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U.S. Corporations Should Pay More, Not Less, in Taxes

Corporate lobbyists claim that the U.S. has a relatively burdensome corporate income tax and that this makes our country uncompetitive. The opposite is true. Our corporate income tax should be reformed so that it collects more revenue to invest in the society that makes corporations' profits possible. The Obama Administration's call for a "revenue-neutral" corporate tax reform is misguided given the need for revenue to prevent cuts in key public services and public investments.

■ **The *effective* corporate tax rate (what corporations actually pay as a percentage of their profits) is far lower than the *statutory* corporate tax rate of 35 percent** because of the loopholes that allow corporations to avoid taxes. A 2011 study by CTJ examined most of the Fortune 500 corporations that were profitable for three years straight and found that collectively they paid just 18.5 percent of their profits in federal corporate income taxes over those years.[1]

■ **Some profitable corporations are not taxed at all** because they enjoy so many loopholes. In CTJ's 2011 study, 30 of the 280 companies examined paid less than zero percent of their profits in federal corporate income taxes over the three-year period. Seventy-eight of the companies had at least one no-tax year during that period.[2]

■ **Major profitable U.S. multinational corporations pay higher taxes in the foreign countries where they do business than they pay in the U.S.** CTJ's 2011 study found that of the 134 corporations examined with significant offshore profits (making up at least a tenth of their profits), two-thirds paid higher foreign taxes on their foreign profits than they paid in U.S. taxes on their U.S. profits.[3]

■ **It's not true that most corporate profits are eventually taxed under the personal income tax as stock dividends** because two thirds of those dividends go to tax-exempt entities like retirement plans and university endowments.[4]

■ **Even stock dividends received directly by individuals are not taxed as much as wages** that are the only income for most middle-class families. Stock dividends are currently taxed at a top rate of just 15 percent, and they are not subject to the Social Security payroll taxes that apply to the wages earned by working people.

■ **Corporate income taxes, when they are paid, are ultimately borne by corporate shareholders** in the form of reduced stock dividends. Corporate leaders sometimes claim publicly that corporate taxes are really borne by workers because these taxes drive the companies to move jobs offshore to lower-tax jurisdictions, but corporate leaders would not lobby for Congress to lower these taxes if they did not think their shareholders were the people ultimately paying them. Researchers at the Congressional Budget Office and the Congressional Research Service have concluded that the owners of stock and other capital do bear most of the burden of corporate taxes.[5]

[1] Citizens for Tax Justice, "Corporate Taxpayers & Corporate Tax Dodgers, 2008-2010," November 3, 2011, pages 3-4. http://ctj.org/corporatetaxdodgers

[2] Citizens for Tax Justice, 2011, pages 3-4.

[3] Citizens for Tax Justice, 2011, pages 10-11.

[4] According to data from the Bureau of Economic Analysis and our calculations, $1.9 trillion in corporate stock dividends were paid, excluding inter-corporate dividend payments, over the 2004-2008 period (and excluding dividends from non-taxable, "pass-through" S corporations). But the IRS reports that only $0.6 trillion in such corporate stock dividends were reported on individual tax returns (as "qualified" dividends). The remaining corporate stock dividends were not subject to personal income tax, because they were paid to individuals' accounts with tax-exempt pension plans, other retirement plans, and certain life insurance arrangements. That means that two-thirds of personal dividends from corporate stock are not subject to personal income tax. (See BEA National Income and Product Account Tables 1.16 and 7.10 and the related (albeit somewhat confusing) table accompanying BEA FAQ #318, all at www.bea.gov. See also annual data on Individual Income Tax Returns for 2004–08 from the Internal Revenue Service at www.irs.gov.)

[5] Jennifer C. Gravelle, "Corporate Tax Incidence: Review of General Equilibrium Estimates and Analysis," Congressional Budget Office, May 2010, http://www.cbo.gov/ftpdocs/115xx/doc11519/05-2010-Working_Paper-Corp_Tax_Incidence-Review_of_Gen_Eq_Estimates.pdf; Gravelle, Jane G. and Kent A. Smetters. 2006. "Does the Open Economy Assumption Really Mean That Labor Bears the Burden of a Capital Income Tax." Advances in Economic Analysis & Policy vol. 6:1.