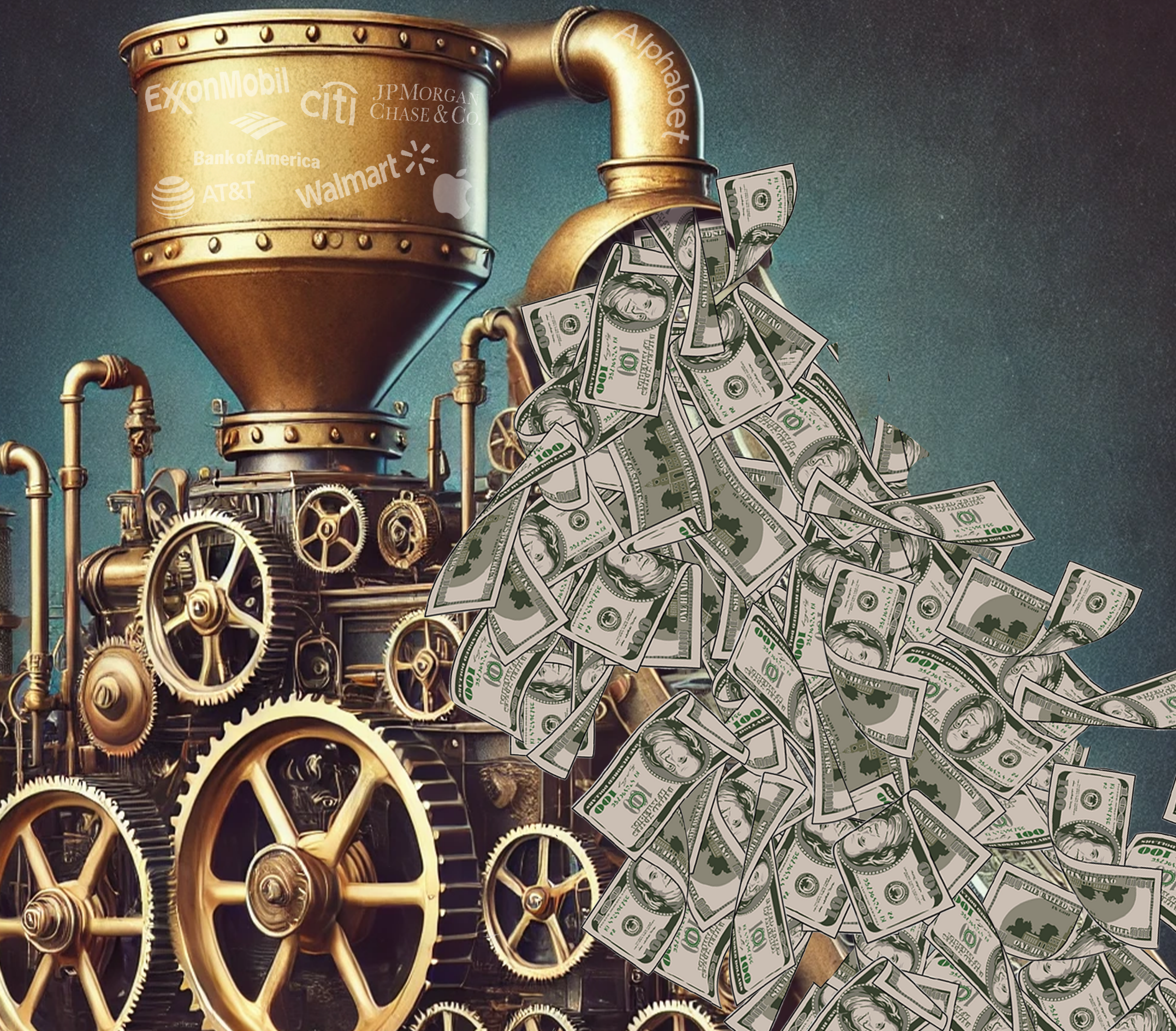
AMERICANS FOR TaxFairness

JUNE 2024

ENGINE OF INEQUALITY

A FLOOD OF CORPORATE PROFITS IS ENRICHING WEALTHY SHAREHOLDERS THROUGH STOCK BUYBACKS AND DIVIDENDS, AT THE EXPENSE OF WORKERS AND THE PUBLIC



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AMERICANS FOR TaxFairness

AMERICANS FOR TAX FAIRNESS (ATF) is a diverse campaign of more than 420 national, state and local endorsing organizations united in support of a fair tax system that works for all Americans. It has come together based on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs. This requires big corporations and the wealthy to pay their fair share of taxes, not to live by their own set of rules. ATF is a project of the New Venture Fund—a section 501(c)(3) non-profit organization.

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INTRODUCTION

All but a handful of 280 large, profitable corporations spent more money making their wealthy shareholders richer through dividends and stock buybacks than they paid in federal income taxes in the five years after the enactment of the Trump-GOP tax law, according to a new analysis by Americans for Tax Fairness. And it wasn't even close: altogether the stockholder payouts outstripped tax payments by 7-to-1, $4.4 trillion vs. $608 billion. This heavy bias towards shareholder payments for wealthy investors over tax payments for public services exacerbates economic inequality and promotes political instability, as increasingly frustrated American workers struggle to get by while wealthy stock investors surge ever further ahead.

Public services are not all that suffer when disproportionate amounts of corporate earnings are directed to shareholders. Worker wages, long-term business investment and other responsibilities of corporate citizenship all suffer when profits go so heavily to the owners of corporate stock.

Those shareholders are almost exclusively wealthy: the richest 10% of Americans own over 93% of all publicly traded corporate stock held by the nation's households. The wealthiest 1% own over half. That means the disproportionate share of profits flowing to corporate shareholders is almost entirely winding up in the bank accounts of the rich. Furthermore, much of that money isn't even staying in this country, because a big chunk of U.S. stock is held by foreign investors.

The companies in this study are members of the Fortune 500 list of American corporations with the highest revenue. Our study mostly relies on data recently reported by the Institute on Taxation and Economic Policy (ITEP) on the taxes paid between 2018-22 by American corporations that were profitable in every one of those years. (Unlike ITEP's study, our report also includes corporations that were net profitable over the five-year span, even if they had losses in some years.) Those five years were the first under the Trump-GOP tax law, which cut the corporate tax rate by two-fifths and in other ways mostly benefited the rich.

The 280 companies in our study–which include corporate behemoths like Apple, Alphabet (Google), JPMorgan Chase and Microsoft–represent over half the Fortune 500 and two-thirds (66%) of all the revenue generated by the full list of companies. That implies the phenomenon of shareholder payouts far outweighing federal tax payments may be nearly universal among the nation's largest corporations. (See Methodology for a description of how we chose the firms in our study.)

Policymakers are starting to offer remedies for the extreme tilt of corporate expenditures towards private gain and away from public good. To curb stock buybacks, President Biden and congressional Democrats enacted a 1% tax on share repurchases as part of 2022's Inflation Reduction Act. The president has since proposed raising the tax to 4%. He also advocates raising the corporate income tax by a third, from 21% to 28%, and reforming the taxation of capital gains. These reforms and others would help redirect a fairer share of corporate profits to our nation's needs.

KEY FINDINGS

- Among 280 of the largest American corporations—which together enjoyed **$4.4 trillion of domestic profits between 2018 and 2022**—272 (97 percent) spent more on stock buybacks and dividends over those five years than they paid in federal income taxes ($608 billion).

- Of the $4.4 trillion spent on shareholders, **$2.7 trillion went to stock buybacks, 4.4 times more than was paid in income taxes** over the same period, with 237 out of 280 corporations (85%) spending more on stock buybacks alone than they paid in taxes. The remaining **$1.7 trillion went to dividends, 2.8 times more than was paid in income taxes** over the same period, with 207 out of 280 corporations (74%) spending more on dividends alone than they paid in federal income taxes.

