# CONGRESS SHOULD RAISE, NOT CUT, CORPORATE TAXES DURING THE LAME-DUCK SESSION

*Big Firms Rich from Price Gouging and Tax Breaks Don't Need More Handouts*

Already enjoying record profits from inflated prices and huge tax breaks, big corporations don't need the up to $600 billion in new tax cuts that they are demanding Congress give them during the post-election lame-duck session. Congress should not be reversing corporate tax increases that were included in the 2017 Trump-GOP tax law specifically to help pay for a small portion of the massive corporate tax rate cut while keeping that rate cut in place. Instead, Congress should use December to build on the reforms in the Democrats' Inflation Reduction Act enacted this year so that the biggest firms pay closer to their fair share of taxes.

Republicans and their corporate backers want to resurrect two special tax breaks that have already expired this year and stop a third from expiring next year by:

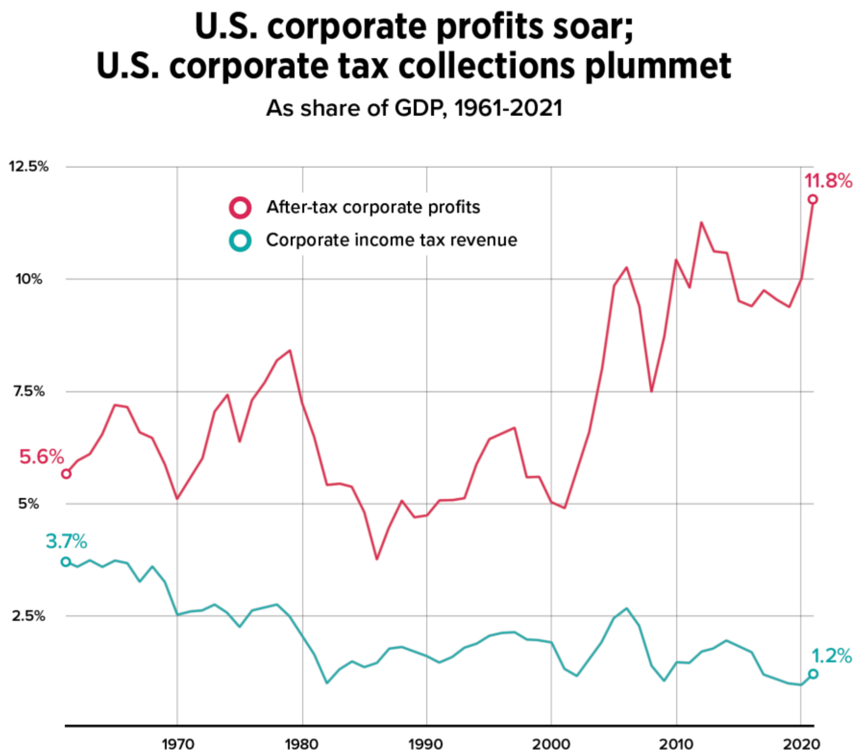
- **Changing the Research & Experimentation tax deduction** to allow corporations to write off research expenses all at once instead of more realistically over time. Cost = $155 billion over 10 years
- **Expanding the Net Interest Deduction tax break** to allow corporations to deduct a bigger share of their interest costs from borrowing money by changing how the deduction is calculated. Cost = $200 billion over 10 years
- **Extending 100% Bonus Depreciation**, which would allow corporations to write off immediately the full cost of assets that hold their value a long time. Cost = $250 billion over 10 years

The GOP may try to hide the true cost of their corporate tax giveaways by renewing them for only one or two years—which would still come at a price of almost $100 billion. Temporary extensions and timing gimmicks can make it look like these tax breaks cost far less than they do because corporate tax collections for later years artificially appear to be higher. If R&E and bonus depreciation deductions are taken immediately, for example, they aren't available to be taken the next year, making it score as though there's little change in any given company's tax liability over the full ten-year window. But if history is any guide, Republicans will continue to push these short extensions indefinitely, patiently awaiting an opportunity to make the breaks permanent, at a cost of $600 billion over 10 years in today's dollars.

## Corporations Are Posting Record Profits and Don't Need More Tax Cuts

In 2018, U.S. corporations got a 40% federal income tax cut as the corporate tax rate was slashed from 35% to 21% under the Trump-GOP tax law. That has contributed to corporations racking up record profits over the last two decades even as working families struggle to pay household bills.

