The Disappearing Corporate Tax Base:

How to Reclaim Lost Tax Revenue to Rebuild State Budgets

NATIONAL PEOPLE'S ACTION

Center for Effective Government

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ABOUT THE CENTER FOR EFFECTIVE GOVERNMENT

The Center for Effective Government works to build an open, accountable government that invests in the common good, protects people and the environment, and advances the national priorities defined by an active, informed citizenry.

ABOUT NATIONAL PEOPLE'S ACTION

National People's Action is a network of membership organizations working together to advance a racial and economic justice agenda for a new economy and true democracy.

Executive Summary

American states and cities and the people who live in them are hurting. States and cities were ravaged by the Great Recession of 2007-2009. While the recession is officially over, its damage remains deeply felt in families and communities across America. More than 10 million Americans remain out of work, nearly half of them for more than six months. More than half a million state and local public jobs disappeared because of budget cuts and have not been refilled.

America's corporations are thriving. As people and businesses on Main Street continue to struggle, Wall Street and major corporations are flourishing, posting record profits and giving executives hefty bonuses.

After an initially strong response during the depth of the recession, federal revenue to states and cities has fallen by a quarter since 2010. As the federal stimulus program was winding down, a new breed of politician arrived in Washington and demanded cuts and caps on federal spending. Since 2011, federal aid to states for vital services like schools, roads, and environmental protection has been on a downward spiral. Two-thirds of the states now provide less educational funding per student than before the recession began.

But we can change this story. We've done it before. In the 1950s and 1970s when Republican presidents were in the White House, corporations paid a much larger share of the costs for the public services their businesses depend on. It's time we go retro and tax corporations like we did in past generations. Back when Richard Nixon was president, corporations paid 15 percent of the federal government's bills (down from paying 32 percent of the costs of the federal government two decades earlier when Eisenhower sat in the Oval Office). Today, that number is below 10 percent. When corporations pay less, the rest of us pay more.

By closing tax loopholes, limiting deductions, and pegging corporation's share of the cost of public services at the same level they paid a generation ago, we could raise hundreds of billions more each year to restore public services cut during the recession. At present, the debate around corporate tax reform is almost exclusively focused on how much corporations can "afford" to pay while remaining competitive. This must change. Last year, corporate profits reached record levels – more than 12 percent of GDP. At the same time, corporate taxes were 1.6 percent of GDP. Corporations can, and should, pay far more. At one time, they did. Even today, they pay higher taxes in other developed countries than they do in the U.S. If corporate tax payments equaled the same *share of taxes as a percent of the economy* as they did in 1953 when Eisenhower was president, they would have paid $957 billion last year, $683 billion more than they actually paid. If corporate tax payments as a share of the economy reflected the same share of GDP as they did in 1973, when Richard Nixon sat in the Oval Office, corporations would have paid $461 billion in 2013, $188 billion more than they actually paid.

With an additional $188 billion in corporate tax payments (which would raise corporate taxes to about 3.5 percent of GDP), we could restore state and local public services, pay for a robust program to replace our antiquated infrastructure, and create 2.5 million new jobs. That $188 billion could be used to refill the 667,000 jobs schoolteachers, first responders, librarians, highway crews, caretakers of public parks, and other state and city workers lost to budget cuts. That would cost only about $36 billion per year, meaning we could also afford to make a sustained commitment to invest in our physical infrastructure – roads, bridges, school buildings, levees, dams, and water systems – and bring them up to 21st century standards. The American Society of Civil Engineers estimates that making these investments would cost $125 billion a year. The Center for Effective Government estimates that these infrastructure investments would create 2.5 million new jobs. With the remaining funds, we could repair the social safety net and restore funding to vital programs like Head Start, the Supplemental Nutrition Assistance Program, Housing Choice vouchers, and many other programs.

A menu of possibilities. We can raise this additional investment capital from corporations by closing loopholes and reducing deductions and special interest tax credits. Here are a few of the ideas that will be discussed in greater detail below.

- End deferral of taxes on offshore corporate profits – raises $59 billion a year.
- Adopt a Wall Street Sales Tax on financial transactions – raises $174 - 354 billion a year.
- Tax Wealth Like Work by eliminating tax discounts on investment income – would raise $161 billion a year.
- Eliminate Loopholes that reward corporations for excessive CEO compensation – would raise at least $10 billion per year.
- Cut state tax loopholes and credits that have reduced corporate payments to states to less than half the posted tax rate – could raise up to $15 billion per year.

Corporations should pay for the public structures that support the national economy and allow their own businesses to prosper. Without a legal and political structure so supportive of commerce and industry, or a national infrastructure for energy development, research, transportation, and communications, or an educated workforce, America would not have the largest economy in the world. That economy allowed American corporations to prosper and our middle class to grow. Businesses that have done well in America should do right by America. It's time for all corporations to step up and contribute to the public systems that ensure we have a free and democratic society in which every American can succeed and thrive.

Overview

State and local governments face a structural crisis with their budgets. The impacts of the Great Recession of 2007-2009 continue to depress employment and enterprises on Main Streets across the country. Over 16 million jobs were lost and only 6 million have been added to the economy, leaving 10 million jobless, over 40 percent for more than six months. Between July 2009 and January 2013, 744,000 state and local government workers lost their jobs. In the 14 months since, less than 80,000 have been filled, according to the Bureau of Labor Statistics. **One hundred and seventy thousand small businesses** folded between 2008 and 2010, and capital for new small enterprise development has been tight. Depressed housing prices reduced property taxes. High unemployment and stagnant wages flattened income taxes, and depressed consumer spending reduced sales taxes.

But some causes of state budget problems began long before the recession. Many states watched their sales tax revenue shrink as purchases formerly made in the stores of brick and mortar Main Street merchants were shifted to online merchants, where federal law currently prevents collection of sales taxes. Some states do not tax services like products, so as their economic base shifted from manufacturing to services, the tax base constricted. In some places, strong economic growth in the 2000s led legislatures to cut corporate and income taxes instead of investing at home.

The federal government stepped in to help state and local governments weather the economic storm by increasing federal revenue sharing by about 32 percent between 2008 and 2010. By the end of 2011, an estimated **5 million jobs** had been created through the American Reinvestment and Recovery Act (ARRA) of 2009.

But when a radically new House was returned to Washington in 2011, Congress changed course, immediately and dramatically. In the fall of 2011, just as the last of the ARRA money was going out to the states, Congress passed the Budget Control Act, which put 10-year caps on federal spending, slamming the brakes on federal support to the states. Since 2010, federal revenue sharing funds to states for things like schools, roads, and environmental protection have fallen significantly. The slashing of federal program budgets for everything from Head Start to food security to unemployment insurance has also increased the pressure on states.

At the same time, many conservative Governors and state legislators have cut spending on state programs, while simultaneously cutting taxes on *wealthy individuals and prosperous corporations,* arguing that tax cuts would boost the economy. That hasn't worked out so well.

But one group that has continued to sail comfortably through the stormy seas of the recession is America's corporations. They posted record profits again last year, a fact noted by the stock market, which is posting new highs each month. Buoyed by a strong stock market, CEOs of America's corporations repeatedly saw their year-end bonuses soar.