- In fact, these multinational corporations spent more on stock buybacks and dividends combined than they reported in total domestic U.S. profits ($4.39 trillion for stock buybacks and dividends vs $4.36 trillion in profits). The deficit was made up through offshore profits, draws on reserves, and borrowing.

- Among the corporations examined, stock buybacks had very nearly doubled (up 98%) by the end of the five-year period compared to 2017, the year immediately before implementation of the Trump-GOP tax law. That law slashed the corporate tax rate by two-fifths, which set off a flurry of share repurchases. Dividends rose by 40% during the same period. Meanwhile, median wages at these 280 corporations grew by an average of only 14%.

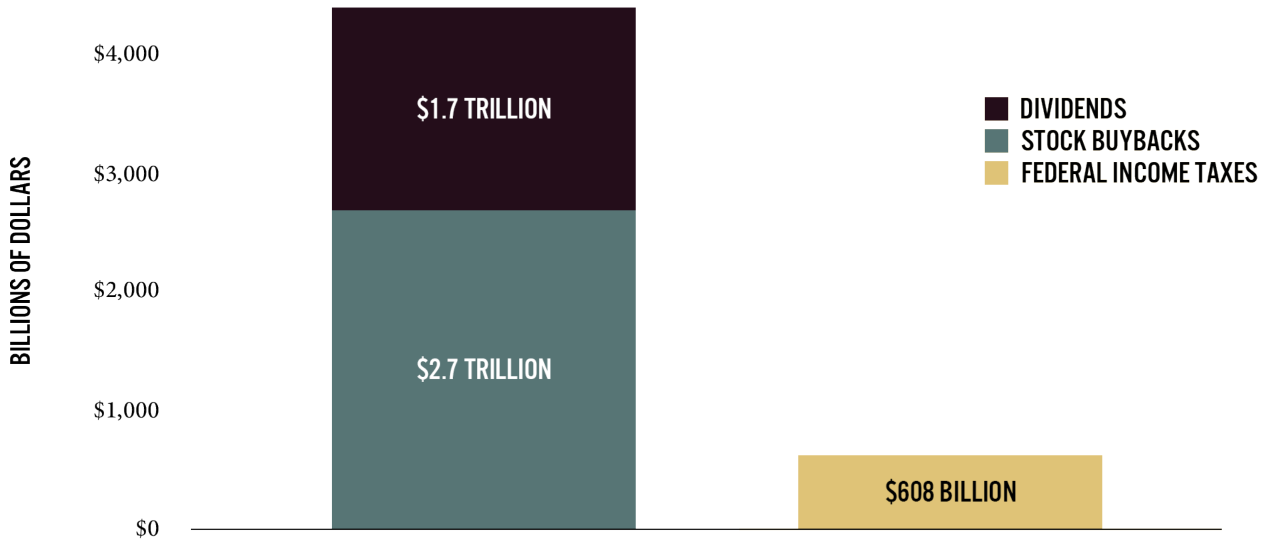
- The shareholders benefitting from all this corporate largesse are as a rule already very wealthy. The highest-income 10% of Americans own over 90% of all publicly traded stock owned by U.S. individuals; the highest-income 1% owns over half.

- Much of the money corporations pay to shareholders instead of paying in taxes is also not taxed–or is only taxed on a delayed basis–once it's received by shareholders. Foreign investors, retirement funds and other tax-exempt or tax-advantaged entities own almost three-quarters of publicly traded American stock. Even though non-wealthy Americans are better represented as stockholders in retirement accounts than in the general marketplace, the total assets in 401k's, IRAs, and other such accounts are disproportionately held by the high-income.

- Taxation of the capital gains enjoyed by taxable shareholders is delayed and even eliminated by loopholes in the tax code. Shareholder payouts that are taxed are taxed at a discount. The top tax rate on qualified dividends and the long-term capital gains stock buybacks help create is 20%, little more than half the top tax rate on wages of 37%.

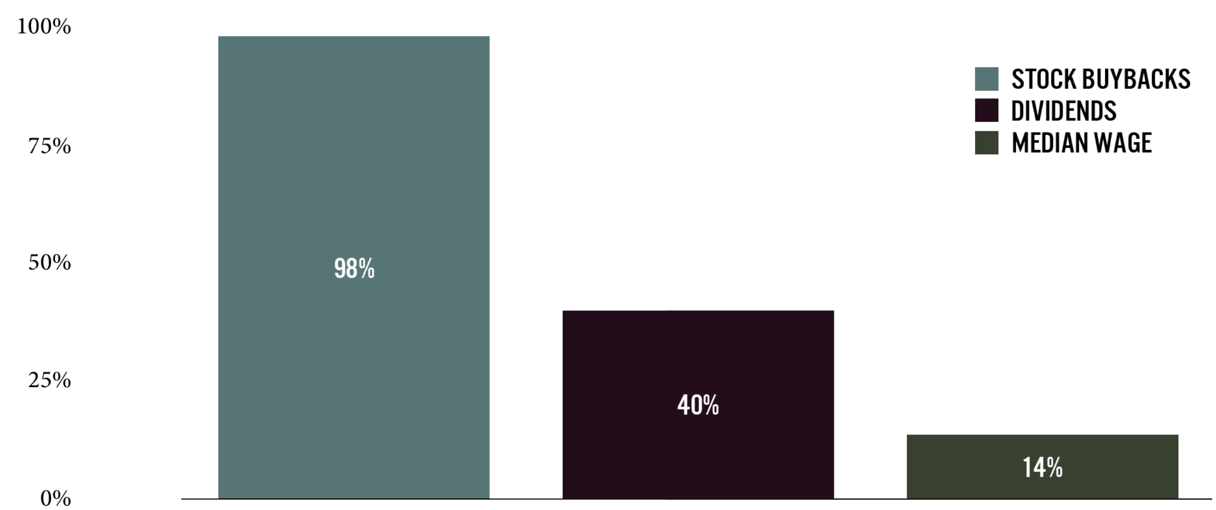
- If only a small portion of the $4.4 trillion in shareholder payouts had instead been paid in federal income taxes, tens of millions of Americans could have benefitted from lower-cost healthcare, childcare, education and housing–and other public services–that help working families who lack big stock portfolios get ahead in life.

CORPORATE SPENDING ON STOCK BUYBACKS & DIVIDENDS OVERWHELMED CORPORATE TAX PAYMENTS AFTER TRUMP-GOP TAX LAW (2018-2022)



Source: [Americans for Tax Fairness]

STOCK BUYBACKS ALMOST DOUBLED BETWEEN 2017 AND 2022; DIVIDENDS GREW BY NEARLY 40%; WHILE WAGE GROWTH LAGGED



Source: [Americans for Tax Fairness]

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> **FOR OVER 20 YEARS, THE TOP TAX RATE ON BOTH FORMS OF INVESTMENT INCOME HAS BEEN LITTLE MORE THAN HALF THE INCOME-TAX RATE ON ‘ORDINARY INCOME’ LIKE WAGES.**

THE TWO FORMS OF SHAREHOLDER INCOME

Corporate stock can provide two forms of income to investors: dividends and capital gains. Dividends are scheduled payments from a corporation to their investors based on the number of shares owned. A capital gain is the increase in the value of an investment, in this case corporate stock, over its purchase price. Corporations directly control the amount and timing of dividends, but they can also heavily influence the runup in stock prices through repurchasing their own shares, which raises the market value of stock remaining in investor hands.

