporate taxes provided over twice that share (14.4%) as recently as 2007. In the mid-20th century, corporate taxes supplied a third of federal revenue.
- Corporate taxes as a share of the national economy (GDP) have also shrunk dramatically at the 21% rate. From 2000 to 2016, corporate taxes averaged 1.7% of GDP. In the first two years of the 21% rate, that share fell by over a third, to 1.05%. The share is forecast to remain more than a quarter below its historical average during the next decade.

Corporations are enjoying sky-high profits and so can well afford higher corporate taxation—among the most progressive ways to raise revenue.

- Except for during recessions, corporate profits have set yearly records since 1990, hitting \$2.3 trillion in the first quarter of 2021. As a result, corporate share prices continue to set their own records, further enriching CEOs and other wealthy stockholders.
- Corporate profits represent a bigger and bigger share of the economy: Corporate profits averaged 9.7% of GDP from 2005 to 2019, compared to only 5.4% between 1980-2000.
- Since the 2017 tax cuts, corporations have been using their profits to buy back record amounts of their own stock, which mostly enriches top executives and other wealthy shareholders. This year may set a new record.
- The wealthiest 1% own 53% of all corporate equities and mutual fund shares per the Federal Reserve. The wealthiest 10% own 88% of those assets, and the bottom 50% own less than 0.5%. Moreover, foreign investors own about 40% of publicly traded U.S. stocks.
- Tax experts generally estimate that 80% of the burden of corporate taxation is borne by shareholders. Even the small amount attributed to employees falls disproportionately on the highest-paid executives, not rank-and-file workers.

A 28% rate would not put American corporations at an international disadvantage because it would be very similar to the corporate tax rates of other industrialized nations.

- In 2020, the average official corporate tax rate among the world's seven most advanced economies was 27.24%. One of those G7 nations, the United Kingdom, has announced that in two years it will be raising its official corporate tax rate from 19% to 25%.
- Across the globe, in 177 taxing jurisdictions—including many well-known tax havens like Ireland and Switzerland—the average official corporate tax rate, weighted by GDP, is nearly 24%.
- Like American firms, foreign corporations use loopholes to pay less than their country's official tax rate. But because the U.S. tax code offers more special corporate breaks than the laws of other nations, a recent survey found that last year 52 American-based multinationals—including Nike and Johnson & Johnson--paid a lower *effective* tax rate (16%) than their self-identified foreign rivals, who paid an average 24%. Even after Biden's proposed reforms, those U.S. firms *would still pay less*, an average of 21%.
- In 2019, the U.S. collected the third lowest amount of corporate taxes as a share of GDP of any advanced economy (OECD nations), undercut only by two tiny Baltic nations.
- Under the first two years of the Trump tax cuts, the U.S. collected only about a third as much revenue as the OECD average in corporate income tax as a share of GDP. Prior to the Trump cuts, U.S. corporate collections were about two-thirds that of our competitors.
- JPMorgan Chase noted in a recent report that due to loopholes and deductions, the U.S. collects the least amount of corporate tax revenue as a share of the economy of any advanced nation, instead relying more heavily than any of its peers on individual taxes.

Cutting the rate to 21% from 35% in 2017 failed to deliver the economic benefits promised before the pandemic struck, so there's little risk to now raising it to 28%.

- Donald Trump and other backers of the 2017 law that cut the corporate tax rate by two-fifths claimed it would deliver annual economic growth as high as 6%. Instead, in the law's two years of operation prior to the pandemic, growth failed to exceed 3%—very much in line with the results of the Obama years.
- The law's proponents also promised a big boost in job creation, but the pace of hiring lagged that of the last years of the Obama administration.
- Business investment was supposed to boom too, but after an initial spike, the rate generally declined, actually contracting in the last quarter of 2019.
- According to a recent analysis by a Nobel Prize economist, corporate rate cuts in general don't encourage business investment (and therefore, by extension, higher rates don't discourage it). The reasons are: debt-financed investments are tax-deductible and since the value of the deduction rises with the tax rate, the benefit of the first cancels out the cost of the second; most business investments are short-term and so not very sensitive to changes in the cost of capital affected by tax rates; and the near-monopoly pricing power enjoyed by the huge corporations that dominate our economy so inflates their profits that taxes are a minor consideration.