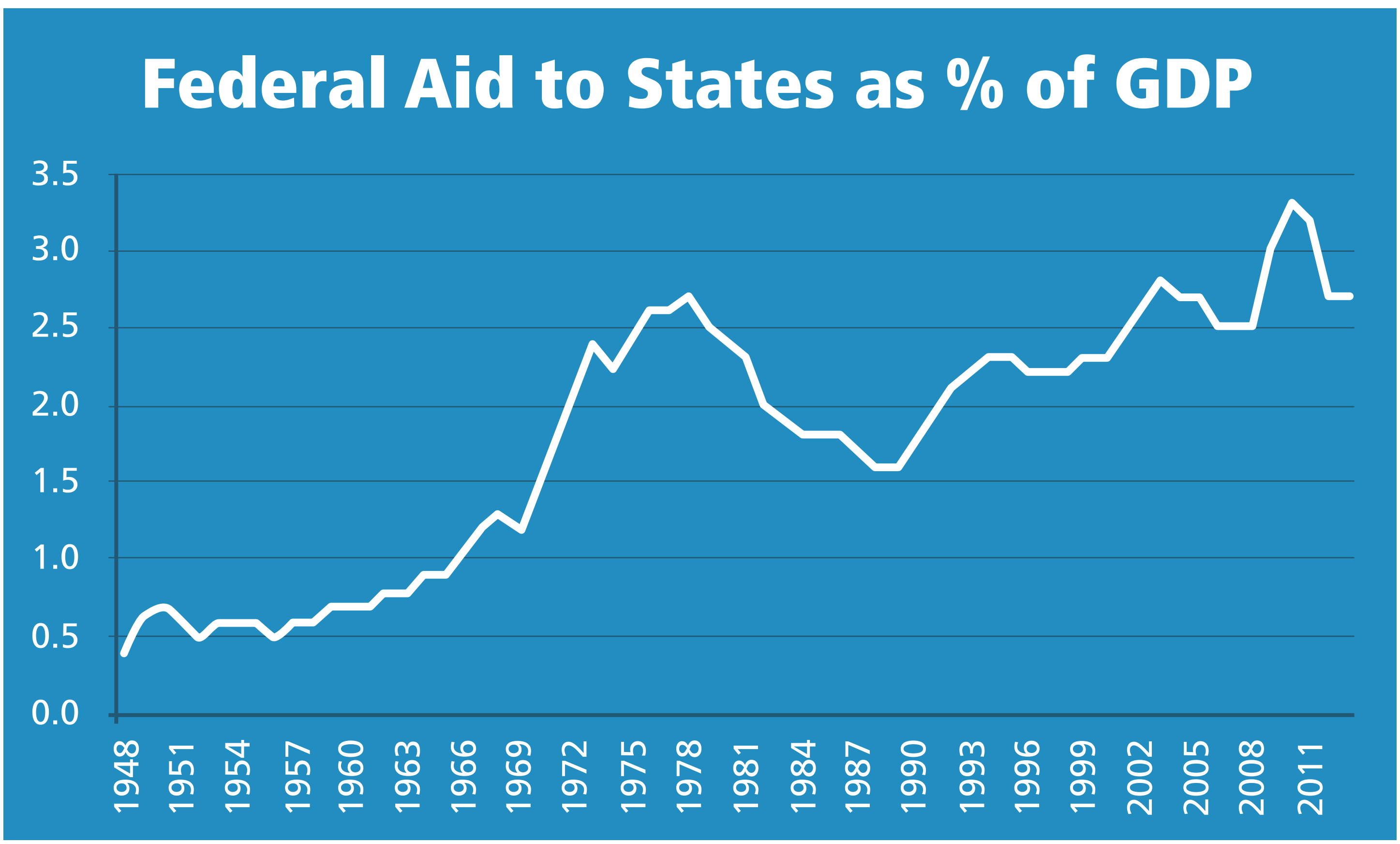
This report looks at the challenges faced by state and local governments to meet the growing and increasingly unmet needs of their citizens. It exposes some of the factors at the root of the problem and offers a slate of solutions.

One answer is demanding that corporations pay their fair share of the cost to maintain public services and the public structures that are vital to the long-term prosperity of both corporations and communities. We look to corporations because after the Great Recession, while corporate profits have continued to soar, their share of taxes has plummeted. This trend has demonstrably harmed state and federal budgets and the provision of services those funds pay for.

Corporate Success is Built on Strong Public Services and Structures

American corporations are experiencing record profits. A favorable legal system, relatively little public corruption, a workforce educated at public expense, and efficient public transportation networks are just some of the taxpayer-funded benefits that undergird the prosperity of American businesses. Yet despite their dependence on these public systems, American corporations are paying fewer and fewer taxes to support these services.

It wasn't always this way. At the close of the Second World War, business leaders understood the role public investment played in creating a platform for their business success. These civic-minded leaders understood the benefits they received from the public sector. For example, during the 1950s, the federal government invested in a massive public investment project – the interstate highway system – which connected small towns with big cities in the most efficient national highway system in the world. This advancement created a true national market – opening vast new business opportunities while lowering transportation-related business costs. The interstate highway system was funded in large part by a dramatic increase in federal funding passed through to the states, which over the last 60 years helped create a truly national modern infrastructure.



Source: President's Budget Historical **Table 15.3**

When Republican Dwight Eisenhower was president, the top corporate tax rate was 52 percent. Corporate taxes averaged nearly **27 percent** of federal revenue during the eight years of the Eisenhower administration, and corporate taxes averaged about six percent of the nation's gross domestic product (GDP). These taxes helped pay not only for the new interstate highway system but also for expanded investments in innovative research, developing the technologies that would become computers, the Internet, and an array of lifesaving drugs. These investments improved living standards and changed the world in ways that few could have imagined when they paid their tax bills.

Today, top corporate tax rates are 35 percent, but large profitable companies actually pay **less than 20 percent of their profits in federal income taxes,** according to a new study by Citizens for Tax Justice, a nonpartisan tax policy organization. The 70,000-page U.S. tax code is riddled with deductions, credits, and loopholes, fought for and won by high-priced corporate lobbyists and paid for with strategically made campaign contributions. Corporate taxes paid less than a tenth of the federal government's bills in 2013. Corporate profits in 2013 represented 12 percent of the national economy, but corporate taxes as a percent of the economy shrank to less than two percent.

But today's CEOs still clamor loudly for even more tax cuts.

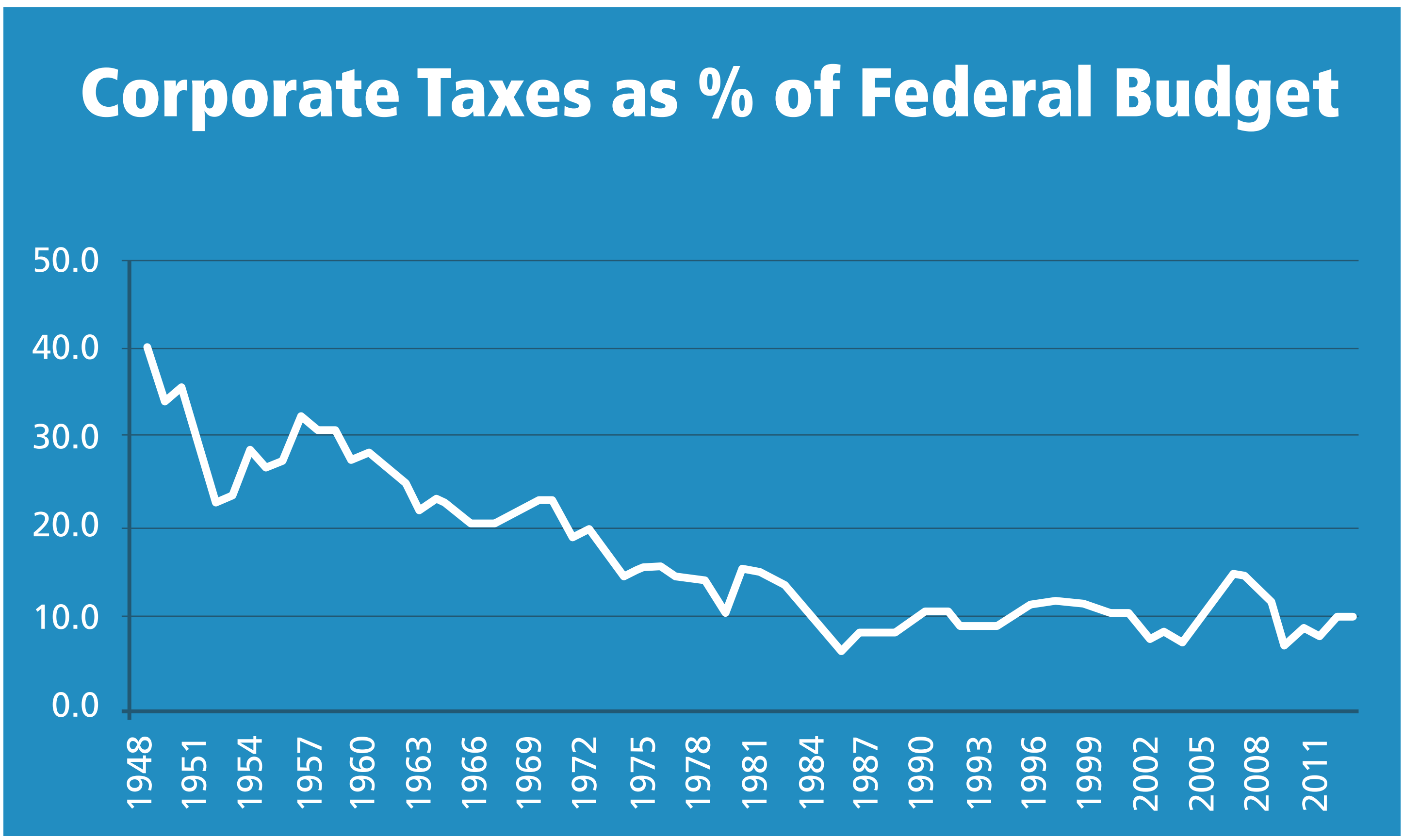
The Corporate Retreat from Paying Taxes

As corporate profits have steadily risen, corporate support for the public structures that enable their commercial activity continues to erode. This is true both at the federal and state levels.

Federal Corporate Income Taxes

Between 1950 and 1986, federal taxes on corporate profits ranged from 46 to 52.8 percent. In other words, after paying all their bills, salaries, and bonuses, then taking their deductions, corporations paid about half of their profits in federal income taxes. In 1952, federal corporate income taxes paid nearly one-third of the federal government's bills.

But over the next 30 years, the corporate tax code became riddled with loopholes. Some corporations successfully gamed the tax system to avoid paying most, if not all, of their taxes. A 1986 corporate tax reform bill – introduced by House Speaker Richard Gephardt (D-MO) with Sen. Bill Bradley (D-NJ) and signed into law by President Reagan – closed many loopholes in exchange for slashing corporate tax rates from 46 percent to 34 percent. With the loopholes closed, the corporate tax share of federal tax receipts actually rose from 8.4 percent in 1986 to 10.4 percent in 1988, even with the cut to the rates.