Corporate profits as a share of the economy have never been higher—11.8% of GDP in 2021—even as corporate tax payments have rarely been lower—just 1.2% of GDP the same year. [Figure 1]

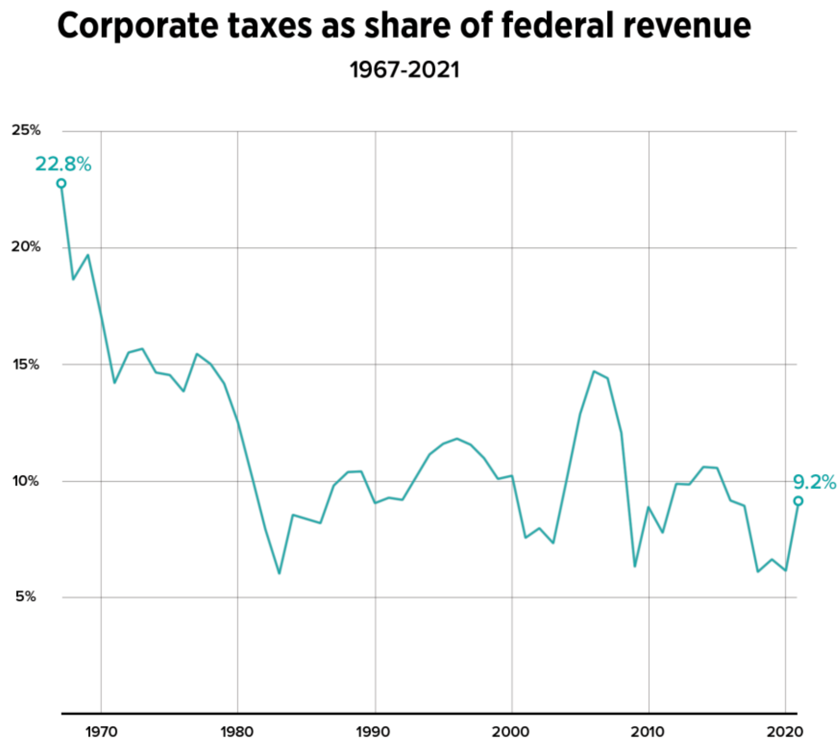



Sources: Federal Reserve [Corporate Income Tax Revenue]
Federal Reserve: [After-Tax Corporate Profits]

Corporations pay far less than they did in the middle of the 20th century, when corporate taxes generally provided one-quarter to one-third of all federal revenue. Today they provide just 9%. [Figure 2]

The American people need the revenue that higher corporate taxes would generate: for public investments that would lower the cost to families of healthcare, education, housing and other vital services; to strengthen Social Security and Medicare, now threatened with cuts by Republicans; and for other important purposes.

For instance, the full $600 billion in corporate tax breaks that Republicans would like to enact could fund a four-year renewal of the expanded Child Tax Credit which, in its brief existence last year, lifted nearly three million kids out of poverty.




Sources: JCT, Overview of the Federal Tax System 2022 (p. 29)
JCT, Overview of the Federal Tax System 2017 (p. 24)

