Center for American Progress

Giving Away Corporate Tax Cuts Is Not How to Make the United States More Competitive

By Alexandra Thornton and Seth Hanlon August 24, 2017

A leading argument advanced in favor of cutting taxes for corporations is that this will make them more competitive in today's global marketplace. But corporations do not need a tax cut, and corporate tax cuts paid for with larger deficits or by cutting investments will not enable America to compete in the long term.

America's competitiveness depends on investments in our economy and a strong middle class

On the whole, taxes play a relatively small role in corporations' decisions about where to invest. Other factors play a much larger role—factors such as strong worker skills and education, access to consumers, modern infrastructure, and well-functioning legal institutions.[1] Public investments are required in these areas, since businesses often are unable or unlikely to make these investments on their own. Over time, U.S. government investments in these areas have helped make American corporations the most competitive in the world.

But many public investments that support a competitive American economy are under threat today:

- A large portion of the labor force lacks the education needed for 21st century jobs.
- Infrastructure across the country is in disrepair. According to the American Society of Civil Engineers, failure to close the $2 trillion infrastructure investment gap could result in $7 trillion in lost business sales by 2025 and 2.5 million lost American jobs in 2025.[2]
- Real wages have been stagnant since 2001 and declined sharply during the Great Recession, weakening the middle class that supports the consumer-based economy.[3]

Massive corporate tax cuts in this environment would make matters worse by threatening important middle-class priorities such as Social Security, Medicare, and Medicaid.

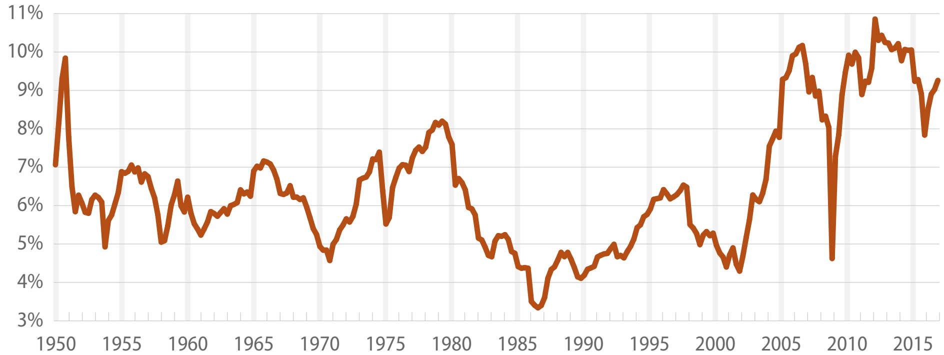
Meanwhile, U.S. corporations are doing quite well and already pay less tax than they have historically

After-tax corporate profits as a share of gross domestic product (GDP) are higher than they have ever been, and since 2000, they have risen dramatically.[4]

FIGURE 1A

U.S. corporate profits are at historically high levels

After-tax profits as a share of GDP



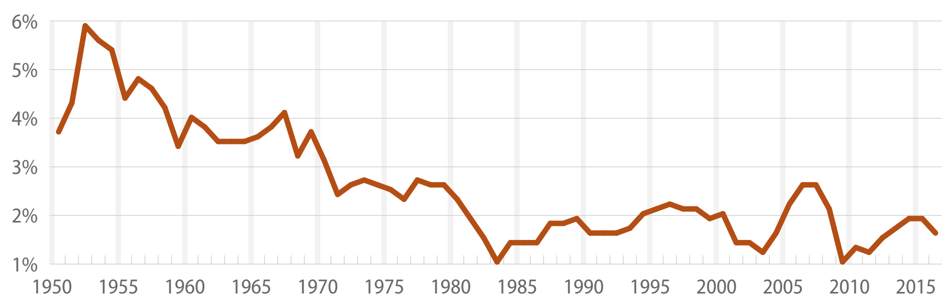
Source: Author's calculations using data from Federal Reserve Economic Data, "Corporate Profits After Tax (without IVA and CCAdj) (CP)"; "Gross Domestic Product (GDP)," available at https://fred.stlouisfed.org/graph/?g=e9XX (last accessed June 2017).