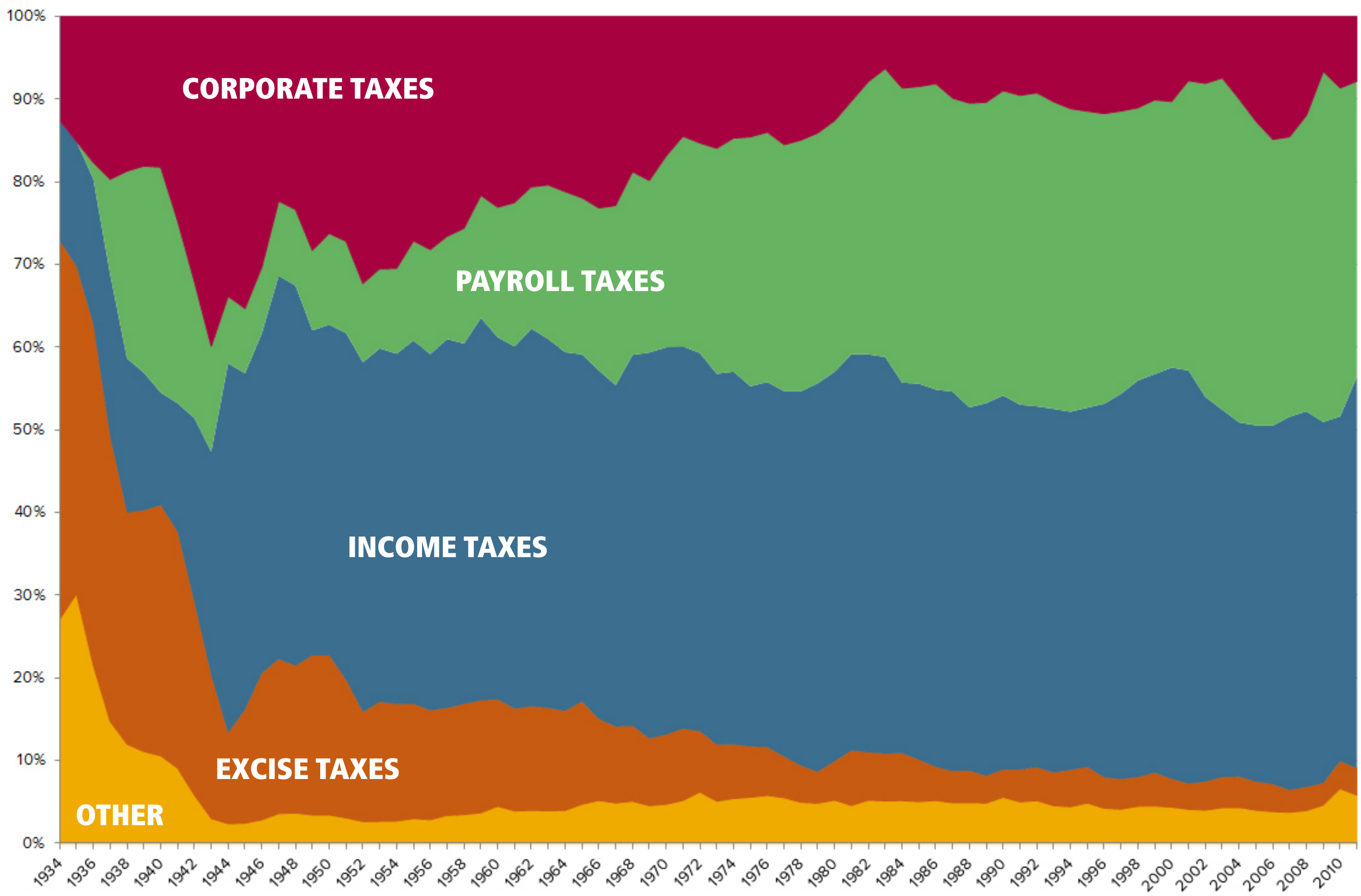


But it wasn't long before corporate lobbyists opened new tax loopholes and re-opened some of the most lucrative ones that had been closed only a couple of years earlier. And so began the dance: close loopholes in return for lower tax rates, then send in the lobbyists to open new loopholes and deductions on the new lower rates, so the corporate taxes actually collected are always well below the official tax rate, which also keeps falling.

Last year, federal corporate income taxes accounted for just 9.9 percent of the government's tax receipts. As corporations shirk their taxpaying responsibilities, they shift their share of taxes to the rest of us in the form of higher payroll and income taxes as the chart below shows.

Who Pays the Nation's Bills? Corporate Taxes vs. Payroll Taxes

Payroll taxes increase while corporate taxes decline



Source: Office of Management and Budget

Corporations are taking advantage of several significant tax loopholes that their high-priced lobbyists have fought hard for and won. Here's a sampling:

Offshore tax haven loophole – this loophole costs the federal government an estimated $90 billion a year in lost tax revenue. Here's how it works: multinational corporations that own patents, trademarks, or other intellectual property register these valuable assets in an offshore tax haven. When a U.S. customer buys their product, the company sends a significant amount of the purchase price to the tax haven country to pay for the use of the intellectual property. Once in the tax haven, the profit is lightly taxed, if at all. Because the company has successfully (and legally) removed most of the profit involved in the sale from America, both its U.S. and state tax obligations are greatly reduced and in some cases eliminated altogether.

Executive Compensation Loophole – this loophole provides a $5 billion annual taxpayer subsidy to corporations that excessively compensate their executives. In 1993, Congress, reacting to public concern about exploding executive pay, took steps to limit how much executive pay companies could deduct as legitimate business expenses on their tax returns. As Congress prepared to adopt a $1 million per year per executive cap, a loophole was slipped in that allowed limitless amounts of compensation to be deducted so long as that compensation was "performance based." The result was an explosion of stock-based bonus compensation that sent overall CEO pay soaring far beyond the troublesome levels of the early 1990s.

Stock-based Pay Loophole – related to the executive compensation loophole above, the stock-based pay loophole allows companies to keep two sets of books. On the books the company shows to its shareholders, it reports stock options given to executives at the low value at the time they are issued. On the set of books it shows the IRS, it reports the often much higher value when the options are cashed in. Facebook may eventually be able to reduce its taxable income by **$16 billion,** thanks to this loophole.

Profile of a Corporate Tax Dodger: Boeing

Boeing is the nation's second-largest government contractor, receiving about a third of its total revenue from the public purse. Yet Boeing has successfully used corporate tax loopholes to kick its tax obligations down the road… so far down the road that Boeing has paid no federal income taxes over the last 12 years. Instead, **Boeing received $1.6 billion in tax refunds despite reporting $43 billion in profits since 2002.**

Boeing is using some of those tax refunds to lavish its CEO with exorbitant levels of compensation. In 2012, Boeing CEO James McNerney Jr. received $27.5 million in total pay, **enough to pay the salaries of** President Obama, Vice President Biden, all 15 Cabinet Secretaries, all nine Supreme Court justices, the seven Joint Chiefs of Staff, and all 100 U.S. Senators, with enough left over to re-hire 43 public school teachers who lost their jobs thanks to sequester's budget cuts. Boeing saved $128 million on its 2013 tax bill thanks to the stock-based pay loophole described above.

Boeing also leads the pack in threatening to move jobs unless state governments fork over large tax breaks. In its **Subsidy Tracker**, Good Jobs First, the leader in tracking corporate subsidies, found that since 2009, Boeing has received 56 different subsidies totaling nearly $10 billion from state and local governments. Not only is Boeing not paying for public services like roads, schools, public safety, and air traffic control on which it depends to run its business, it is demanding direct subsidies from state governments, subsidies that reduce the funds available to invest in public schools and other public services.

When challenged, Boeing is quick to respond that it is "only following the law." And that is true. But Boeing and other companies aggressively lobby on tax issues both in Washington and in state capitals to create these loopholes and tax breaks.

In fact, Boeing's CEO is the past chairman of the Business Roundtable, an elite association of 200 large company CEOs. One of their **current initiatives** advocates for reducing Social Security benefits, raising the retirement age to 70, and cutting corporate income taxes sharply. Boeing is also a leader of another corporate tax lobbying effort known as the Reforming America's Taxes Equitably, which to the RATE Coalition's 31 corporate members means cutting the corporate income tax rate. Among those members, seven, including Boeing, are among the nation's 100 largest federal contractors, including four leading defense contractors. So, while the American public pays for the profitability of their contracts, they lobby to have their taxes cut.

States Face Growing Public Needs Amidst Shrinking Fiscal Resources

The Great Recession hit state and local governments particularly hard. States already facing declines in sales tax revenue stemming from rapid growth in tax-free Internet commerce were suddenly faced with falling income tax revenue as people lost their jobs and falling sales taxes as consumer spending collapsed. Local governments had the added problem of evaporating home values and foreclosed properties, which sent property tax collections tumbling.