Despite their differences, dividends and capital gains share at least one important characteristic: for over 20 years, the top tax rate on both forms of investment income has been little more than half the income-tax rate on “ordinary income” like wages.[1] Ordinary income–which besides wages includes other types like interest, rent and royalties—can be subject to an income-tax rate as high as 37%. When payroll taxes are added, the total federal tax on wages can be as high as 41.9% (see p. 41). Dividends and capital gains are never taxed at more than 20% (plus a 3.8% surtax on investment income for high-income taxpayers).

Another thing the two forms of corporate payouts have in common is that they are enjoyed almost exclusively by the wealthy. This is particularly, startlingly true of capital gains. In 2022 (the most recent year with available data), the fifth of American households with the highest income (over $189,000) received almost nine-tenths (89%) of all long-term capital gains. The top 1% alone (households bringing in almost a million dollars) received over two-thirds of that kind of income (67.7%), while the top 0.1%—a family needed income of almost $4.5 million to qualify—got over half of it (51.7%).

While the bias is somewhat less pronounced than with capital-gains income, dividend income is also heavily concentrated among the wealthiest Americans. The Joint Committee on Taxation

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[1] As used in this report, “dividends” means “qualified dividends” (which excludes types of income described as dividends but that more closely resemble interest); and “capital gains” means “long-term capital gains” (the increase in the value of an asset held over a year). Ordinary dividends and short-term capital gains are both taxed at ordinary-income tax rates.

> “ OVER 42% OF ALL DIVIDENDS ARE ESTIMATED TO HAVE GONE TO HOUSEHOLDS WITH OVER $1 MILLION OF INCOME.

(JCT) estimates that over 42% of all dividends–more than $150 billion worth–went to households with over $1 million of income (see p. 42) in 2023. Such households make up less than 0.5% of American families. Families with income under $100,000 are estimated to have received on average only $176 of dividend income.[2]

In addition to being overwhelmingly wealthy, owners of corporate stock are also predominantly white. As of 2022, around two-thirds of all white households were shareholders, versus around one-third of Black and Hispanic families. And those white families that own stock own a lot more than shareholding families of color: the median value of the stock portfolios held by white households was almost three times that of Hispanic families and over four times that of Black families.

Stock ownership among individuals is also heavily weighted towards older Americans. Recent Federal Reserve data show that people over the age of 55 own around 80% of all the corporate shares held by households–and that's up by a third this century. Those over 70-years-old own almost one-third of all such stock.

DIVIDENDS: BEING PAID TO OWN STOCK (WHILE GETTING TAXED LESS THAN WORKERS)

Dividends are periodic payments by corporations to their shareholders approved by the corporation's board of directors.[3] They are usually paid quarterly. A company's dividend payment per share divided by its share price is known as the stock's "yield".

Dividends go back to the joint stock companies first formed 400 years ago to fund the voyages of the European Age of Discovery. Back then, the dividends were the share of spices or other valuable goods brought back from overseas that were distributed to each investor. By the late 19th century, with the rise of railroad and other industrial corporations, dividends took on their current form: a means of distributing a part of a company's profits, rather than dispensing with all

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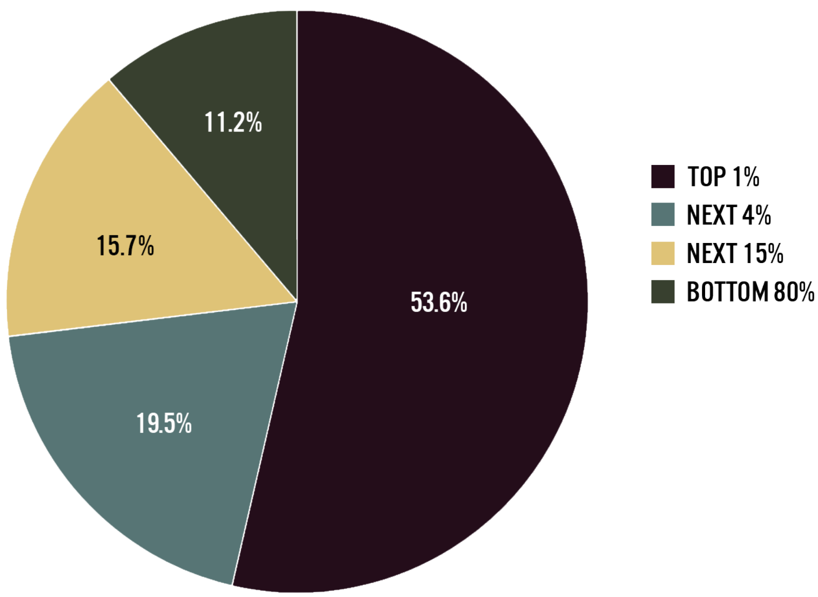
[2] *JCT estimates there were 126.3 million tax returns in 2023 that reported income of less than $100,000. The dividend income for that group was $22.2 billion, which works out to $176 per return.*

[3] *In addition to the "common" stock most investors own, some corporations issue "preferred" shares. Preferred stock often has fewer ownership rights than common, but the dividend is guaranteed, which causes the market to treat preferred shares more like bonds.*

the spoils.

The initiation of dividend payments is commonly viewed as a sign of corporate maturity. It means profits have become sufficiently predictable that the company can regularly pay out part of them to shareholders. Firms take pride in their history of reliable and often rising dividends: those that have hiked their dividend payments every year for the past 25 have been dubbed "dividend aristocrats". Though boards can also reduce or eliminate dividends as a cost-saving measure in hard times, they usually try to preserve as a last resort what's perceived as a sign of corporate weakness.

DIVIDEND DISTRIBUTION BY INCOME LEVEL



Source: Internal Revenue Service

HOW DIVIDENDS HAVE HISTORICALLY BEEN TAXED

For over 65 years–from 1936 to 2002–dividends were never taxed at a lower rate than ordinary income. In fact, during the 1970s, the top marginal tax rate on dividends (along with other forms of unearned income) was actually higher than the rate on wage income (see p. 16): investment income was taxed at up to 70% vs. 50% for labor income. From 1954 to 1986, taxpayers could exempt a modest amount of dividends from taxation (it varied over the years, but was generally a few hundred dollars), and from 1954 to 1964 they could also take a small share of their dividend income (never more than 4%) as a tax credit. But the dividend exclusion was actually a progressive feature of the tax code, since it completely shielded many small investors with modest dividend income from tax altogether. Meanwhile, the exclusion and credit together never diminished significantly the amount due from major Wall Street players.