Yet corporate income tax payments are much smaller as a share of GDP than they were several decades ago.[5]

FIGURE 1B

U.S. corporate tax contributes less revenue than in previous decades

Tax receipts from corporations as a share of GDP*



*Based on federal corporate income tax.

Sources: Joint Committee on Taxation, "Overview Of The Federal Tax System As In Effect For 2016" (2016), Table A-2, available at https://www.jct.gov/publications.html?func=startdown&id=4912; Joint Committee on Taxation, "Overview of the Federal Tax System As In Effect For 2017" (2017), Table A-2.

And U.S. corporations rank high on international measures of success; for example, they earn nearly half of global profits, notwithstanding that the U.S. economy is about one-fifth the size of the world economy.[6]

Although the United States' statutory corporate tax rate of 35 percent is high relative to other countries' statutory rates, most U.S. multinationals actually pay a much lower tax rate when deductions, credits, and other special features of the tax code are considered. For example, the U.S. Government Accountability Office found that for tax years 2008 to 2012, profitable large U.S. corporations paid an average effective tax rate of 22 percent, and that included foreign and state and local income taxes.[7]

U.S. multinationals are not at a disadvantage compared with multinational firms based in competitor countries.[8] According to Treasury Department analysis, effective U.S. corporate tax rates are in line with those of our major trading partners.[9] And U.S. corporate tax revenues are about 1 percentage point lower, as a share of GDP, than the corporate tax revenues of major U.S. trading partners.[10] (see Figure 2)

There is no reason to believe that U.S. corporations will invest more in America if they get a huge tax cut

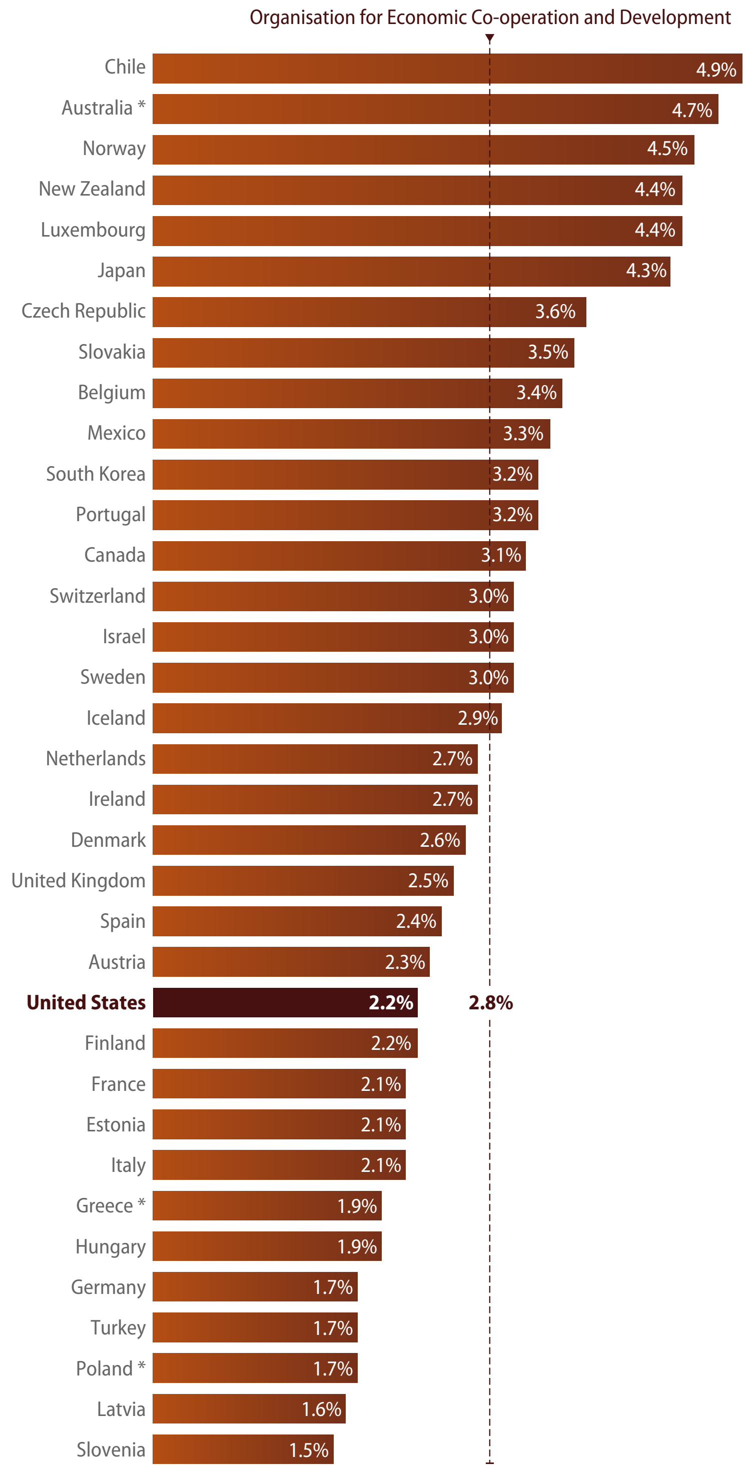
Large U.S. corporations are hardly strapped for cash now and therefore would not necessarily use a tax cut to make new investments. Corporations currently have relatively high levels of cash available for investments and can borrow funds at low interest rates, yet real business investment has remained well below its historic trend.[11] Many firms have opted to use their cash to buy back shares, boosting stock prices, rather than make new investments or pay their workers more.