The response in many states was to cut public services to match the reduction in state revenue. Hundreds of thousands of state and city workers lost their jobs. Class sizes grew. With their ranks thinned, there are fewer police officers and safety personal available to respond in an emergency.

The federal government stepped in and provided extra aid to the states, as it has done in economic downturns since the Great Depression. Federal revenue sharing from the 2009 American Reinvestment and Recovery Act boosted state revenues by **about $140 billion** in 2010 and 2011. Without the federal help, state cutbacks would have been even more severe. Those first three years of stimulus funding saved or created up to 5.3 million jobs, according to Congressional Budget Office data analyzed by the **Economic Policy Institute**. With more funds, more jobs could have been created. By the end of 2011, about 6 million of the 16 million jobs lost in 2007-2009 had come back. But with 10 million still unemployed, and the highest level of long-term unemployed in a generation, midterm voters voted for a change.

Radical changes in the composition of the House of Representatives led to a right turn in economic policy. In the summer of 2011, with the stimulus money slowing to a trickle, Congress passed the Budget Control Act, which locked in cuts to federal spending for the next decade. Some state spending was protected from these cuts – the mandatory spending that goes up and down depending on need. But other spending – dubbed discretionary by policymakers – faced the budget ax.

As federal revenue sharing to support programs from schools to transportation fell, a strong stock market in 2013 resulted in higher-than-expected state capital gains revenue from the sale of stocks, which offset some of the federal cuts, leaving several states with their first budget surplus since before the recession began. Rather than taking advantage of the slight upturn in the economic cycle to restore funding for programs cut over the last five years, a **number of states are instead cutting back fees and considering more tax cuts**. Legislators in **Louisiana, Nebraska, and North Carolina are considering eliminating their corporate income taxes** altogether. Iowa has already passed more than a billion dollars in tax cuts, while Indiana, Illinois, North Dakota, New York, Wisconsin, and Florida lawmakers are expected to consider corporate tax cuts worth hundreds of millions of dollars. When the next downturn arrives, there will be no “rainy day” funds, and public services and social programs will be cut even deeper.

State Corporate Income Taxes Declining

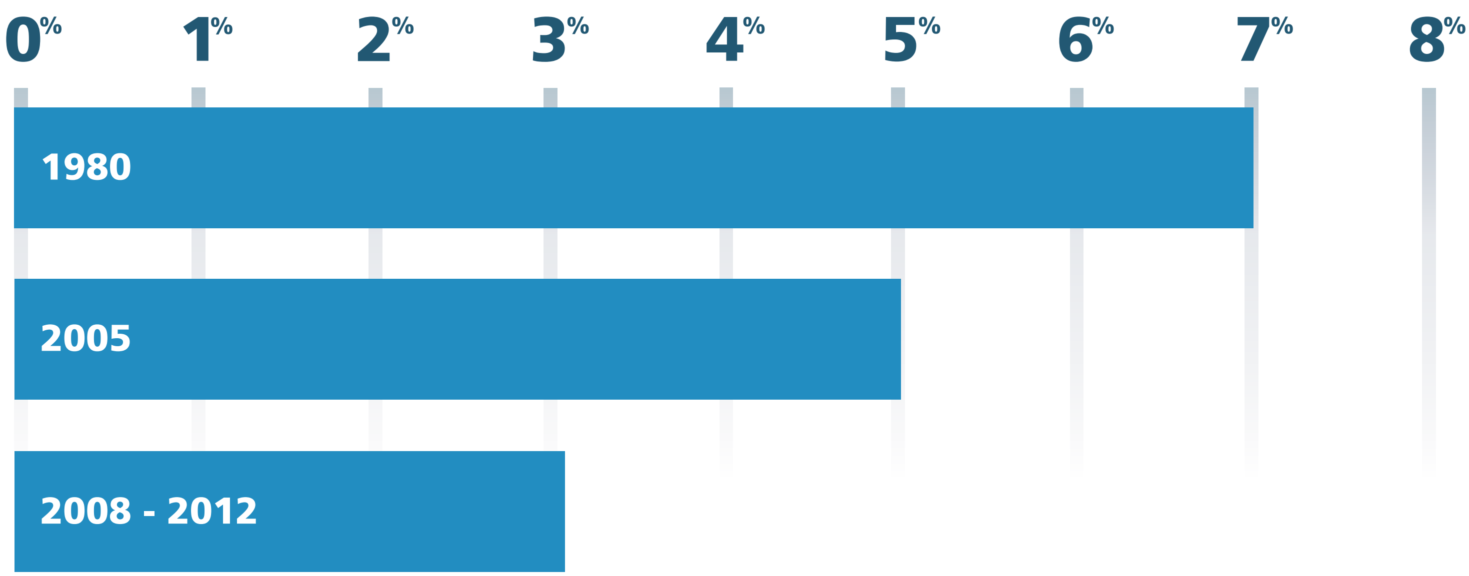
In 1986, corporate state income taxes accounted for 0.50 percent of the total economic activity of states (Gross State Product). By 2011, the most recent year reported, corporate taxes had fallen by a third to just 0.34 percent of GSP, according to 90 Reasons We Need State Corporate Tax Reform, a **new report** by Citizens for Tax Justice. In 2012, state corporate income taxes accounted for 6.1 percent of all state general revenues, down from 6.9 percent of total state revenues in 2008, according to an analysis of state corporate tax data by the Center for Effective Government.

In 1980, corporations paid more than seven percent of their profits in state income taxes, according to a **study** conducted by the Federal Reserve Bank of San Francisco. That study found that, 25 years later in 2005, corporations were paying on average less than five percent of their profits in state income taxes. The staff at the Federal Reserve found that the decline in the level of corporate taxes paid was not due to states reducing corporate tax rates over the past two and half decades, but for two other reasons: a new tax avoidance strategy by corporations and new tax credits enacted by states.

> ***"Federal Reserve researchers reported that there is no evidence that cutting taxes creates jobs and noted that high-tax states delivered stronger sustained economic growth than low-tax states."***

During this period, corporations set up passive investment vehicles that allowed them to shift their profits from high-tax states to lower-tax states. Partially in response, states started adopting investment tax credits and research and development tax credits, in the hope that these tax breaks would encourage corporations to invest more in their existing facilities and maintain or increase employment. However, the Federal Reserve researchers reported that there is no evidence that cutting taxes creates jobs and noted that high-tax states delivered stronger sustained economic growth than low-tax states.

Percentage of Corporate Profits Paid as State Income Taxes 1980-2012



Source: **Federal Reserve Bank of San Francisco; Citizens for Tax Justice**

In the five years ending in 2012, large corporations paid a bit more than three percent of their income in state taxes, according to the Citizens for Tax Justice's **new study** of corporate state tax payments. CTJ examined 269 of the Fortune 500 companies that were profitable in each of the five years between 2008 and 2012 and disclosed aggregate state income tax payments and found that 90 companies avoided paying any state taxes in at least one of the five years, even though they were profitable. Thirty-seven firms reported no state tax payments in more than one year, and ten paid no net state taxes over the entire five-year period. Given that the average state corporate income tax rate is 6.25 percent, CTJ calculated that these 269 corporations used loopholes, credits, and deductions to avoid paying $73 billion in state income taxes, depriving state coffers of $15 billion a year.

Ten Profitable U.S. Corporations That Paid No Net State Income Taxes Between 2008-2013

Company	*Effective State Tax Rate*
Pepco Holding	-8.6%
Levi Strauss	-4.0%
Rockwell Automation	-1.0%
International Paper	-0.8%
Merck	-0.7%
MetroPCS Communications	-0.7%
American Electric Power	-0.3%
DuPont	-0.2%
Apache	0.0%
Boeing	0.0%

Source: **Citizens for Tax Justice**

However, state governments have been working to patch the loopholes. Over the past decade, many states have been able to close the loopholes that allowed corporations to shift profits from high-tax to low-tax states. Nearly half of the states have adopted "combined reporting" tax rules that have foiled company's efforts to cherry-pick which state to report their income to. In states with combined reporting, taxes are calculated based on a formula that heavily weights how much a company sells in a state, rather than simply where the company chooses to reports its income.

"The "water's edge" offshore loophole costs state governments more than $1 billion in lost tax revenue every year."

However, because federal and state tax systems are still tightly interwoven, the amount of state tax revenue lost to corporate tax avoidance is understated. When federal tax rules allow companies to shift U.S. profits offshore (where they can avoid U.S. taxes), or take overly generous write-offs of new equipment purchases, this income disappears from state tax returns as well. Some states adjust federal taxable income by disallowing some of these federal deductions, but more can be done. One current example of states boosting revenue by disallowing federal deduction is closing the "water's edge" offshore loophole that costs state governments more than $1 billion in lost tax revenue every year, according a **report** by U.S. PIRG. To close this loophole, states can simply require corporations to add back the profits that they've posted in one of the world's tax haven nations to their state income.