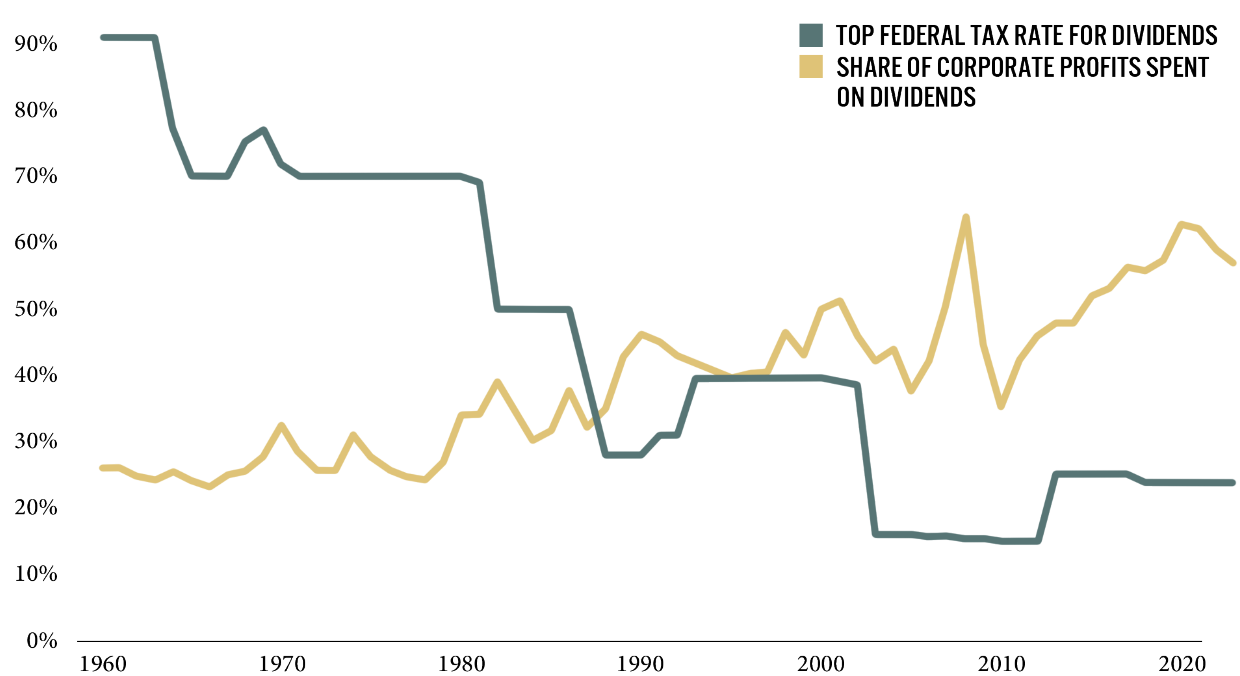
The tax treatment of dividends only changed in 2003 after Republicans took firm control of both chambers of Congress along with the Presidency for the first time in decades. President George W. Bush and the congressional GOP slashed the [top tax rate for dividend income] from 39.6% to just 15%, the same top rate established that year on long-term capital gains.

Republicans justified this huge tax cut for the wealthy by claiming it would, in President Bush's words, "[provide capital to build factories, to buy equipment, [and] hire more people]." In other words, cutting the dividend tax rate would make corporate shares more attractive to investors, meaning it would be easier for companies to raise money in the stock market.

But a thorough analysis of the [tax cut's economic effects] debunks this claim, finding that C-corporations–which pay dividends benefitting from the tax cut–experienced no increase in investment or employee compensation compared to S-corporation, which do not. The study actually discovered that aggregate investment growth immediately after the tax cut was lower than during the 1990's when dividends were treated as ordinary income.

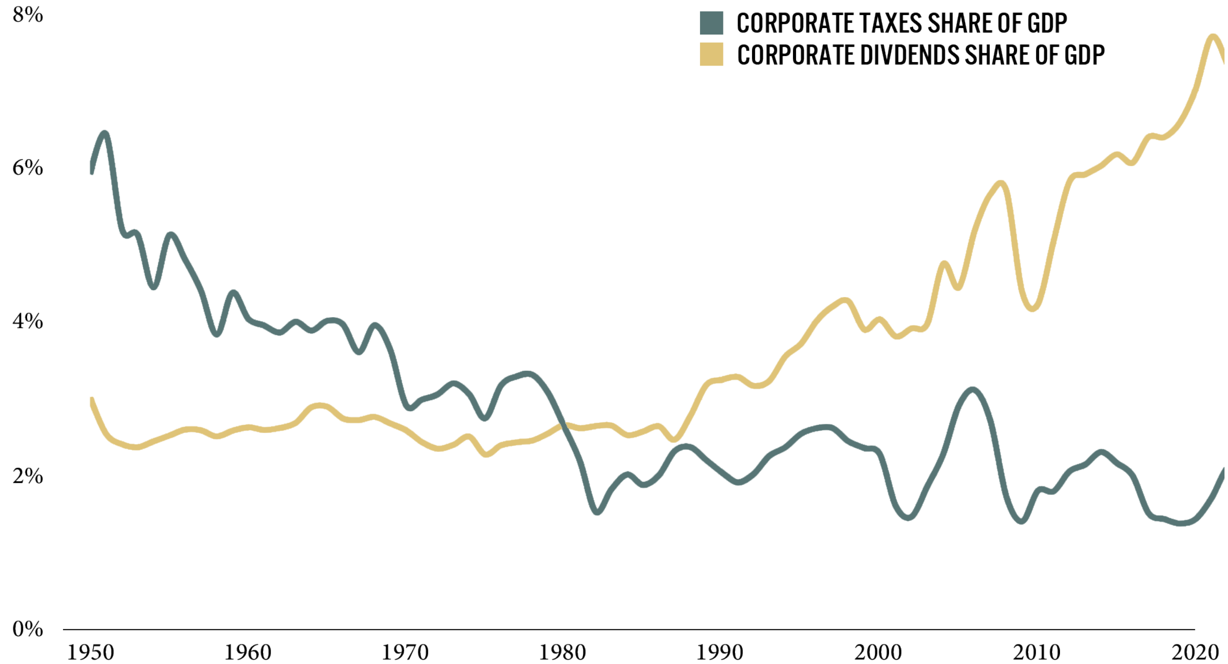
As part of a larger fiscal deal in 2012, Congress was able to partially reverse this unwarranted tax break for dividends, raising the rate to 20%, where it has remained. Additionally, President Obama and congressional Democrats implemented, as part of the Affordable Care Act, a 3.8% investment tax on the dividends of upper-income investors to mirror the payroll tax on wages that funds Medicare.

AS DIVIDEND-TAX RATES HAVE FALLEN, CORPORATIONS HAVE DIVERTED MORE OF THEIR PROFITS TO THIS FORM OF SHAREHOLDER ENRICHMENT



Source: [Americans for Tax Fairness]

CORPORATE DIVIDENDS REPRESENT A GREATER SHARE OF THE ECONOMY, EVEN AS CORPORATE TAXES MAKE UP A SMALLER SHARE



Source: Americans for Tax Fairness

CAPITAL GAINS: WINNING STOCK-MARKET BETS (WITH A TAX-DISCOUNT CHASER)

A capital gain is the increase in the value of investment over its purchase price. If you buy a share of stock for $100 and five years later it's worth $300, you have a $200 capital gain. Stock market investors generally derive more of their investment return from capital gains than from dividends.

Unlike with dividends, stockholders control if and when they pay tax on capital gains. That's because such gains are only taxed when the underlying asset is sold for a profit (the gain is "realized"). While such a rule may seem reasonable–after all, how can anyone pay bills with what's only a paper gain?–it's a great gift for the super-wealthy.

The reason is the ultra-rich don't need to sell their investments to benefit from their increase in value: they can live luxuriously on low-cost loans secured against the rising value of their stock portfolios. The interest they pay is far less than the taxes they would owe if they sold their appreciated shares. And when their children inherit their parents' stock holdings, all the gains disappear for tax purposes through a loophole called "stepped-up basis." Wall Street even has a ghoulish name for this intergenerational tax-avoidance technique: "Buy, Borrow, Die".

