

The Trump administration and House Republicans are proposing a massive tax cut for corporations and the 1 percent. They falsely claim the plan will increase investment, reverse outsourcing, and create jobs, but this is just more of their failed “trickle-down” ideology. The evidence shows that another corporate tax cut will only increase the power and wealth of rich shareholders at the expense of average Americans.

The Republicans’ underlying assumption—that corporations invest more and create more jobs only when they are relieved of burdensome tax rates—is false. American businesses already enjoy a historically low cost of capital, and they have more than enough cash on hand to invest, raise wages, and create jobs. Corporations are choosing to make dividend payments and stock buybacks instead of investing because they face a lack of competitive pressure—itsself the result of power and wealth shifting toward rich shareholders. Another tax cut for the rich will only make the problem worse.

The Republican plan would also enact a “border adjustment”—a tariff on imported goods, which would hit low-income Americans the hardest. Like other aspects of the plan, Republicans have proposed this feature on the grounds that it will incentivize production in the United States. On this count, too, Brady-Ryan will fail to deliver; the tax will only succeed in punishing consumers with higher prices on imported goods.

An effective job creation strategy would push in the opposite direction and reduce shareholders’ power. To do that, we need competitive pressure on firms to invest, and a stronger bargaining position for other corporate stakeholders: workers and consumers.

We explain in detail the following major features of the plan and why they do not serve our country’s economic interests:

1. The Brady-Ryan plan proposes to reduce the corporate tax rate from 35 percent to 20 percent, supposedly to increase the incentive for corporations to expand U.S. operations. However, corporate tax cuts will only increase payouts to wealthy shareholders and will not increase investment or create jobs. We know this because:

- The cost of capital for corporations is already at historic lows, but the return on capital is high. This is evidence for a basic market failure: There is no reason for corporations to invest because they face no pressure from would-be competitors.
- While the statutory U.S. tax rate is higher than in many OECD countries, the effective rate is lower than most.
- Despite the recovery from the Great Recession, recent research shows that corporations are investing marginal earnings and borrowed funds at 25 percent of the rate they invested during the 1960s.
- Recent studies show that low investment relative to what theory would predict is driven by lack of competition and increased pressure to enrich shareholders.
- Lower effective tax rates on shareholders only lead to more buybacks and dividends. Studies show that the 2003 dividend tax cut led to no discernible increase in investment, but caused payouts to spike by 21.5 percent. The results of the 2004 repatriation holiday, in which corporations were allowed to bring home funds held abroad at the low tax rate of 5.25 percent, delivered similar results; there was no detectable increase in investment, but payouts to shareholders increased on a one-for-one basis.

- Analysts predict Brady-Ryan would result in the same behavior: increased payouts to shareholders and no increase in investment. A 2016 report by Goldman Sachs forecasted a \$780 billion surge in buybacks as a result of the Republican tax plan.

2. The Brady-Ryan plan proposes a tax on imports and an exemption for exports under the assumption that this will boost U.S. production and create jobs. While it may be a good idea to promote U.S. competitiveness and job creation through targeted industrial policy, this plan will not return America to the golden age of manufacturing. Instead, it will drastically raise input prices for many businesses and place a significant burden on lower-income Americans.

- The proposed border adjustment will fall largely on American consumers. The effect will be to raise prices of imported goods, which will hurt lower-income Americans the most. Estimates suggest a 10 percent tariff would cost households in the bottom quintile \$300 per year, twice the burden on households in the top 10 percent.
- Raising prices while demand is still weak will likely reduce spending and hurt the economy.

3. Supporters of the Brady-Ryan plan argue that it will curb tax avoidance, the practice of U.S. firms transferring their valuable intangible assets to subsidiaries overseas to avoid paying U.S. taxes. But Brady-Ryan only solves the problem of multinational tax avoidance by ending the tax on foreign profits entirely. That is akin to solving a debt collection problem by forgiving the debt.

- Corporations will still be able to shift IP licenses, income from royalties, and profits generated from the sale of intangible services between foreign affiliates in order to reduce their tax bills.
- In some respects, Brady-Ryan could worsen the tax avoidance of large multinational firms, which could claim large deductions on research and development carried out in the United States and then sell the resulting IP to a foreign affiliate tax-free.
- By shifting the burden of taxation to consumers, corporations would be less sensitive to the tax rate because they no longer have to pay the tax.

4. An actual job creation strategy would focus on creating incentives for meaningful investment instead of returning cash to corporations already sitting on more than \$2 trillion.

- The corporate tax system should be reformed by closing the repatriation loophole and increasing, not reducing, effective tax rates. The best way to do this for the long run is to enact a formulary apportionment system, so profits are calculated globally and corporations have no reason to pretend to move their assets around.
- In order to prevent CEOs from using profits to pay off shareholders and themselves instead of increasing worker salaries or investing to expand operations, Congress should raise effective top marginal tax rates on high-income individuals.
- Since lax competition is to blame for the corporate sector's low investment, the Justice Department and FTC should return to a competition policy that would diffuse power throughout the economy.
- Congress should fund public investment in transformational projects that create long-term growth and jobs: making mass transportation, broadband, quality child care, and health care available to all.