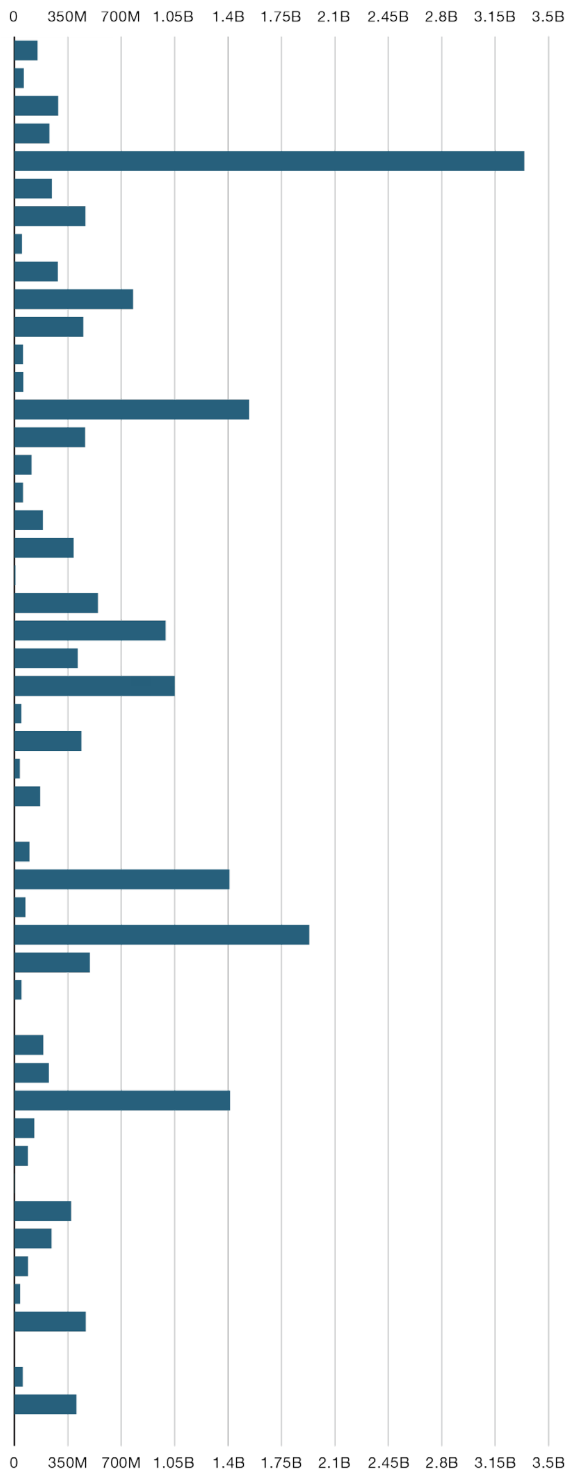
Yet corporations continue to search for ways to reduce their tax bills. Another effective strategy for them has been to aggressively fight for – and win – state and local subsidies linked to job creation. Often these subsidies are poorly constructed and fail to provide the promised economic benefit: either companies do not create all the jobs they promised, or they fail to maintain these jobs when another, more attractive deal comes along. Subsidies take many forms, including tax credits, direct cash payments, and even permission by states for employers to keep their employees' state income tax withholding funds for use by the corporation. (The latter is profiled in Good Job's First report, **Paying Taxes to the Boss.**)

Offshore Tax Dodging
State Revenues Lost to Havens

Some states are going after multinational corporations which avoid state taxes by stashing some of their earnings in overseas tax havens. States lost an estimated $20.7 billion in corporate income tax revenue in 2011, the most recent year for which numbers are available.

KEY
■ DOLLARS LOST

State	$ LOST, IN MILLIONS
Alabama	151
Alaska	61
Arizona	286
Arkansas	229
California	3,341
Colorado	246
Connecticut	465
Delaware	49
D.C.	284
Florida	777
Georgia	451
Hawaii	57
Idaho	58
Illinois	1,538
Indiana	463
Iowa	112
Kansas	56
Kentucky	187
Louisiana	388
Maine	7
Maryland	547
Massachusetts	991
Michigan	415
Minnesota	1,050
Mississippi	45
Missouri	439
Montana	35
Nebraska	168
Nevada	N/A
New Hampshire	98
New Jersey	1,409
New Mexico	72
New York	1,932
North Carolina	494
North Dakota	46
Ohio	N/A
Oklahoma	189
Oregon	225
Pennsylvania	1,413
Rhode Island	130
South Carolina	88
South Dakota	1
Tennessee	371
Texas	243
Utah	89
Vermont	37
Virginia	467
Washington	N/A
West Virginia	55
Wisconsin	406
Wyoming	N/A



Sources: U.S. PIRG (2011 Data)
Note: N/A indicates the state does not collect corporate income taxes

Stateline infographic by Adam Rotmil
March 10, 2014

Source: US PIRG; Graphic: Pew Charitable Trust

Top Corporate Subsidy Recipients	
1996 - 2014	
Boeing	$13 billion
Alcoa	$5.6 billion
Intel	$3.9 billion
General Motors	$3.5 billion
Ford Motors	$2.5 billion
Source: Good Jobs First, Subsidizing the Corporate One Percent, 2014	

Increasingly, corporations stoke competitive fires between states by offering to bring jobs to the highest bidder. This fiscal death spiral of state-on-state tax competition takes about **$80 billion** from state coffers each year, according to The New York Times.

Good Jobs First has identified the states with the most "megadeals" – i.e., deals that involve at least $75 million in subsidies. Twenty-one states made megadeals totaling $1 billion or more between 1996 and 2013.

The Center for Effective Government analyzed state budget data collected by Governance magazine, a professional journal for state public officials. Thirty-four of the 46 states that have corporate income taxes saw their corporate tax revenue decline from 2008 to 2012 on an inflation-adjusted basis. Among the eight states that were able to maintain corporate tax collections, six were able to increase state spending between 2008 and 2012, suggesting that adequate state revenue helps states maintain the resources to meet people's needs for vital state programs like education, environmental protection, and infrastructure, even during an economic downturn. Among the 34 states where corporate tax collections fell, only seven posted increases in state budgets after adjusting for inflation.

$80 BILLION

"State-on-state tax competition takes about $80 billion from state coffers each year."

Top States Offering Corporate Megadeals	
New York	$11.4 billion
Michigan	$7.1 billion
Oregon	$3.5 billion
New Mexico	$3.4 billion
Washington	$3.2 billion
Louisiana	$3.2 billion
Texas	$3.1 billion
Tennessee	$2.5 billion
Alabama	$2.4 billion
Mississippi	$2.3 billion
Pennsylvania	$2.1 billion
Minnesota	$1.8 billion
Missouri	$1.7 billion
North Carolina	$1.6 billion
South Carolina	$1.5 billion
Ohio	$1.5 billion
New Jersey	$1.4 billion
Kentucky	$1.3 billion
Florida	$1.3 billion
Illinois	$1.2 billion
Indiana	$1.1 billion

Source: Good Jobs First, **Megadeals**

Federal Grants to States Have Fallen Sharply Since 2010

When the economy collapsed in late 2008, Congress responded initially with a $700 billion bailout of banks and auto companies. A few months later, in early 2009, with the economy continuing to shed tens of thousands of jobs a month, Congress passed a second bill, the American Reinvestment and Recovery Act. This economic stimulus bill infused $787 billion into the economy through a combination of infrastructure spending (45 percent of ARRA spending), tax cuts (38 percent), and additional federal revenue sharing with state and local governments (18 percent), with a total of $144 billion in pass-through money to states in 2009-2011. The additional guaranteed help to the unemployed and poor that the federal government provides in a recession (EUC, SNAP, Medicaid) also helped state economies come back. Unfortunately, the federal stimulus program ended before states fully recovered.