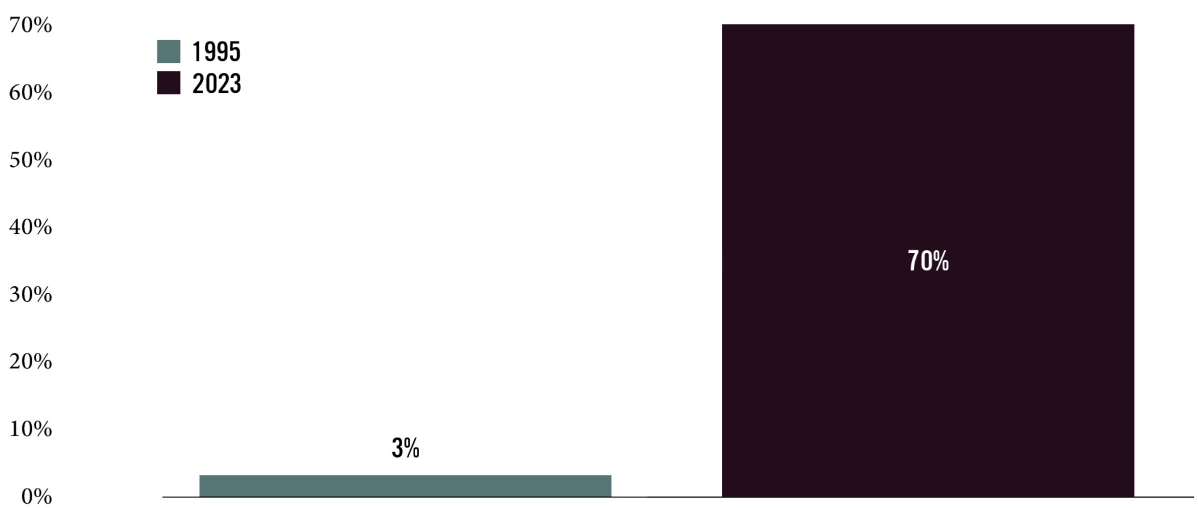
Corporations help create capital gains through stock buybacks. And recently that help has been substantial. Firms purchasing their own shares on the open market were identified by Bloomberg in 2023 as the "biggest buyers of stocks on U.S. exchanges."

The Trump-GOP tax law supercharged share repurchases. Despite all the promises that the savings from the two-fifths corporate-tax-rate cut–it was chopped from 35% to 21%–would trickle down to workers and consumers, the predictable reality is that the bulk went to shareholders in the form of buybacks.

Share buybacks among companies in the S&P 500 stock-market index hit a record of over $800 billion in 2018, the first year the new law was in effect. Once the market got past the pandemic, that initial record was in turn broken in 2021–and then that second record was surpassed the next year, when over $920 billion worth of shares were repurchased. Based on record-breaking buybacks in the first months of 2024, this year looks to see another record, very likely one topping $1 trillion. (Taking into account more companies than those in the S&P 500, buybacks have already breached the trillion-dollar mark in a single year.)

Studies over several recent years by the preeminent scholar on the topic, William Lazonick, have shown that stock buybacks are associated with income inequality, stalled innovation, lower productivity growth, and layoffs. The evidence has grown that they are bad for business, workers and the economy–everything and everyone, that is, except the shareholders who benefit from the juiced stock prices.

THE SHARE OF CORPORATIONS REPURCHASING THEIR OWN SHARES HAS SKYROCKETED OVER THE PAST 30 YEARS

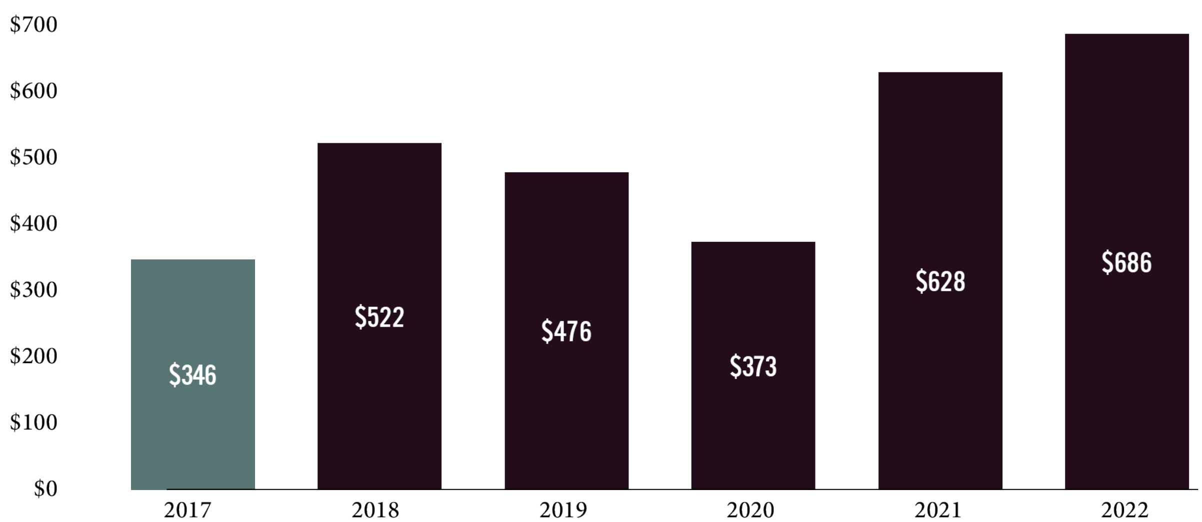


Source: Goldman Sachs

A SHAREHOLDER BONANZA THAT USED TO BE MARKET MANIPULATION

For the first 50 years of federal regulation of securities markets, beginning in the 1930s, corporations purchasing their own shares were generally viewed as impermissibly manipulating the market in their stock. But as part of the general deregulatory movement begun under president Ronald Reagan, and specifically at the impetus of the Securities and Exchange Commission (SEC) headed by a former Wall Street brokerage executive, the rules were changed in 1982 to allow the practice.

STOCK BUYBACKS BY CORPORATIONS IN ATF STUDY EXPLODED AFTER THE TRUMP-GOP TAX LAW CAME INTO EFFECT IN 2018
($ BILLIONS)



Source: Americans for Tax Fairness

HOW CAPITAL GAINS HAVE HISTORICALLY BEEN TAXED

Unlike dividends, capital gains have almost always been taxed at lower rates than ordinary income. Proponents of the tax discount claim that it compensates for taxes being due in one year on a gain that may have occurred over many years; and for the “unreal,” inflationary component of many gains. But their biggest argument is that it promotes investment and economic growth by offering a bigger after-tax reward to investors.

But a recent review of the latest studies on that claim of economic benefit conducted by the Congressional Research Service found little or no connection between lower capital gains taxes, on the one hand, and increased capital investment, “technical advance,” or savings, on the other.

Again, the only sure winners from low capital gains taxes are the wealthy holders of large amounts of assets like stocks that have shot up in value over the years.

HOW CAPITAL GAINS AND DIVIDENDS LARGELY ESCAPE TAXATION

The massive flow of corporate cash towards investors and away from federal income-tax payments would be less damaging to the public interest if the money was later taxed at the shareholder level, albeit at a discounted rate. But most of it never is.

STOCK OWNED BY FOREIGN INVESTORS AND RETIREMENT ACCOUNTS

The first reason is that only about a quarter (28%) of all publicly traded shares are held by American investors in taxable brokerage and mutual fund accounts. The other three-quarters (72%) are in the accounts of foreign investors, retirement plans and other entities not subject to regular taxation by the United States.

In 2022, nearly a third (32%) of publicly-traded American corporate shares were held by foreign investors. Capital gains reaped by foreign investors are entirely exempt from U.S. taxation. Taxes on dividends are often reduced by treaties between the U.S. and the country of the foreign investor.

Another third of all publicly-held stock (34%) is held in a variety of retirement accounts. Dividends and capital gains are both tax-free when received by any of these types of accounts. Eventual distributions to account owners face different levels of taxation–sometimes none–depending on the form of the retirement plan.

Even stock ownership in retirement accounts–the form of shareholding that's most accessible to non-wealthy Americans–is still heavily tilted towards the rich. A recent government study determined that within the one-fifth highest-income households headed by older workers in 2019, 90% had a tax-favored retirement account, while among the lowest-income fifth, it was only 10%.

The average balance in those accounts among the top fifth averaged around $600,000–about eight times more than the middle fifth

> "IN 2022, NEARLY A THIRD OF PUBLICLY-TRADED AMERICAN CORPORATE SHARES WERE HELD BY FOREIGN INVESTORS.

