Center for EFFECTIVE GOVERNMENT

Think Cutting Tax Rates on Corporate Profits Creates Jobs? Think Again

One of the most enduring myths in Washington D.C. is that if we cut taxes on corporate profits, job creation will follow. U.S. corporations have been reporting record profits, even as they pay the lowest levels of federal income taxes in half a century. Large corporations pay, on average, just 12.6 percent of their profits in federal income taxes, yet we continue to have nearly 11 million Americans unemployed, half of them for more than six months.

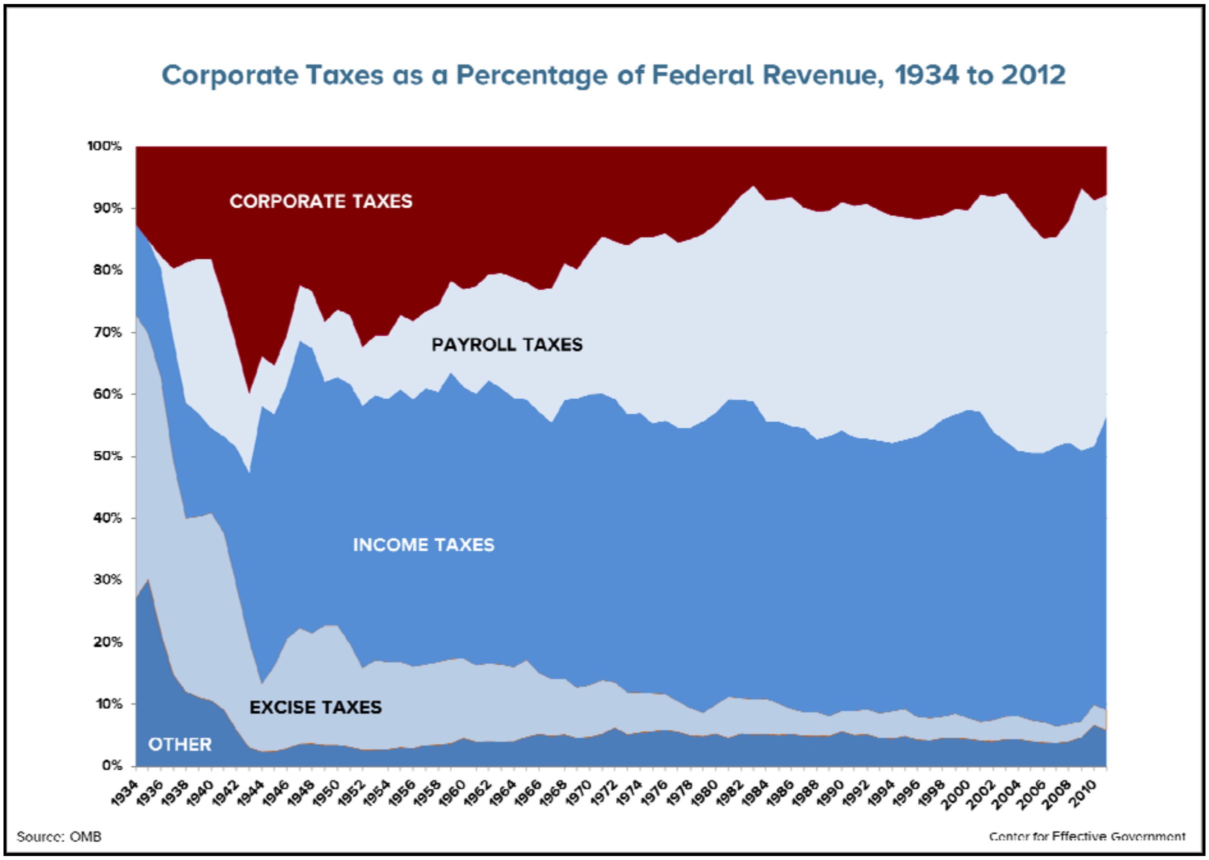
The corporate tax system is badly broken. Some corporations pay more than a third of their profits in federal taxes, but many more take advantage of loopholes, credits, and other tax perks to lower their tax rates sharply. Many firms pay nothing at all despite reporting billions of dollars in profits.

Low corporate tax rates don't create jobs. According to *The Corporate Tax Rate Debate*, a new report by the Center for Effective Government, among the 30 firms with the lowest corporate tax rates between 2008 and 2010, half the firms created jobs and half shed jobs over the last five years. Only two of the 30 firms paid taxes over the three-year period, despite the fact that each of the firms was profitable in each of the three years and collectively reported $159 billion in U.S. profits. As a group, the low-tax corporations shed more than 51,000 since 2008.

Relatively high corporate tax rates don't impede job creation. We also looked at the 30 corporations with the highest effective tax rates between 2008 and 2010. Each of the firms paid more than one-third of their profits in federal income taxes. Twenty-two of the 30 corporations created jobs and collectively added nearly 200,000 jobs over the last five years.

We've seen this disconnect between low tax rates and job gains before. In 2004, the American Jobs Creation Act was passed with the goal of creating an incentive for U.S. firms to bring home some of the funds they had stashed offshore so they would invest in the U.S. and create jobs here. To encourage firms to bring money home and invest it here, a discounted tax rate of just 5.25 percent was offered instead of the 35 percent the corporations would have otherwise paid. While the law succeeded in getting corporations to return funds to the United States, it was an utter failure in creating jobs. Fifty-eight giant firms brought back more than 70 percent of the funds returned to the U.S. and saved $64 billion on their tax bills. Within two years, the 58 firms that got the tax windfall had destroyed more than 600,000 jobs.

When corporations don't pay their fair share of taxes, others must pick up their share of the cost of government. In the 1950s, corporate income taxes paid nearly a third of the federal government's bills; in 2012, corporate income taxes accounted for less than a tenth of federal government receipts. As corporate taxes as a share of government tax receipts has shrunk, individual income and payroll taxes have risen steadily. So has the budget deficit.



Another way is possible. We can insist that corporations pay their fair share of taxes. If corporations pay their fair share of taxes, we'll have enough to invest in schools, infrastructure, basic research, and the other investments necessary to make sure that our economy remains competitive and that all Americans have a shot as a stable and secure life.

Revenue-neutral tax reform is not the answer. President Obama and key leaders in the House and Senate are calling for "revenue-neutral" corporate tax reform. They want to close corporate tax loopholes and use the savings to lower corporate tax rates so that corporations as a whole would be paying the same amount they are paying today. Simply put, such reform would lock in today's low level of corporate tax revenue for decades to come.

Closing corporate tax loopholes and using the savings to invest in America is the answer. Offshore corporate tax abuse costs America $100 billion a year. We could end this abuse by ending deferral, the loophole that allows U.S. corporations to put off paying taxes on their offshore profits, including those profits earned in the U.S. and transferred to a foreign tax haven using accounting tricks. Using the savings from closing offshore loopholes to fix our school buildings, hire back laid-off teachers, repair roads, bridges, and water systems, and restore funding for basic medical and technological research will not only keep the economy competitive but create million of jobs that can get Americans working again.