The Daily Dish

2025 and the Corporate Rate

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The 21 percent corporation income tax rate is one of the elements of the 2017 Tax Cuts and Jobs Act (TCJA) that does not sunset at the end of 2025. Nevertheless, the rate already has a bullseye on it, with the left dead-set on raising it. Former Chairman of the House Ways and Means Committee and author of the TCJA Kevin Brady and I have an op-ed in today's *Wall Street Journal* focused on how to think about the corporate rate.

To begin, the 2025 debate should be viewed as an exercise in tax reform, which means that the recipe is to broaden the tax base first and raise any rate only as a last resort. This applies especially to the corporate rate since the 2017 move from 35 percent to 21 percent has been an enormous success. The United States, which had been bleeding corporate headquarters, has not lost one since the 2017 law was enacted. In addition, the rate attracted intellectual property back to the country, fostered more rapid investment, and generated the fastest growth in inflation-adjusted earnings ever recorded over three calendar years.

Yet President Biden has proposed raising the corporate rate to 28 percent. When combined with state taxes, this would give the United States the second highest rate in the OECD, thus resurrecting the competitive disadvantage that 2017 fixed. Who loses? Workers. Based on the Treasury Department's own research, raising the corporate rate to 28 percent would impose a $500 billion tax hike on families making less than $300,000 a year, violating President Biden's pledge that "no one earning less than $400,000 per year will pay a penny in new taxes."

Here's the key to tax reform. If you have decided to tax those making $300,000 or less, it makes much more sense to change the individual income tax as the way to do it. That imposes no competitive disadvantage and could be accomplished by base-broadening instead of rate increases.

Some other thoughts: The left likes to present the 21 percent rate as a “giveaway” and point to the fact that corporate revenues are a much smaller share of federal receipts than 50 years ago. The problem with this is that businesses paid for over $1 trillion of base-broadening; indeed, the vast majority of the rate reduction was paid for. Moreover, more than one-half of business income is now taxed on individual returns as pass-thru income. If this income was taxed as corporate income, corporate taxes would be 3.2 percent of GDP – roughly where it was in the 1960s.

Finally, some like to point to 2025 as a chance for fiscal reform; i.e., tax reform and deficit reduction. Fair enough, but that means one must bring Social Security and Medicare into the discussion. There is no way to fix the federal budget without slower growth in those programs.

Get ready for tax reform in 2025.