The slowdown in investment is real but has very little to do with corporate taxes. Research by the International Monetary Fund (IMF) shows that the problem of levels of private-sector investment has occurred across advanced economies, including many countries with much lower statutory corporate tax rates. Indeed, the IMF found that Ireland—one of the world's leading corporate tax

FIGURE 2

U.S. corporate tax revenue is among the lowest of the major advanced economies and lower than the OECD average

Revenue from corporate profits tax as a share of GDP*



* All data are 2015 estimated, except data for Australia, Greece, Poland, and OECD average are 2014.

Source: Organisation for Economic Co-operation and Development OECD.Stat, "Revenue Statistics - OECD countries: Comparative tables," available at https://stats.oecd.org/Index.aspx?DataSetCode=REV (last accessed June 2017).

havens[12]—has seen the sharpest slowdown in investment growth. The IMF research indicates that low levels of aggregate demand are the main culprit behind low levels of private-sector investment.[13]

To strengthen long-term U.S. competitiveness, corporations should pay their fair share in taxes to help fund public investments

U.S. corporations should pay their fair share of the cost of public investments that will make our economy strong and competitive. They can afford it. Closing corporate tax loopholes, for example, will increase revenue and help fund public investments in worker skills and education and in modernizing and improving American transportation and health infrastructure. These investments will make our economy even more attractive to business and at the same time provide economic opportunity for all.

Most Americans believe strongly that corporations should pay their fair share

In a national survey conducted in April 2017, the Pew Research Center reported, "Among the public overall, 62% say they are bothered 'a lot' by the feeling that some corporations don't pay their fair share of taxes, and 60% say the same about some wealthy people not paying their fair share."[14] This was consistent with an April 2015 Gallup poll in which 69 percent of Americans said that corporations pay too little in federal taxes.[15] According to the Gallup organization, "Nearly seven in 10 Americans say corporations pay too little in federal taxes—consistent with views over much of the past decade."[16] Americans have made it clear that they do not want politicians to cut taxes for corporations.[17]

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Endnotes

1 See, for example, Organisation for Economic Co-operation and Development, "Tax Effects on Foreign Direct Investment" (2008), available at https://www.oecd.org/investment/investment-policy/40152903.pdf; Organisation for Economic Co-operation and Development, "Tax Effects on Foreign Direct Investment," *Recent Evidence and Policy Analysis* 17 (2007): 9–23, available at http://www.oecd.org/ctp/tax-policy/39866155.pdf; Kimberly A. Clausing, "Beyond Territorial and Worldwide Systems of International Taxation," Social Science Research Network (February 2015), available at https://papers.ssrn.com/sol3/papers2.cfm?abstract_id=2567952.