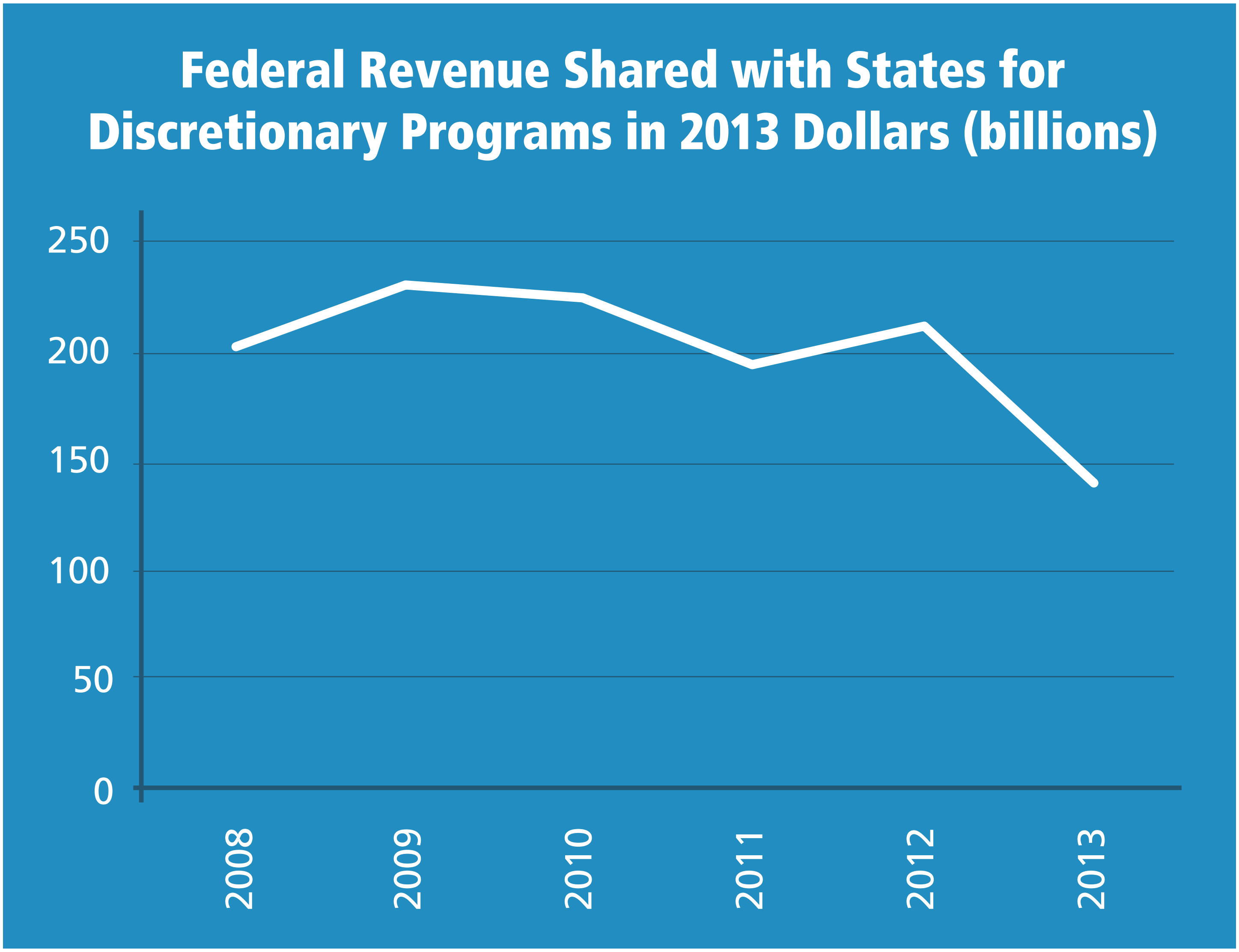
During national emergencies in the not-so-distant past – like a war or severe economic downturn – the federal government gave substantial assistance to states in distress and funded these efforts by asking America's most prosperous individuals and corporations to help pay for temporary assistance and to restore public services.

But in 2011, the new Congress embarked on a different and damaging path. The Budget Control Act of 2011 (BCA) capped federal spending through 2021 and established a special joint committee of Congress that was tasked with finding specific, targeted budget cuts. This committee failed to find these cuts, triggering automatic, across-the-board cuts in federal discretionary spending last year.

The end of the stimulus program, coupled with these automatic federal spending cuts, dealt a harsh blow to state budgets.

While overall federal revenue sharing with states grew 9.4 percent between fiscal 2008 and fiscal 2013 (after adjusting for inflation), this growth was only the result of reimbursements for mandatory programs based on economic need. These so-called "entitlement programs" include Medicaid, Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and the School Lunch Program. Because these programs automatically expand and contract based on citizen need, they are not impacted by the Budget Control Act or the sequester.

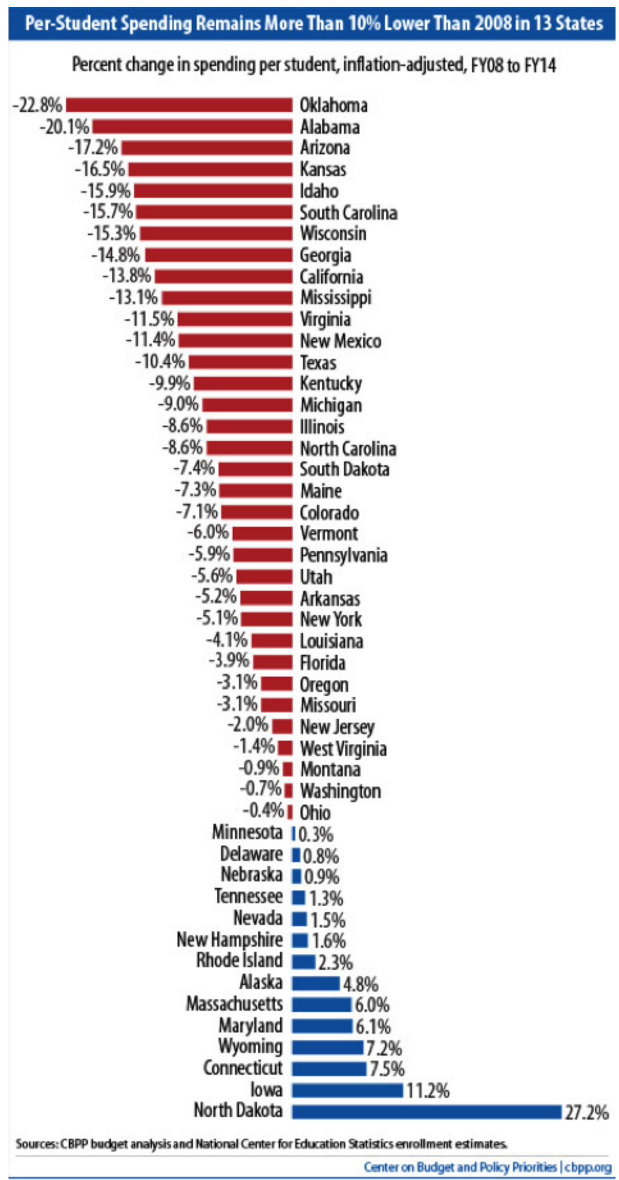
That means that the force of federal austerity efforts was focused squarely but not exclusively on "discretionary" state programs that the federal government helps fund. Discretionary programs include education, transportation, environmental programs, and other regulatory protective services. Federal revenue sharing to fund state discretionary programs plummeted last year, dropping to $142.2 billion, down from $207.2 billion the previous year. Between 2008 and 2013, federal support for state discretionary programs fell by 29.7 percent, after adjusting for inflation.


Federal Revenue Shared with States for Discretionary Programs in 2013 Dollars (billions)
250
200
150
100
50
0
2008
2009
2010
2011
2012
2013

Examples of the Consequences of Corporate Tax Avoidance: Erosion of Educational Resources

Between July 2009 and January 2013, 744,000 state and local government workers lost their jobs. In the 14 months since, less than 80,000 of these jobs have been filled, according to the Bureau of Labor Statistics. America's teachers and school children were particularly hard hit by these cuts. Classroom teachers accounted for 355,000 jobs lost, nearly half of the total state and local government jobs that ended during the economic meltdown. Between the 2010 peak of stimulus aid and 2013, federal education funding to states declined nearly 40 percent, even as school enrollments continued to grow.

As a result, two-thirds of the states provided less funding for pupils for the 2013 – 2014 school year than they did in 2007, according to an **analysis** prepared by the Center on Budget and Policy Priorities (CBPP). Thirteen states have cut per-student funding by more than 10 percent over the last five years, according to CBPP.



How Do We Restore Funding for State and Local Communities? Let's Go Retro and Demand That Profitable Corporations Pay Their Taxes Like It Was 1973

With record profits, corporations could pay a larger share of their profits to invest in our aging physical infrastructure and to protect against new health and environmental risks. With more corporate taxes, we could rehire laid-off teachers and first responders, help shore up municipal finances, and undertake repairs and new projects to keep our communities strong, healthy, and vibrant.

We could close tax loopholes that reward corporations for shifting jobs and profits offshore and for exorbitantly compensating their executives.

In fact, if corporations today paid taxes at the same rates they paid under the Eisenhower or Nixon administrations, significant new revenues would be available to the nation.

If Corporations Paid the Same Proportion of Taxes as In Times Past...

Year	*President*	*Corp Income Tax Paid (in Billions of 2013 dollars)*	*Corp Tax as % of GDP*	*Corp Tax as % of Fed Budget*	*Corp Profits as % of GDP*
1953	**Eisenhower (R)**	**$185.3**	**5.9%**	**30.5%**	**5.9%**
1973	**Nixon (R)**	**$189.7**	**2.7%**	**15.7%**	**6.7%**
1993	**Clinton (D)**	**$117.5**	**1.7%**	**10.2%**	**4.7%**
2013	**Obama (D)**	**$273.5**	**1.6%**	**9.9%**	**12.5%**

At present, the debate around corporate tax reform is almost exclusively focused on how much corporations can "afford" to pay while remaining competitive. This must change.

Last year, corporate profits reached record levels – more than 12 percent of GDP. At the same time, corporate taxes were less than two percent of GDP. Corporations can, and should, pay far more. At one time, they did. Even today, they pay higher taxes in other developed countries than they do in the U.S.