> “ IF AN INVESTOR NEVER REALIZES A GAIN, BUT INSTEAD PASSES IT ALONG TO HIS HEIRS, IT DISAPPEARS FOREVER FOR TAX PURPOSES.

and 12 times more than the lowest-income fifth. While the average balance among the top fifth had nearly doubled since 2007, the average balance for the middle fifth had actually declined. And at every income level, white households were more likely to have a retirement account than members of any other racial or ethnic group.

UNREALIZED CAPITAL GAINS AND THE STEPPED-UP BASIS LOOPHOLE

As noted above, capital gains are only taxed if and when they are “realized” through the sale of the underlying asset. But if the investor never realizes a gain, but instead passes it along to his heirs, it disappears forever for tax purposes thanks to the “stepped-up basis” loophole.

Here’s how the loophole works: say an investor buys 100 shares of a stock for $200 dollars. When he dies 10 years later, those shares are worth $500. If he had sold his shares the day before he died, he would owe tax on his $300 ($500-$200) realized gain. If his heirs instead sell the same shares the day after his death for the same $500, realizing the same $300 gain, they would owe no tax. The reason is that the assigned cost of the stock (the “basis”) had been “stepped up” to its market price on the day the original investor died. So, according to the rules of this big break for investors, stock with a cost of $500 had been sold for $500, there was no gain, and therefore no tax was due.

Because of the stepped-up basis loophole, immense quantities of capital gains are never realized by the original owners, who instead hold on to the gain to pass along to heirs who will avoid tax on it. An ATF study from earlier this year estimated that America’s billionaires and centi-millionaires (those worth at least $100 million) alone held $8.5 trillion worth of unrealized capital gains in 2022. These roughly 64,000 hugely wealthy individuals possessed nearly one-fifth (18%) of the entire nation’s collection of unrealized gains.

WHEN SHAREHOLDER PAYOUTS ARE ACTUALLY TAXED, IT’S AT A DISCOUNT

One of the greatest injustices in our tax code is that it privileges the most prevalent forms of passive income from wealth over the earned income from hard work, by taxing it at a significantly lower top rate. While a busy and successful doctor or engineer could pay around 40% in combined federal income and payroll taxes, millionaires and billionaires who live entirely on stock-based investment income never have to pay more than a 23.8% federal tax rate.

As noted above, this special tax treatment for investment income applies to "long-term capital gains" (profit from selling an asset held over a year) and "qualified dividends" (periodic payments to investors in operating corporations; some payments, as from money market funds, are called "dividends" but are more like interest and are treated as such by the tax code). As explained above, this identical tax treatment of the two forms of income is a relatively new development–and one that's been extremely lucrative for wealthy investors.

This change in the treatment of dividends is a radical shift in how income is taxed—it was one of the biggest statutory tax rate cuts in history and represented the single largest revenue loser in the 2003 Republican tax package, estimated at the time to lose $126 billion in revenue over 10 years.

As noted above, capital gains are only taxed when the underlying asset is sold. This unusual control over when and even if to pay tax makes investors peculiarly sensitive to changes in tax rates. But the same is not true of taxes on dividends: shareholders must pay them for the year the dividend is received, regardless of whether they think the rate is too high. So taxing dividends at the same rate as capital gains is a pure handout to the wealthy.

According to an ATF analysis of Treasury and JCT data, the special tax treatment of dividends has lost the public $300 billion in potential federal revenue over the past decade, and is estimated to lose another $518 billion over the next decade. The top 1% of households have received over 70% of the tax benefit.

> "THE SPECIAL TAX TREATMENT OF DIVIDENDS HAS LOST THE PUBLIC $300 BILLION IN POTENTIAL FEDERAL REVENUE OVER THE PAST DECADE.

THE OTHER SIDE OF THE EQUATION: LOW CORPORATE TAXES

Just as a variety of influences have contributed to the increase in shareholder payouts, so have several factors led to the relative decline in corporate tax payments. As a share of the economy, corporate tax revenue has over the past 40 years declined slightly even as corporate profits have soared (see p. 4). The main reason is that firms have gotten increasingly accomplished at exploiting loopholes and special breaks to avoid paying their fair share. The ability of corporations to shrink their tax bills was also aided most recently by the 2017 Trump-GOP tax law's big cut in the statutory corporate tax rate; and by its change in the U.S. tax treatment of the foreign profits of American companies.

In 2017, President Trump and Congressional Republicans reduced the corporate tax rate by

> “ **100 LARGE CORPORATIONS’ AVERAGE ANNUAL DOMESTIC PROFITS SOARED BY ALMOST TWO-THIRDS UNDER THE TRUMP TAX LAW.**

two-fifths, from 35% to 21%. They handed this huge tax cut to Corporate America even though it was already raking in record profits and few companies were even paying the old rate. A study of hundreds of companies released shortly before the new tax law was enacted found that the average tax rate actually paid then was already essentially only 21%. Dropping the statutory rate to the same level, as the Republican tax law soon after did, would only ensure firms would wind up paying an effective rate that was even lower–which is what in fact happened.

The recent study by the Institute on Taxation and Economic Policy (ITEP) from which this report takes most of its corporate-tax data found that almost 350 big, consistently profitable firms paid over the first five years of the new Republican tax law an average effective tax rate of just 14.1%. That’s less than the almost 15% rate paid by the average American household.

One of the most prevalent and effective methods corporations have to reduce their effective tax rates is to shift profits and ship jobs offshore. Corporations use accounting maneuvers to transfer earnings actually made in the U.S. to low- and no-tax havens overseas. Sometimes they dodge American taxes by moving actual productions and jobs offshore as well.

Though its drafters claimed it would curb corporate offshoring, the 2017 Republican tax law in many ways made it worse. For the first time in American history, the new law made the foreign profits of American corporations exempt from regular U.S. taxation. And amazingly, there are features of the law that encourage the building of business facilities in foreign countries and discourage their establishment here.

A MEASURE OF HOW WELL CORPORATIONS HAVE FARED UNDER THE TRUMP TAX LAW

An analysis of 100 large corporations in our study for which we also have reliable pre-2017 tax-return data reveals what an astronomical windfall the Trump-GOP tax law has been for them. Their average annual domestic profits soared by almost two-thirds (63%) in the first five years under the new law compared to the last four years before it. Meanwhile, their average annual tax rate fell by almost two-fifths, from 23.2% to 14.2%. That big rate cut translates to $343 billion of tax breaks for large corporations. Where did all that money go? Into a bonanza of stock buybacks and dividends, that for some corporations ballooned by as much as 4,000% after the Trump tax cuts came into effect.

WHAT WE COULD HAVE DONE WITH A FAIR SHARE OF THOSE STOCKHOLDER PAYOUTS

Our study shows that corporations spent $4.4 trillion in dividends and stock buybacks over five recent years, money that was not paid as corporate taxes. We can't know what portion of that $4.4 trillion in shareholder payouts was ultimately taxed at the receiving end. But given the high ratio of stock held in accounts not subject to regular U.S. taxation; the nontaxable status of unrealized capital gains–an exemption that often winds up as permanent; and the tax discount enjoyed by both dividends and capital gains when taxes are actually paid, we can be fairly certain that whatever was paid wasn't what most Americans would consider a fair share.

When big corporations and their wealthy owners dodge their fair share of taxes, real people get hurt. Households have a harder time making ends meet; kids go without childcare and preschool; hard-working students can't afford college; families can't find a decent place to live. As an illustration, the table below describes what two relatively small portions of that $4.4 trillion in stockholder payouts–portions that are very likely higher than actually were paid in taxes–could have funded for the American people. (And stockholders would still have wound up trillions of dollars richer.)