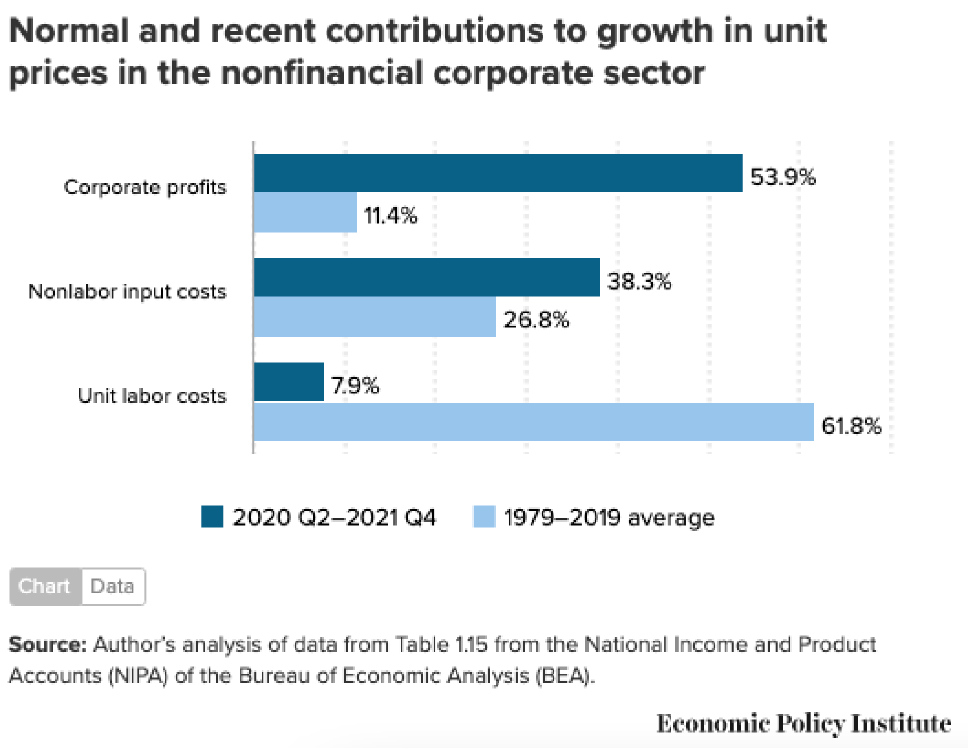
## Corporations Are Charging Consumers Higher Prices—They Should Pay Higher Taxes

The pandemic helped spark inflation worldwide, but big corporations have exploited the crisis to jack up their prices and their profits. According to an Economic Policy Institute analysis, swollen corporate profits are responsible for over half (54%) of the nation's inflation misery since 2020, which is not normal. Between 1979 and 2019 it was higher labor costs that mostly caused higher prices, but that has not been the case during the pandemic and more recently. [Figure 3]

Rising wages aren't even keeping pace with skyrocketing prices. Big firms can get away with charging so much because they have few competitors left after decades of business consolidation.

As a result, in early 2022, U.S. corporations enjoyed the highest profits margin in more than 70 years, fueled by price gouging that far outpaces the firms' own rising costs. That followed record annual profits in 2021 of $2.8 trillion, up 25% from a year earlier.

Higher taxes on corporations would recover some of the money that consumers have been forking over in inflated prices. That increased tax revenue could then be used to lower the cost and improve the quality of public services.




## Corporations Don't Pay Enough in Taxes Now

Huge, profitable corporations often pay lower tax rates than teachers, truck drivers and nurses. The average American pays about a 13% federal income-tax rate. By comparison:

- In 2018, the year after passage of the Trump-GOP tax law, over 1,500 U.S.-based multinational corporations paid an average U.S. tax rate of just 7.8%.

- Some billion-dollar corporations pay nothing at all. For 2020, 55 big firms—including FedEx, Nike and Salesforce—paid zero federal income tax, despite over $40 billion in combined profits. For the three years 2018-20, 39 corporations—including FedEx again, plus other well-known names like Salesforce and T-Mobile—paid nothing in federal income taxes, despite over $120 billion in combined profits.

- In 2021, Amazon, Exxon Mobil, Microsoft, Verizon and more than a dozen other corporate giants each paid a federal income-tax rate of less than 10%.

To remedy this injustice, the Inflation Reduction Act included a 15% minimum tax on corporations with at least $1 billion in annual profits over the previous three years. The minimum tax would be based on the profits firms boast to Wall Street rather than the lower numbers they generally report to the IRS, which can result in no taxes owed despite being profitable.

A major reason corporations pay so little in tax now is the 40% income-tax cut in the 2017 Trump-GOP tax law. In an effort to hide the true costs of those corporate giveaways, the GOP trimmed some previously existing corporate tax breaks. But the law delayed the implementation of those revenue-raising changes for several years so that Republicans would have a chance to later cancel them—precisely what they're proposing to do in the upcoming year-end session of Congress. (Despite these budgeting gimmicks, the 2017 Trump-GOP tax law will still wind up adding almost $2 trillion to the federal deficit over 10 years.)