2 American Society of Civil Engineers, "2017 Infrastructure Report Card," available at http://www.infrastructurereportcard.org/the-impact/economic-impact/ (last accessed June 2017).

3 Carmel Martin, Andy Green, and Brendan Duke, eds., "Raising Wages and Rebuilding Wealth: A Roadmap for Middle-Class Economic Security" (Washington: Center for American Progress, 2016), figure 1.1, available at https://www.americanprogress.org/issues/economy/reports/2016/09/08/143585/raising-wages-and-rebuilding-wealth/.

4 Kimberly A. Clausing, Testimony before the House Ways and Means Committee, "Increasing U.S. Competitiveness and Preventing American Jobs from Moving Overseas," May 23, 2017, available at https://waysandmeans.house.gov/wp-content/uploads/2017/05/20170523FC-Testimony-Clausing.pdf.

5 Joint Committee on Taxation, "Overview of The Federal Tax System As In Effect for 2016" (2016), available at https://www.jct.gov/publications.html?func=startdown&id=4912. The lower corporate contribution to federal tax revenues is due in part to U.S. multinationals shifting profits offshore, as well as to large profitable businesses reorganizing as pass-through entities, such as partnerships and S corporations, in order to take advantage of the much lower effective tax rates on pass-throughs.

6 Kimberly A. Clausing, "US companies are doing fine, but tax reform can still help," The Hill, June 7, 2017, available at http://thehill.com/blogs/pundits-blog/economy-budget/336770-us-companies-are-doing-fine-but-tax-reform-can-still-help. Clausing points out that U.S. companies dominate on a wide range of measures, including measures by profits (47 percent) and by market capitalization (44 percent), and the U.S. economy is 22 percent of world GDP.

7 General Accountability Office, "Corporate Income Tax: Most Large Profitable U.S. Corporations Paid Tax but Effective Tax Rates Differed Significantly from the Statutory Rate," GAO-16-363, Report to the Ranking Member, Committee on the Budget, U.S. Senate, March 2016, available at http://www.gao.gov/assets/680/675844.pdf.

8 Clausing, "U.S. companies are doing fine, but tax reform can still help."

9 Office of Tax Policy, *The Case for Responsible Business Tax Reform* (U.S. Department of the Treasury, 2017), available at https://www.treasury.gov/resource-center/tax-policy/Documents/Report-Responsible-Business-Tax-Reform-2017.pdf.

10 Clausing, Testimony before the House Ways and Means Committee.

11 Marc Jarsulic, Brendan Duke, and Michael Madowitz, "Long-Termism or Lemons: The Role of Public Policy in Promoting Long-Term Investments" (Washington: Center for American Progress, 2015), available at https://www.americanprogress.org/issues/economy/reports/2015/10/21/123717/long-termism-or-lemons/.

12 Bjarke Smith-Meyer, "Oxfam: Luxembourg, Ireland, Netherlands among worst tax havens," Politico EU, December 12, 2016, available at http://www.politico.eu/article/oxfam-luxembourg-ireland-netherlands-among-worst-tax-havens/.

13 International Monetary Fund, "Chapter 4: Private Investment: 'What's the Hold Up?'" In International Monetary Fund, *World Economic Outlook, April 2015: Uneven Growth, Short- and Long-Term Factors* (2015), available at https://www.imf.org/external/pubs/ft/weo/2015/01/pdf/c4.pdf.

14 Pew Research Center, "Top Frustrations With Tax System: Sense That Corporations, Wealthy Don't Pay Fair Share," April 14, 2017, available at http://www.people-press.org/2017/04/14/top-frustrations-with-tax-system-sense-that-corporations-wealthy-dont-pay-fair-share/.

15 Justin McCarthy, "More Americans Say Low-Income Earners Pay Too Much in Taxes," Gallup, April 15, 2015, available at http://www.gallup.com/poll/182426/americans-say-low-income-earners-pay-taxes.aspx.

16 Ibid.

17 Harry Stein, "Stop Cutting Taxes for Corporations and the Wealthy" (Washington: Center for American Progress, 2017), available at https://www.americanprogress.org/issues/economy/reports/2017/04/10/430161/stop-cutting-taxes-corporations-wealthy/.