Sources: President's Budget Historical Tables *2.1, 2.2, 2.3*

If corporate tax payments had grown at the same rate as the overall economy since 1953 (were the same percentage of the economy they were when Eisenhower was president), corporations would have paid $957 billion last year, $683 billion more than they actually paid. If corporate tax payments were the same share of the economy as in 1973, when Richard Nixon sat in the Oval Office, corporations would have paid $461 billion in 2013, $188 billion more than they actually paid.

With an additional $188 billion in corporate taxes (which would raise corporate taxes to about 3.5 percent of GDP) we could spend $36 billion and refill the 667,000 state and local public jobs lost to budget cuts. We can put unemployed Americans back to work educating our kids, responding to emergencies, repairing our roads, collecting our trash, and tending our parks and public spaces.

We could also make a long-term investment in repairing our roads, bridges, schools, levees and dams, and public water systems. The American Society of Civil Engineers (ASCE) estimates that a sustained investment of $125 billion a year would bring our infrastructure up to 21st century standards. This sort of investment would help businesses operate more efficiently (ASCE estimates that deficient infrastructure costs businesses nearly **$1 trillion a year** in traffic delays, vehicle repairs, and delivery problems, among other things) and would make our economy more attractive to investors. It would also **create 2.5 million new jobs.**

We could use the remaining funds to restore cuts to Head Start, the Supplemental Nutrition Assistance Program, Meals on Wheels, Housing Choice vouchers, and restore funding for environmental protection and for student financial aid.

Demanding that the corporations that have grown and prospered from the social, political, and economic structures in America contribute to the support of the nation is simple equity. We can achieve a new prosperity this way in four simple steps:

Step 1: Adopt corporate tax reform that ensures companies help pay for the public systems that benefit their business and the national economy

Given our continuing high rates of unemployment and stagnant wages, many Americans want to see U.S. corporations contributing more to help the nation – especially since many of these same corporations relied on the government for assistance when the financial crisis occurred. We can raise significant revenue from profitable corporations by closing the following loopholes and adopting one new tax.

End Deferral of Taxes on Offshore Profits (would raise $59 billion per year)

In the 1960s, the Kennedy administration, eager to support U.S. businesses expanding into foreign markets, adopted a rule that allowed U.S. taxes on foreign income to be put off, or deferred, until those funds were brought back to the U.S. While this rule made sense at the time, modern corporations use it as the major tool to avoid paying U.S. taxes. U.S. multinational corporations have amassed more than $2 trillion of offshore profits, much of it in tax havens and all of it untaxed in the U.S. While there are many proposals for stemming this outflow of profits and jobs, none is more effective than simply ending deferral. If this were done, corporations would report their offshore income on their U.S. tax returns and then get a full credit for all taxes paid to a foreign government. If they are operating in a country with a corporate tax system similar to ours, they would owe little to no additional tax at home. If, however, they are sheltering their income in a tax haven, they would be responsible for the full American tax rate. Sen. Bernie Sanders (I-VT) and Rep. Jan Schakowsky (D-IL) have introduced the Corporate Tax Fairness Act, which would end the deferral provision.

Close CEO Pay Loopholes (could raise $5 billion a year)

In 1993, Congress tried to control soaring executive pay by instituting a cap on how much pay corporations could deduct from their taxes. They settled on a figure of $1 million per executive per year. Companies could continue to pay their top management as much as they wanted, but they would only receive tax breaks on the first million dollars per employee. As the bill moved toward final passage a giant loophole was inserted, allowing unlimited deductions so long as the pay was deemed to be "performance based." That loophole had the perverse impact of accelerating executive compensation to levels never before seen as companies replaced cash compensation (which faced limited tax deductibility) with stock-based bonus compensation that would be fully deductible. Closing this loophole will increase the funding the federal government has available for aid to states by **$50 billion** over the next decade. Sens. Jack Reed (D-RI) and Richard Blumental (D-CT) have introduced the **Stop Subsidizing Multimillion Dollar Corporate Bonuses Act**, which would close this loophole.

Adopt a Wall Street Sales Tax (could raise $174-354 billion a year)

Excessive speculation and lax oversight resulted in Wall Street excesses crashing the economy in 2008. While communities across America are still struggling to fully recover, Wall Street is once again thriving – paying its employees more than $1 billion in bonuses last year. Hundreds of billions of dollars could be generated by establishing a small sales tax on trades of stocks, bonds, and other financial assets like futures contracts and credit default swaps (the latter played a powerful role in the 2008 financial collapse). The European Union will begin to impose a financial transaction tax later this year. In contrast, Congress has failed to act, although several bills have been introduced in Congress that would impose different levels of tax. We believe that at least a portion of this revenue should be dedicated to increased federal aid to states and cities. States and cities were particularly hard hit by the 2008 economic crash, and it would be fitting for Wall Street's excessive trading profits to be channeled to rebuilding local economies.

Step 2: Demand That the Super Wealthy Contribute to the Nation

Tax Wealth Like Work (could raise $161 Billion a year)

If you invest for a living in America, you are taxed at half the rate you would be if you worked for a living. Discounted tax rates on capital gains (the money one makes buying and selling stocks and other assets) cost the US Treasury $161 billion last year. Each year, the **IRS publishes detailed data** on the taxes paid by the 400 richest Americans. In 2009 (the most recent year studied – the data is delayed because taxpayers have three years to file amended tax returns), the average income of a top 400 taxpayer was $202 million; it took $77 million to just qualify for this exclusive club. The collective income of these 400 people exceeded $7 trillion. Among the top 400, $49 billion of their income came from dividends and capital gains taxed at reduced rates, and just $7 billion came from wages or salaries.

Because of this heavy reliance on tax breaks on income from investments, the richest 400 taxpayers paid an effective tax rate of just 19.9 percent.

The Buffett Rule (could raise $5 billion a year)

Billionaire investor Warren Buffett, the second wealthiest man in America, surveyed his office and found that his 17 percent federal tax rate was lower than all of his staff, including his secretary. Struck by this blatant inequity, Buffett called for a change in the law. In response, Congress and the president have each proposed a "Buffett Rule," in which wealthy Americans earning more than $1 million a year would pay at least 30 percent of their income in taxes to help pay for the cost of public services and investments.

Step 3: Repeal the Budget Control Act of 2011

Slashing government spending takes money out of the economy and reduces the opportunity for growth and recovery. When teachers, infrastructure construction workers, and first responders lose their jobs, they no longer spend money at neighborhood stores, gas stations, and restaurants. Mandatory spending cuts such as those imposed by the Budget Control Act reduce public services, penalize public sector workers, and harm the communities where they live.

January's Murray-Ryan budget compromise was widely reported as bringing some relief from the automatic mindless across-the-board cuts known as the "sequester." Some media sources even proclaimed that the "age of austerity" had ended. But the BCA was a ten-year commitment and it is still in effect. It limits our nation's ability to invest in new needs – like expanding Social Security to address the looming retirement security crisis or to address emerging threats like climate change and new infectious diseases.

Step 4: Insist Corporations Pay State Taxes

De-Couple State Taxes from Wasteful Federal Tax Giveaways (amount raised depends on the particular federal tax benefits eliminated from state tax returns)

The federal tax code is loaded with corporate tax breaks, thanks to expensive lobbyists and large campaign contributions. Unfortunately, many states use the taxable income portion of federal tax forms as a basis for calculating state taxable income. When they do, states are reinforcing federal tax breaks. State legislators can prevent this by critically examining the worst of these tax breaks and requiring companies to add them back into their state taxable income. More than half the states require corporations to add back in benefits from bonus depreciation rules in the federal tax code. Bonus depreciation allows corporations to deduct 50 percent of the cost of new property or equipment in the year it was purchased, rather than spreading out the deduction over the useful life of the equipment. President Obama extended bonus depreciation three times since. The provision expired at the end of last year, one of 55 tax breaks that ended. Congress is expected to renew these largely corporate tax breaks soon. Even while stopping federal assistance to the states or extended unemployment benefits to millions of Americans, Congress appears willing to allow the continuation of corporate tax breaks.

Close Water's Edge Loophole (could raise more than $1 billion)

Twenty-three states and the District of Columbia have in place combined reporting provisions that calculate corporate state income based on a formula that considers where sales transactions occur. In these states, legislators can require corporations to add back any income earned "beyond the water's edge" of U.S. territorial boundaries in offshore tax havens. Montana and Oregon have already made this change, and Maine is currently actively debating legislation that would end this loophole.

Improve Corporate Tax Disclosure

At present, corporations provide very little information on the taxes they pay. Federal disclosure rules require them to make estimates of taxes they expect to pay but do not require them to reveal exactly how much they pay to the federal government. Companies are supposed to disclose how much they pay in taxes to the 50 states collectively, but some corporations ignore even this modest requirement. In Citizens for Tax Justice's recent report on state taxes, they found that 19 of the 288 companies studied provided not even the minimal state tax disclosure required by the Securities and Exchange Commission (SEC).

The SEC should enforce current tax disclosure regulations, and they should extend tax disclosure rules and require all firms to disclose the taxes they pay in each state where they operate. A corporation should also be forced to disclose the amount and purpose of public subsidies it receives, including the impact of these subsidies on their businesses and whether the subsidies resulted in additional jobs.