If 10% ($440 billion) had been collected in federal income tax instead of spent on shareholders, we could have (for example)…	*If 25% ($1.1 trillion) had been collected in federal income tax instead of spent on shareholders, we could have (for example)…*
• **Lowered Childcare Costs:** Enable states to increase child care options for more than 16 million young children. **(**10-Year Cost**: $400 billion)** *OR* • **Established a national paid family and medical leave program** that provides workers with up to 12 weeks of paid leave. **($325 billion)** *OR* • **Expanded the Child Tax Credit** for 66 million children for a year and made the full amount available to all families regardless of income for a decade. (**$310 billion**) *OR* • **Provided free tuition to community college,** expanded Pell grants to lower the cost of all types of higher-education, and supported HBCUs. (**$255 billion**) *AND* • **Increased affordable housing supply** and expanded access to homeownership and affordable rent. (**$183 billion**)	• **Lowered Childcare Costs:** Enable states to increase child care options for more than 16 million young children. **(**10-Year Cost**: $400 billion)** *AND* • **Established a national paid family and medical leave program** that provides workers with up to 12 weeks of paid leave. **($325 billion)** *AND* • **Lowered the Cost of Higher Education:** Made two-year community college tuition-free, increased Pell Grants' maximum benefit by $500 for almost seven million students, and made investments in HBCUs **($217 billion)** *AND* • **Offered Free Preschool:** Guaranteed high quality preschool education to all four million 4-year-olds, and provided additional funding for States to expand preschool access to 3-year-olds. **($200 billion)**

Sources: (for 10% column) U.S. Office of Management and Budget, U.S. Treasury Dept. "Green Book", White House Fact sheet; (for 25% column) ATF Compilation of Biden & Congressional Budget Proposals

THE AWFUL EIGHT

CORPORATIONS WHO TAKE A LOT FROM US, GIVE A LOT TO THEIR SHAREHOLDERS, AND PAY LITTLE IN TAXES

Alphabet Apple AT&T Bank of America
Citigroup ExxonMobil JPMorgan Chase Walmart

The process of corporations enriching their owners of course begins with the firms extracting money from the consuming public. Especially recently, high prices paid by the American people have been heavily influenced by the corporate drive to generate higher and higher profits ("greedflation"), the great bulk of which gets handed over to shareholders with relatively little returned to the people in taxes. Corporations can also exhibit other forms of bad behavior that hurts workers, consumers and communities. Following (in alphabetical order) are some of the worst offenders. These eight mega-corporations alone represent over 25% of all stock buybacks and dividend payouts of the 280 corporations examined in this study.

THE AWFUL EIGHT CORPORATIONS	Domestic Pre-Tax Profits	Federal Income Taxes	Effective Tax Rate	Total Buybacks + Dividends	Ratio: Shareholder Payouts-Taxes
	Five-Year Total, 2018 to 2022 (millions of dollars)				
Alphabet	$205,189	$33,970	16.6%	**$168,190**	**5-1**
Apple	$159,021	$24,136	15.2%	**$458,586**	**19-1**
AT&T	$96,280	$2,536	2.6%	**$77,797**	**31-1**
Bank of America	$138,911	$5,277	3.8%	**$122,649**	**23-1**
Citigroup	$35,305	$1,533	4.3%	**$71,800**	**47-1**
Exxon Mobil	$14,790	$1,532	10.4%	**$91,227**	**60-1**
JPMorgan Chase	$176,465	$20,368	11.5%	**$133,633**	**7-1**
Walmart	$83,420	$13,478	16.2%	**$65,991**	**5-1**
EIGHT TOTAL	**$909,380**	**$102,830**	**11.3%**	**$1,189,873**	**12-1**

Source: Americans for Tax Fairness

FORTUNE RANK #8

ALPHABET

5-YEAR U.S. PROFIT: $205.2 billion

5-YEAR FEDERAL INCOME TAX: $34 billion (16.6%)

5-YEAR TOTAL STOCK BUYBACKS & DIVIDENDS: $168.2 billion (5x more than paid in taxes)

- **BUYBACKS:** $168.2 billion (5x more)
- **DIVIDENDS:** $0

Tech titan Alphabet (Google) saw its effective average annual tax rate plunge from 28.2% during the last four years prior to enactment of the Trump-GOP tax law in 2018 to just 16.6% in the first five years under the new law. That's an estimated tax cut of $23.9 billion.

All those tax savings and more have been poured into an explosion of share repurchases. In the five years prior to the Trump tax law, Google already spent a hefty $10.3 billion on stock buybacks, but that pales in comparison to the $168.2 billion they spent on stock buybacks in the five years after the law was signed, an increase of 1,530%.

To offer a sense of scale, had Google invested this money in its employees, it could have expanded the firm's workforce by 120,200 employees—or 63%—over the past five years at the current median wage. Alternatively, it could have given each existing employee an annual pay increase of $176,800 in each of the five years of the study.

FORTUNE RANK #4

APPLE

5-YEAR U.S. PROFIT: $159 billion

5-YEAR FEDERAL INCOME TAX: $24.1 billion (15.2%)

5-YEAR TOTAL STOCK BUYBACKS & DIVIDENDS: $458.5 billion (19x more than paid in taxes)

- **BUYBACKS:** $387.3 billion (16x more)
- **DIVIDENDS:** $71.2 billion (3x more)

Consumer electronics giant Apple was recently sued by the federal government and 16 states for violating antitrust laws, using its monopoly power to raise costs on consumers. The U.S. Justice Department issued a statement that claimed in part: "Apple exercises its monopoly power to extract more money from consumers, developers, content creators, artists, publishers, small businesses, and merchants, among others."

Apple saw its effective average annual tax rate plunge from 43.5% during the last four years prior to enactment of the Trump-GOP tax law in 2018 to just 15.2% in the first five years under the new law. That's an estimated tax cut of $45 billion. This was accompanied by a 134% increase in Apple's stock buybacks, a jump of more than $220 billion in the five years following the Trump tax law compared to their prior five-year total.

Two of the biggest beneficiaries of Apple's dividend payments are billionaires Arthur Levinson and Tim Cook who own 4.53 million shares and 3.53 million shares of Apple respectively, accounting for a combined $37 million of dividend payments over five years.

FORTUNE RANK #30

AT&T

5-YEAR U.S. PROFIT: $96.3 billion

5-YEAR FEDERAL INCOME TAX: $2.5 billion (2.6%)

5-YEAR TOTAL STOCK BUYBACKS & DIVIDENDS: $77.8 billion (31x more than paid in taxes)

BUYBACKS: $9.6 billion (4x more)

DIVIDENDS: $68.2 billion (27x more)

Part of the triopoly of wireless providers and with almost $100 billion in profits over five years, AT&T still nickels and dimes its customers, according to a consumer lawsuit it settled in 2022. The suit alleged the phone company buried a mysterious $2 "administrative fee" in its billing statements, a fee it didn't announce or include in its advertised prices.

The company's effective average annual tax rate fell from 13.1% during the last four years prior to enactment of the Trump-GOP tax law in 2018 to just 2.6% in the first five years under the new law. That's an estimated tax cut of $10 billion. That tax windfall is nearly the same amount that AT&T spent on stock buybacks ($9.6 billion) during the same time period.

FORTUNE RANK #32

BANK OF AMERICA

5-YEAR U.S. PROFIT: $138.9 billion

5-YEAR FEDERAL INCOME TAX: $5.3 billion (3.8%)

5-YEAR TOTAL STOCK BUYBACKS & DIVIDENDS: $122.7 billion (23x more than paid in taxes)

BUYBACKS: $85.5 billion (16x more)

DIVIDENDS: $37.2 billion (7x more)

The nation's second largest financial institution and with close to $150 billion in profits over five years, Bank of America still has a record of chiseling its customers out of their hard-earned money.

In 2023, the bank company paid $250 million to settle a claim from financial regulators over multiple customer abuses. They included repeatedly charging a $35 "insufficient funds" fee for the same transaction; failing to pay promised cash and points to new credit-card customers; and fraudulently opening credit-card accounts without the knowledge or permission of the named account holder, which led to unwarranted charges and damage to credit scores.