## EXPLANATION OF THE POSSIBLE CORPORATE TAX CUTS

### Research & Experimentation Tax Deduction: Writing Off Research Expenses All at Once Instead of More Realistically Over Time

Businesses subtract costs from revenue to determine their taxable income. Some expenses are for items—like wages, electricity, and office supplies—that get used up immediately or nearly so, so it makes sense to deduct their full cost in the year paid. But other items—like buildings and vehicles—last a long time, so it's more accurate to write off only a portion of the expense each year.

Corporations have two ways of reducing their tax bills for research and development (R&D) expenses: the R&D tax credit and the Research & Experimentation (R&E) tax deduction. Many business improvements last decades, so there's a strong case for deducting research expenses slowly instead of all at once. Nevertheless, the cost of R&E has traditionally been deducted in the year expended. But to partially pay for their 40% corporate tax-rate cut, Republicans in 2017 changed the law so that starting this year, corporations have to start writing off R&E costs over five years instead of just one (foreign research expenses have to be written off over 15 years.)

Having made this tradeoff five years ago, the GOP now wants to go back on the deal by keeping the big tax-rate cut in place while also allowing businesses to once again immediately write off R&E costs. They even want to change the law *retroactively*, so that businesses that had already begun the process this year of deducting R&E over time would be allowed to instead take the full deduction in 2022, cutting their tax bill.

A reversal of R&E expensing rules retroactive to the start of 2022 and continuing through 2023 would cost $60 billion in lost tax revenue. If this tax break were made permanent, it would cost $155 billion over 10 years.

Many of the firms at the forefront of the effort to restore this tax break are among the nation's biggest corporate tax dodgers. Five members of the leadership committee of the R&D Coalition, which is leading the charge for this tax break—Amazon, Ford, Intel, Microsoft, and Northrop Grumman—have in recent years paid tax rates below the average 13% rate paid by families. [See Table]

The R&E deduction was one of the tax breaks that helped them avoid paying their fair share. With the extremely low 21% corporate tax rate reinstating this corporate tax break is equivalent to having their cake and eating it too.

## Major Corporations Benefiting from R&E Tax Break and Their Low Tax Rates

| R&D Coalition Members (LC = Leadership Committee) | 2018 to 2020 (combined) | | 2021 | |
|---|---|---|---|---|
| | Pre-Tax Income ($m) | Average Effective Tax Rate | Pre-Tax Income ($m) | Effective Tax Rate |
| **Advanced Micro Devices** | $1,655 | -0.1% | NA | NA |
| **Agilent Technologies** | 402 | -41.0% | NA | NA |
| **Amazon (LC)** | $43,437 | 4.3% | $35,100 | 6.1% |
| **AT&T** | NA | NA | $29,600 | -4.1% |
| **Ball** | $598 | -1.8% | NA | NA |
| **BorgWarner** | $956 | 6.3% | NA | NA |
| **Celanese Corp.** | 2,262 | -6.0% | NA | NA |
| **Deere** | 6,275 | 6.2% | NA | NA |
| **Ford (LC)** | NA | NA | $10,000 | 1.0% |
| **Honeywell** | $10,200 | 4.0% | NA | NA |
| **Intel (LC)** | $43,860 | 12.5% | 9,285 | 14.0% |
| **Microsoft (LC)** | NA | NA | $33,700 | 9.7% |
| **Motorola** | $2,700 | 8.3% | NA | NA |
| **Netflix** | 5,300 | 0.4% | NA | NA |
| **Northrop Grumman (LC)** | $12,400 | 10.5% | NA | NA |
| **Salesforce** | 4,085 | -0.1% | NA | NA |
| **Verizon** | $60,995 | 9.1% | $27,200 | 6.9% |

Sources: R&D Coalition letter to Congress, Nov. 4, 2022
ITEP Corporate Tax Avoidance 2018-2020, Jul. 20, 2021
ITEP: Twenty-Three Corporations Saved $50 Billion So Far Under Trump Tax Law's "Bonus Depreciation" that Many Lawmakers Want to Extend, Nov. 2022
CAP: These 19 Fortune 100 Companies Paid Next to Nothing in Taxes, Apr. 26, 2022

## Net Interest Deduction Tax Break: Deducting a Bigger Share of Interest Costs by Raising a Limit on How It's Calculated

The interest that businesses pay on loans is an expense they can deduct from their earnings before calculating income taxes. The Trump-GOP tax law limited the amount businesses can deduct to 30% of a certain measure of their income as a way to make their corporate tax giveaways less costly. (The deduction for business interest expense was limited to 30% of a corporation's **earnings before interest, tax, depreciation and amortization (EBITDA)** through the end of 2021.)

