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## **Why Congress Can and Should Raise Revenue through Corporate Tax Reform<sup>1</sup>**

- In May, members of Congress received a letter from 250 organizations, including organizations from every state, demanding a corporate tax reform that is “revenue-positive,” meaning it would close loopholes and use most or all of the resulting revenue savings to address the deficit or make public investments.<sup>2</sup>
- 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 2007 report from the Bush Treasury Department found “the United States takes a below-average share of corporate income in taxes” compared to other developed countries.<sup>3</sup>
- Some corporate profits are not taxed at all. A recent report from CTJ examined 280 corporations (most of the Fortune 500 companies that were profitable for each of the past three years) and found that 30 of them paid no corporate income taxes over the three-year period. Seventy-eight of the companies had at least one no-tax year during that period.<sup>4</sup>
- Corporate profits paid out as stock dividends are usually not taxed under the personal income tax because two thirds of those dividends go to tax-exempt entities like retirement plans and university endowments.<sup>5</sup>
- Even 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. Several researchers have concluded that the owners of stock and other capital do bear most of the burden of corporate taxes.<sup>6</sup>

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<sup>1</sup> CTJ has made the case for revenue-positive corporate tax reform in reports, op-eds, and Congressional testimony. For example, see Citizens for Tax Justice, “Revenue-Positive Reform of the Corporate Income Tax,”

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January 25, 2011, <http://www.ctj.org/pdf/corporatetaxreform.pdf>; Steve Wamhoff, "Don't Cut Corporate Taxes," op-ed, *USA Today*, March 30, 2011, [http://www.usatoday.com/news/opinion/editorials/2011-03-30-editorial30\\_ST1\\_N.htm](http://www.usatoday.com/news/opinion/editorials/2011-03-30-editorial30_ST1_N.htm); "Statement of Robert S. McIntyre Director, Citizens for Tax Justice Before the Senate Budget Committee Regarding Business Tax Subsidies Administered by the Internal Revenue Service," March 9, 2011, <http://www.ctj.org/pdf/mcintyretestimony03092011.pdf>.

<sup>2</sup> Letter to Congress, May 18, 2011, <http://www.ctj.org/pdf/corptaxletter.pdf>

<sup>3</sup> U.S. Department of the Treasury, "Treasury Conference on Business Taxation and Global Competitiveness: Background Paper," July 23, 2007, p. 41, <http://www.treasury.gov/press-center/press-releases/Pages/hp500.aspx>

<sup>4</sup> Citizens for Tax Justice, "Corporate Taxpayers & Corporate Tax Dodgers, 2008-2010," November 3, 2011. <http://ctj.org/corporatetaxdodgers>

<sup>5</sup> 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](http://www.bea.gov). See also annual data on Individual Income Tax Returns for 2004-08 from the Internal Revenue Service at [www.irs.gov](http://www.irs.gov). The size of Subchapter S dividends for years after 2004 was calculated by CTJ based on IRS data on Subchapter S corporation tax returns, using BEA's FAQ #318's table as a template.)

<sup>6</sup> 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](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.