While Bank of America was already paying only a modest 6.8% tax rate during the last four years prior to enactment of the Trump-GOP tax law in 2018, it dropped to a minuscule 3.8% in the first five years under the new law. That works out to an estimated tax cut of $4 billion. Over those same five years, Apple boosted its stock buybacks by $60 billion, a 239% increase.

FORTUNE RANK #36

CITIGROUP

5-YEAR U.S. PROFIT: $35.3 billion

5-YEAR FEDERAL INCOME TAX: $1.5 billion (4.3%)

5-YEAR TOTAL STOCK BUYBACKS & DIVIDENDS: $71.8 billion (48x more than paid in taxes)

BUYBACKS: $45.8 billion (31x more)

DIVIDENDS: $26 billion (17x more)

Citigroup is the nation's fourth largest bank by assets but the biggest by number of accounts, some 200 million worldwide. Earlier this decade, it paid a $400 million fine assessed by federal bank regulators for the firm's "unsafe and unsound banking practices," which included failure to interdict money laundering.

FORTUNE RANK #3

EXXON MOBIL

5-YEAR U.S. PROFIT: $14.8 billion

5-YEAR FEDERAL INCOME TAX: $1.5 billion (10.4%)

5-YEAR TOTAL STOCK BUYBACKS & DIVIDENDS: $91.2 billion (61x more than paid in taxes)

BUYBACKS: $16.9 billion (11x more)

DIVIDENDS: $74.3 billion (48x more)

In the five year period examined, Exxon Mobil produced roughly 178.5 billion gallons of oil and gas.[4] If the company had foregone all its dividend payments and stock buybacks, it could have used that money to cover the cost of lowering drivers' gas prices by 51 cents per gallon for every day of those five years. If Americans used 489 gallons of gasoline per-year filling up their cars during that period (as they did in 2021), a 51 cent reduction in the price of gas would have saved them $1,247 over the past five years.

JPMORGAN CHASE & CO.

FORTUNE RANK #23

JPMORGAN CHASE

5-YEAR U.S. PROFIT: $176.5 billion

5-YEAR FEDERAL INCOME TAX: $20.4 billion (11.5%)

5-YEAR TOTAL STOCK BUYBACKS & DIVIDENDS: $133.6 billion (7x more than paid in taxes)

BUYBACKS: $72.1 billion (4x more)

DIVIDENDS: $61.6 billion (3x more)

A group of depositors recently sued the nation's largest bank for charging a $12 fee for every bounced check. As the Consumer Financial Protection Bureau pointed out in 2022 guidance to banks on junk fees, a bank customer has no way of knowing whether a check is good before depositing it–charging the depositor a fee punishes the innocent victim of someone else's crime (or at least error).

Walmart

FORTUNE RANK #1

WALMART

5-YEAR U.S. PROFIT: $83.4 billion

5-YEAR FEDERAL INCOME TAX: $13.5 billion (16.2%)

5-YEAR TOTAL STOCK BUYBACKS & DIVIDENDS: $66 billion (5x more than paid in taxes)

BUYBACKS: $35.5 billion (3x more)

DIVIDENDS: $30.5 billion (2x more)

Walmart, the world's largest retailer with over $600 billion in annual sales, has recently been accused of price gouging by both former Labor Secretary Robert Reich and the current chairman

[4] *The sum of the daily figures shown in the source for 2018-22, multiplied first by the 42 gallons in a barrel, and then by the 365 days in a year.*

of the Senate Banking Committee, Sherrod Brown (D-OH). Brown has expressed concern that Walmart is using AI and other technology to charge consumers more based on their previous shopping habits and other personal information collected online.

The average effective annual tax rate of 16.2% tax rate Walmart paid over the first five years of the Trump tax law was little more than half the average rate it paid (30.9%) in the four years before the law. It used part of what works out to an estimated tax savings of $12.3 billion to boost its buybacks by $8 billion.

CONCLUSIONS & SOLUTIONS

The responsibility of big public corporations extends beyond the further enrichment of their already wealthy shareholders. Such companies owe their success in large part to public investments everyone pays for: roads and ports to move their goods; regulated markets and a secure financial system that allows them to safely raise and invest money; public schools that educate their workforce; a legal system that allows them to pursue and defend their commercial rights; a diplomatic corps and national military to protect their overseas assets and personnel.

Because these big firms draw so much on public resources, it's reasonable to expect them to contribute commensurately through their tax payments. Most Americans would probably expect huge corporations to send very roughly the same amount to the U.S. treasury as they spend on shareowners –and certainly not to expend seven times more on stockholders than on taxes.

The nearly seamless transformation of corporate profits into bigger fortunes for the wealthy–at the expense of public goods and services–is accelerated by the special tax treatment enjoyed by shareholders. The discounted tax rate on dividends and the capital gains, the tax-free status of unrealized capital gains, the stepped-up basis loophole, and the enfeebled estate tax all ensure that little of the corporate profits wealthy investors enjoy are shared with the larger public.

The answer to too much corporate cash propping up the luxurious lives of the wealthy while too little is used to relieve the hardships of working families is not complicated. We need to raise taxes on firms and on their owners so that a fairer share of revenue is raised at both ends of the corporation-stockholder conduit. The following reforms would move us closer to that ideal.

> “ WE NEED TO RAISE TAXES ON FIRMS AND ON THEIR OWNERS SO THAT A FAIRER SHARE OF REVENUE IS RAISED.

- Raising the corporate tax rate just half way back to where it was before the Trump-GOP tax law–to 28%--would raise $1.3 trillion in revenue over 10 years.

- The Inflation Reduction Act instituted a 1% excise tax on stock repurchases. The goal was both to raise tax revenue from big corporations and wealthy investors and to curb the harmful practice of buybacks. But corporations have largely shrugged off the tax as too small to impact their decisions to buy back stock. President Biden has proposed quadrupling the stock buyback tax, from 1% to 4%. The President's proposal has been introduced in the Senate by Senate Finance Committee chairman Ron Wyden (D-OR) and Sen. Sherrod Brown (D-OH). This boost in the buyback tax would generate $166 billion in new revenue (see p. 239) over the next decade.

- We should also raise the tax rates paid by shareholders, thereby ending the scandal of passive investors paying a tax rate that's little more than half that paid by hard-working professionals. President Biden has proposed equalizing the tax rates paid on capital gains and dividends over $1 million with the rates paid on the same amount of work income. He also would close the "stepped-up basis" loophole for inherited gains over $10 million.

- Both President Biden and Senator Wyden want to annually tax the unrealized gains of a handful of the nation's wealthiest households. Sen. Bernie Sanders (I-VT) has a plan to reduce the amount of family fortune exempt from the estate tax, raise the rates on the biggest estates, and shut down abusive trusts and other accounting maneuvers that shield economic dynasties from the taxation of intergenerational wealth transfers. Sen. Elizabeth Warren (D-MA) would annually tax household wealth over $50 million.

These reforms and others would slow the ascension of the plutocratic class out of the realm of everyday American life and into a cloud of gated privilege, as well as bring in the revenue we need to fund public services—like more affordable healthcare, childcare, housing, education and more for working families—and to lower public debt. To build an economy that works for everyone and not just the fortunate few, we need to slow down the "engine of inequality" through fairer taxes on corporations and the rich people who own them.

METHODOLOGY

This study includes 280 of the Fortune 500 firms. Among the reasons a member of the Fortune 500 might be excluded from this report: it was not cumulatively profitable between 2018-22; it underwent a change in corporate structure; it reported a big shift in the source of profits from domestic to foreign, or vice versa; its financial reports offer insufficient information to determine the taxes they pay, or give an implausible picture of tax payments.