Starting this year, the Trump-GOP tax law further reduced the value of this deduction by changing the method for determining this measure of income so that it winds up smaller. (The deduction was limited to 30% of **earnings before interest and tax (EBIT)**). Having to subtract depreciation and amortization costs before determining the limit leads to a smaller earnings figure and therefore a smaller amount of deductible interest.

Republicans want to go back on this deal, too, by allowing businesses to calculate income in the original way, making their interest deductions larger and their tax bills smaller. Once again, they want to make the change *retroactive*, so that companies already prepared to figure their interest deduction the new way in 2022 would be allowed to return to the old way.

The cost is $20 billion for a one-year, retroactive resurrection of this corporate-tax giveaway. But Republicans really want a permanent restoration of this special break, which would cost $200 billion over ten years.

Private equity is focused on preserving the Net Interest Deduction tax break through its trade association, American Investment Council. Their lobbying focus has been passage of the Permanently Preserving America's Investment in Manufacturing Act (S.1077/H.R.5371). It would make the Trump-era EBITDA retroactively permanent. AT&T is also a major promoter of this tax break.

Private equity billionaires are some of the richest people in America. They already benefit handsomely from doing business in America, and our tax system's especially low 20% tax rates on capital gains and carried interest. They are not in need of additional public subsidies, as this net interest deduction tax break would provide.

### 100% Bonus Depreciation Tax Break: Writing Off Immediately the Full Cost of Assets that Hold Their Value a Long Time

Among the corporate handouts in the 2017 Trump-GOP tax law was the ability to write off 100% of the cost of assets lasting up to 20 years in the year of purchase—what's called "bonus depreciation." This gratuitous gift to corporate America is scheduled to start shrinking in 2023, when only 80% of the cost of such purchases will be immediately deductible. The share is scheduled to decline by 20 percentage points a year until bonus depreciation disappears in 2027.

Some of the biggest and most profitable corporations in America are pushing to make the 100% bonus depreciation tax break permanent. Delaying the beginning of the shrinking of this tax break till 2024 would cost $15 billion, but making it permanent would cost $250 billion.

Prior to the Trump-GOP tax law corporations already benefited from accelerated depreciation, which allows the cost of business assets such as property, rental units, machinery, cars and trucks, to be depreciated over time based on a schedule of how quickly they are used.

But the 100% bonus depreciation tax break supercharged those tax breaks. It's no surprise corporate lobbyists are pushing so hard to salvage it: accelerated depreciation is often the largest component of their clients' tax avoidance strategy and writing off an asset's full cost the year it is bought is the fastest acceleration you can get.

According to a recent report by the Institute on Taxation and Economic Policy, some 23 of the biggest corporations avoided a combined $50 billion in taxes because of accelerated depreciation over the first four years (2018-21) of the Trump-GOP tax cuts when 100% bonus depreciation was in effect. Among them:

- Amazon: $78 billion in profits; 5.1% effective federal income tax rate
- Bank of America: $108 billion in profits; 3.8% tax rate
- FedEx: $11.6 billion in profits; 1.5% tax rate
- General Motors: $24 billion in profits; 0.2% tax rate
- Google: $145 billion in profits; 11.8% tax rate
- Intel: $53 billion in profits; 12.8% tax rate
- J.P. Morgan Chase: $140 billion in profits; 10.5% tax rate
- United Parcel Service: $23.3 billion in profits; 12.4% tax rate
- Verizon: $88 billion in profits; 8.4% tax rate
- Walt Disney: $33 billion in profits; 7.7% tax rate

For many firms—including famous names like Amazon, FedEx, and UPS—accelerated depreciation was solely responsible for their tax savings in those four years.

More than 121 House Republicans and 17 Senate Republicans are sponsoring the ALIGN Act (S.1166/H.R.2558) to make the Trump-era bonus depreciation rules permanent. This bill is heavily backed by Verizon and AT&T, which have lobbied heavily for the bill over the past two years—more so than any other corporations. As noted above, Verizon has paid just an 8.4% federal income tax rate over the last four years; in 2021, AT&T reported $29.6 billion in profits with an effective tax rate of *negative* 4.1%.