Enact Federal Legislation Outlawing Interstate Tax Subsidy Competition (could save states $80 billion a year)

Corporations are currently playing states off against one another in a competition to keep existing jobs or attract new ones. These corporate tax subsidies – whether paid in cash or in tax credits – cost state and local governments about $80 billion a year, according to a 2012 **study** by *The New York Times.* These subsidies deplete state economic development resources and often fail to deliver the jobs promised by the corporation. Stopping this race to the bottom has proven difficult. Congress should consider enacting legislation that ties continuing federal revenue sharing to ending these wasteful subsidies. This would help level the playing field for states that refuse to engage in this kind of jobs blackmail, and it would ensure that the federal revenue assistance to states is not siphoned off to support for profitable corporations instead of helping to provide much needed public services like education and infrastructure to citizens.

Enact the Marketplace Fairness Act (could raise an additional $23 billion in sales tax revenue for states)

For the last two decades, a court decision has blocked states from applying state sales taxes to Internet transactions undertaken by residents in their states. Allowing tax-free Internet sales has allowed e-commerce to thrive and has created an unfair disadvantage for Main Street merchants; many failing small businesses site the competition from Internet distributors as the source of their demise. Enacting this legislation would allow states to tax Internet sales and recapture $23 billion a year in lost sales tax revenue.

Corporate Cheaters Penalty

Several recent studies have exposed that in addition to starving state and federal budgets of revenue, many large corporations are, in effect, double-dipping by relying on government programs to supplement their poorly paid workers' wages. The fast-food industry alone is costing tax-payers nearly **$7 billion per year** in public assistance to their underpaid workers. Corporations must pay a living wage with benefits to their workers or pay a substantial penalty to supplement workers' pay, allow workers a venue to collectively negotiate with their employees, and pay for the provision of government services.

Our Choice: Higher Corporate Profits or Public Structures that Work for Everyone

America's leading corporations are experiencing record profits. Some of the largest corporations rely on public spending for a majority of their business. Others dominate the market in their respective industry and use their size and market share to increase their profits (rather than competing on innovation and service). All of these corporations have been able to grow and prosper because of the legal protections and social and economic benefits that America provides. We have a huge national consumer market, an effective system of interstate commerce, a functional national transportation and communications system, an affordable and secure energy grid, a large business services industry, and an educated workforce. But American families are struggling. More than 10 million Americans are out of work, and nearly half of them have been jobless for more than six months. The salary and wages of most Americans have been stagnant for decades, and millions have faced foreclosure and retirement insecurity.

This divide is pulling the country apart.

And yet in the midst of these national difficulties, some of America's largest corporations are calling for lower taxes.

With corporate profits at record levels, stock markets reaching new highs each month, and CEO pay once again soaring, the idea that current tax rates on corporate profits hurt the competitiveness of American businesses is blatantly false. In fact, most U.S. multinational corporations pay a higher rate of tax on their income earned in foreign countries than they pay on their U.S. profits. Of the 125 multinational corporations studied by Citizens for Tax Justice in their recently released *Sorry State of Corporate Taxes* report, two-thirds paid an average 27.3 percent tax rate in foreign nations and just 15.8 percent in U.S. taxes. Across the entire 125-company universe, the companies studied paid an average foreign tax rate nearly three percent higher than their average tax rate on U.S. income.

Unfortunately, corporate tax reform has bipartisan support in Congress. Both President Obama and House Ways and Means Committee Chairman Dave Camp (R-MI) have proposed sweeping corporate tax reform that would eliminate many loopholes and lower corporate tax rates. While the two plans differ in significant ways, both propose *lowering* the official tax rate on corporate profits instead of asking extremely profitable corporations to contribute more to the national infrastructure that makes their success possible.

We've seen how that story ends. Even if a disastrous 'revenue neutral' proposal carries the day, it won't hold once corporate lobbyists dive back in to re-open their favorite loopholes. The multinational corporations that have parked profits in offshore tax haven accounts to avoid paying U.S. taxes are demanding another corporate "tax holiday," which would allow them to bring a large portion the more than $2 trillion of untaxed assets they have offshore back into the U.S. by paying pennies on the dollar of what they would otherwise owe.

Bipartisan bills have been introduced in the House and Senate to capitalize an infrastructure bank using money generated from a corporate tax holiday. President Obama has proposed a similar one-time tax on untaxed offshore profit that would provide hundreds of billions of dollars of tax forgiveness to the very corporations that have gamed the tax system the most. There's a better way to raise money for infrastructure – end the deferral provision that allows corporations to play this game. Doing so will generate $59 billion *every year*, rather than the $150 billion one-time amount that would be raised by the Obama plan.

Conclusion

We can demand more of American corporations. We have in the past. Part of the reason corporations have been able to accumulate so much wealth and power is because they have been able to shirk their responsibilities to the nation and to the American people by continually reducing the share of their profits they provide to support the common good. It's time to reverse this trend. We need to enact tax laws that require corporations to pick up a more proportional share of the costs of public goods and services they depend upon for their success and that reflect the advantages they enjoy by having unfettered access to American markets and consumers.

Those who have done well in America should do right by America. The American people are struggling, and it's time for corporate America to step up its contributions to the public systems that ensure we have a free and democratic country in which every American can succeed and thrive.

Endnote:

The original version of this report mistakenly stated that in 2012 Facebook saved $16 billion in taxes using the stock-based loophole, when in fact Facebook may eventually be able to reduce their taxable income by that amount. Additionally, while the report initially stated that thirty-five of the 46 states with a corporate income tax saw their corporate tax revenue decline between 2008 and 2012, this is true of only thirty-four states. These mistakes were corrected on March 28th, 2014 to ensure the accuracy of the report.

Also in the original report, on pages 1 and 22, if corporate taxes accounted for the same share of the economy as they did in 1973, corporations would have paid $461 billion in 2013, $188 billion more than they actually paid, not $738 billion and $464 billion respectively, as originally reported. On page 2 and 22 we reduced the size of the $200 billion assumed to fund job creation to $188 billion to reflect the change made above. The $188 billion remains enough to fund the 2.5 million jobs described in the paragraph. This change was made on June 23, 2013.

Appendix

2012 State Revenues Coming from Federal Government			
Rank	*State*	*% General Revenue from Federal Government*	*Total Revenue from Federal Government (in thousands)*
1	Mississippi	45.35%	$7,725,294,000
2	Louisiana	43.95%	$11,136,334,000
3	Tennessee	41.02%	$11,198,575,000
4	South Dakota	40.85%	$1,630,220,000
5	Missouri	39.42%	$10,440,927,000
6	Montana	38.46%	$2,202,444,000
7	Georgia	38.06%	$13,794,726,000
8	Arizona	38.04%	$10,394,549,000
9	New Mexico	36.61%	$5,171,367,000
10	Maine	36.50%	$2,883,526,000
11	Alabama	36.50%	$8,112,509,000
12	Oregon	36.09%	$7,830,552,000
13	Wyoming	36.00%	$2,213,249,000
14	Kentucky	35.69%	$8,056,691,000
15	Oklahoma	35.54%	$7,363,043,000
16	Idaho	34.90%	$2,479,094,000
17	Ohio	34.88%	$20,687,909,000
18	Vermont	34.79%	$1,904,382,000
19	West Virginia	34.71%	$4,267,399,000
20	Texas	34.51%	$37,310,756,000
21	Arkansas	34.47%	$5,900,988,000
22	Nebraska	34.34%	$3,141,413,000
23	Rhode Island	33.96%	$2,310,656,000
24	Michigan	33.74%	$17,849,942,000

Rank	State	% General Revenue from Federal Government	Total Revenue from Federal Government (in thousands)
25	Iowa	33.27%	$6,073,376,000
26	North Carolina	33.24%	$15,192,577,000
27	Indiana	32.96%	$10,441,125,000
28	New York	32.78%	$48,698,785,000
29	South Carolina	32.45%	$6,892,660,000
30	Florida	32.08%	$22,850,620,000
31	Utah	31.61%	$4,481,494,000
32	Pennsylvania	30.63%	$20,481,434,000
33	Maryland	30.25%	$10,031,017,000
34	New Hampshire	29.00%	$1,693,289,000
35	Colorado	28.85%	$6,310,538,000
36	Massachusetts	28.81%	$12,920,153,000
37	Washington	28.59%	$9,743,127,000
38	Wisconsin	28.19%	$8,855,079,000
39	Minnesota	28.13%	$9,608,018,000
40	California	27.17%	$54,145,284,000
41	Kansas	26.95%	$4,061,217,000
42	New Jersey	26.25%	$13,412,749,000
43	Illinois	25.66%	$15,646,844,000
44	Nevada	25.48%	$2,798,426,000
45	Delaware	24.46%	$1,814,112,000
46	Connecticut	23.61%	$5,781,844,000
47	Hawaii	23.55%	$2,352,114,000
48	Virginia	23.53%	$9,278,113,000
49	North Dakota	20.49%	$1,750,134,000
50	Alaska	19.97%	$2,860,509,000

Sources: **State Budget Solutions**