

## **Fool Me Once: Why Proposals to Cut Corporate Taxes Are Bad Economics**

Recent tax proposals by Chairman Kevin Brady (R-TX) and the Trump administration are based on the false premise that a massive tax cut for corporations will boost economic growth. They claim that increasing profits from investment will create jobs because corporations will invest more. As the Roosevelt Institute demonstrated in its recent report, *Fool Me Once*, this approach has failed in the past and is even less likely to work now. The evidence shows that corporations already have high profits and plenty of available money, but are still not investing or creating jobs—because they face little competitive pressure and shareholders have too much power. Yet another round of corporate tax cuts will only further increase the power and wealth of rich shareholders at the expense of average Americans. Instead, we need a new approach to corporate tax policy aimed at reducing profits and payouts, expanding output, creating jobs, and raising wages for working families.

### ***Contrary to Popular Claims and Belief, Corporations Do Not Pay High Taxes In the United States, Either Historically or Compared to Other Countries***

- The underlying notion that businesses are being stifled by high tax rates is false. According to the Congressional Research Service, given all the favorable treatment they already enjoy, American businesses pay *effective* tax rates that are near or below those of other developed countries.
- They also enjoy a historically low cost of capital and are holding on to more cash than ever before.

### ***Recent Research and Experience Reaffirms that Lower Corporate Tax Rates Do Not Spur Economic Growth.***

- Studies of the Bush tax cuts show lower tax rates on payouts to shareholders only led to more buybacks and dividends – not to additional investment, higher wages, or new jobs. The 2003 dividend tax cut led to no discernible increase in investment, but caused payouts to spike by 21.5 percent.
- Analysts predict results will be similar this time around: A 2016 report by Goldman Sachs forecasted the primary impact of corporate cuts – like those proposed in the Republican tax plan – would not be increased investment but a \$180 billion surge in buybacks in a single year.

### ***Proposals to Allow Companies to Repatriate Earnings At A Reduced Tax Rate or to “Deem” Them Repatriated At A Lower Rate Will Encourage, Rather than Discourage, Corporate Tax Avoidance***

- A “deemed repatriation” would worsen the international race to the bottom, by encouraging corporations to continue to avoid taxes through offshoring profits in expectation of another holiday.

- This erosion of the corporate tax base is already shifting the burden of taxation to the middle class. Revenue from the corporate tax used to be 6% of GDP and 30% of federal revenue. Now it's 2% of GDP and 10% of revenue.
- The 2004 repatriation holiday allowed corporations to bring home funds held abroad at a low tax rate. It delivered no increase in investment or job creation, but payouts to shareholders increased one dollar for every dollar brought back.
- Full 'territorialization' would solve the problem of offshoring profits to avoid tax by simply not taxing offshored profits. That's like solving a debt collection problem by forgiving the debt.
- If the goal were truly to adopt corporate tax reform that ends the practice of corporate tax avoidance—plugging the leaky bucket of the corporate tax system—then one approach would be to enact a destination-based global profits tax through formulary apportionment. By calculating worldwide profits, then 'apportioning' them for tax purposes using factors corporations cannot easily manipulate, we'd add \$100 billion in revenue per year and plug the leaky holes.

***Favorable Tax Treatment of "Pass-Through" Entities is a Giveaway to the Rich With No Economic Justification Whatsoever***

- A "pass-through" is one of several corporate structures through which corporate profits "flow through" to shareholders and are taxed as individual income rather than through the traditional corporate income tax.
- These structures now they account for the majority of total corporate earnings in the US.
- The vast majority of pass-through profits accrue to large, highly profitable companies with extremely wealthy owners. 70% of their profits accrue to individuals in the top 1 percent of the income distribution.
- Kansas tried enacting a special tax status for pass-throughs to "encourage small business." All that happened was massive reclassification and revenue loss. Both employment and state GDP grew more slowly than the national average, while tax receipts dropped by \$700 million—24 percent of all state revenue.
- A special maximum tax rate for pass-throughs is a flat tax, but only for those savvy enough to reclassify themselves to take advantage of it: the rich. Instead of paying the top tax rate on ordinary income, they will convert themselves into "small businesses," hire themselves out as contractors, and pay the much lower maximum tax rate of 15 or 20 percent. The tax burden would shift to everyone else, like it did in Kansas.