Corporations and their allies in Congress promote tax breaks such as accelerated and bonus depreciation as being essential to get firms to invest, but tax analysts make the case that corporations would make these investments anyway to ensure they are more competitive and thus more profitable. Research has shown that corporate executives seem to not focus on accelerated depreciation when they are deciding whether to make new investments; that is more the interest of corporate tax departments who are focused on maximizing profits by exploiting tax loopholes.

## Congress Should Raise Corporate Taxes Instead of Cutting Them

Below are a few potential elements of a corporate-tax-reform agenda Congress should be pursuing in their year-end session rather than considering corporate tax cuts. (These are all based on proposals made the past two years by President Biden, the House Ways and Means Committee or included in the House-passed Build Back Better Act.)

### Raise the Corporate Income Tax Rate

President Biden proposed raising the corporate income-tax rate to 28%—half way back to the 35% rate in effect five years ago, before Republicans slashed it to 21%. This partial restoration of the corporate tax rate would not have put U.S. firms at a disadvantage because the rates of our international economic rivals are very similar. The corporate income tax is one of the fairest ways of raising revenue because it overwhelmingly comes out of the pockets of shareholders and they are overwhelmingly rich.

During the crafting of President Biden's Build Back Better plan in the House last year, the Ways and Means Committee voted to increase the rate to 26.5%. The full House would have voted on and likely approved that rate as part of the Build Back Better Act they sent onto the Senate, but it was taken out of the bill before it reached the floor because of Sen. Sinema's (D-AZ) opposition.

The Biden rate hike to 28% would raise $858 billion (p. 104) over 10 years. The 26.5% rate would raise $540 billion.

### Close Offshore Corporate Tax Loopholes

One of the most successful ways that the biggest corporations dodge taxes is by shifting profits and operations offshore. The tax code actually encourages this practice because, under current U.S. law, foreign profits of American firms are taxed less than are domestic profits: the domestic corporate tax rate is 21%, while the effective tax rate on foreign profits is 10.5% (scheduled to increase to 13.125% in 2026). This corporate profit shifting costs the federal government an estimated $60 billion in lost tax revenue (p. 11) every year.

President Biden, leading Senate Democrats and others have all proposed reforms that would keep U.S. profits and jobs here in America and raise as much as $1 trillion in corporate tax revenue over 10 years. The House passed more modest reforms in 2021 as part of the Build Back Better Act, which would have raised $300 billion. Separately, the Biden Administration led a successful effort to negotiate with 130 other nations a global minimum corporate tax rate of 15%, but it has been stymied by Hungary, which has the support of congressional Republicans.

### Strengthen the Corporate Minimum Tax

The main reason profitable public corporations can pay such low tax rates is that they can essentially calculate their profits  two ways. One version ("book earnings") produces high profits the firms can flaunt on Wall Street to attract investors; the other ("taxable earnings") allows them to minimize their profits to the IRS to avoid taxes.

The Inflation Reduction Act began to narrow this loophole by forcing the nation's most profitable corporations—those making over $1 billion a year in earnings for three years—to pay at least 15% of their book earnings in taxes. But it's estimated that fewer than 100 corporations will be covered by this new minimum tax, leaving thousands of profitable public firms free to go on escaping taxes through this accounting loophole.

Closing loopholes in the law would make it applicable to many more corporations and raise an extra $90 billion over 10 years. Among those loopholes are the continued ability to write off excessive amounts of depreciation and research expenses when figuring the minimum tax ($55 billion); and an exemption from the tax for private equity firms if none of the companies they own individually earn over $1 billion, even if the combined profits of all the firm's companies exceed that threshold ($35 billion).

## Additional Resources

Americans for Tax Fairness: Backgrounder on Push for End-of-Year Corporate Tax Breaks & Retirement Plan Tax Breaks Benefiting the Wealthy

Center for American Progress: Congress should prioritize families over corporate tax breaks

Institute on Taxation and Economic Policy: Congress Should Not Leave Children Out of Possible Year-End Tax Deal

Institute on Taxation and Economic Policy: Twenty-Three Corporations Saved $50 Billion So Far Under Trump Tax Law's "Bonus Depreciation" that Many Lawmakers Want to Extend