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Congress Should Revisit 2017 Tax Law's Trillion-Dollar Corporate Rate Cut in 2025

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A major tax policy debate is expected in 2025 over the pending expiration of the individual and estate tax provisions of the 2017 tax law. But policymakers should also use that debate to revisit the 2017 law's deep, permanent cut in the corporate tax rate, from 35 to 21 percent. A growing body of research shows that the corporate rate cut has delivered large gains to top earners but done little for everyone else. Raising the corporate rate to 28 percent, as President Biden has proposed in his 2025 budget, would raise about $1.3 trillion over a decade, according to the Treasury Department, strengthening the federal budget outlook and supporting critical investments.[1]

- **New research shows the corporate rate cut overwhelmingly benefited top earners and executives, failing to trickle down to rank-and-file workers**. During the 2017 debate, Trump Administration officials claimed the rate cut would "very conservatively" lead to a $4,000 boost in household income. A rigorous new study by economists from the Joint Committee on Taxation (JCT) and the Federal Reserve Board found that workers below the 90th percentile of their firm's income scale — a group whose incomes were below roughly $114,000 in 2016 — saw "no change in earnings" from the rate cut.[2] Earnings did, however, increase for workers in the top 10 percent, and "increase[d] particularly sharply for firm managers and executives."[3] Gains to shareholders are also highly concentrated at the top; the bottom 50 percent of households by net worth held just 1 percent of overall equities as of 2019.[4]
- **Corporate rate cuts are costly and don't come close to paying for themselves.** JCT estimates the corporate rate cut will cost $1.3 trillion over 2018-2027, making it the most expensive part of the 2017 tax law.[5] Another new study by a team of economists from Harvard, Princeton, the University of Chicago, and the Treasury Department estimates that the corporate tax cuts led to essentially dollar-for-dollar revenue losses, even after accounting for increases in investment due to those cuts, contrary to proponents' promises that 2017 law would pay for itself.[6] The separate study by JCT and Federal Reserve economists cited above found that every dollar of corporate tax rate cuts leads to 85 cents of net revenue losses.
- **Recent trends suggest the degree to which the corporate tax distorts business activity is likely declining.** According to tax scholars Edward Fox of Yale University and Zachary Liscow of the University of Michigan, the negative economic impacts of the corporate tax

are likely decreasing over time, due to a rise in market power and so-called "super-normal profits" — returns on an investment beyond the level required to undertake the investment — as well as changes in tax rules.[7] UCLA economist and former Treasury Department official Kim Clausing explains that these "market power considerations strengthen the argument for the corporate tax."[8]

- **Alternatives to corporate tax cuts are available that would directly and substantially benefit workers and families.** Rather than hope that corporate tax cuts will eventually, indirectly benefit lower- and middle-income households by boosting the economy, policymakers can provide more effective direct help to families that face challenges affording the basics — and secure lasting gains in health, education, and earnings for children in those families — by making investments such as expanding the Child Tax Credit and Earned Income Tax Credit (EITC) and expanding access to affordable, high-quality child care that can broaden opportunity and support a stronger, fairer economy. Partially reversing the corporate rate cut would raise revenue to help finance these investments and improve the nation's fiscal outlook.

The Smith-Wyden bipartisan tax legislation, which recently passed the House and is pending in the Senate, further highlights the need to revisit the deep corporate tax rate cut. Along with important Child Tax Credit expansions and improvements, the package includes three corporate tax cuts that temporarily reverse, in whole or in part, provisions enacted in the 2017 tax law to help offset some of the cost of that law's corporate tax rate cut. The Child Tax Credit expansions in the bill would meaningfully boost the incomes of millions of families and significantly lower child poverty, and the Senate should pass the bill as soon as possible. If the bill is enacted, however, these three corporate tax cuts should be allowed to expire as scheduled in 2025 or, at a minimum, they should not be continued absent other measures.

Reforming the corporate tax — such as by raising the rate to 28 percent, a level halfway between the pre-2017 and current rates — would make the tax code more progressive[9] and generate needed revenue. The public broadly supports higher taxes on corporations. According to a 2023 survey from the Pew Research Center, the top concern that people in the U.S. have with the federal tax system is that "some corporations don't pay their fair share," followed by a concern that some wealthy people don't pay their fair share.[10] The survey found that about two-thirds of U.S. residents support raising taxes on large businesses and corporations. And for good reason — corporations and their shareholders benefit tremendously from government investments that create conditions for economic growth, from education, research, infrastructure, and child care to supports that help children succeed in school and in the labor market later in life.

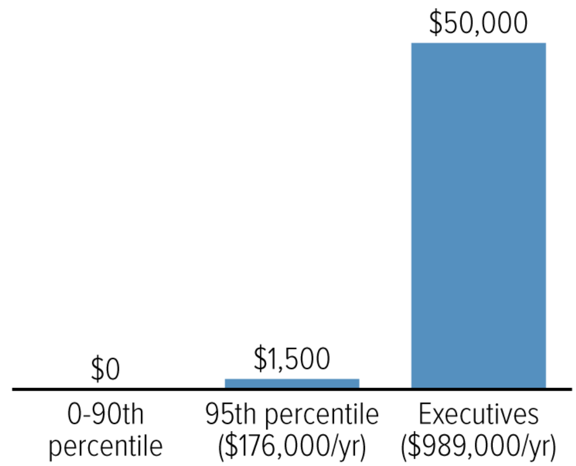
Evidence Shows Corporate Rate Cut Largely Left Out Rank-and-File Workers

During the debate over President Trump's 2017 tax proposal, Administration officials and prominent proponents of the corporate tax cut proposal claimed that it would yield broadly shared benefits by boosting economic growth. President Trump's Council of Economic Advisers claimed the rate cut would "very conservatively" lead to a $4,000 boost in average household income.[11] (The Tax Policy Center had previously estimated that 70 percent of the long-run benefits would accrue to the top fifth of the income distribution, providing outsized benefits to households who have already seen outsized income gains in recent decades.)[12]

After the law's enactment, a number of companies announced widely publicized, one-time bonuses for employees, which the law's proponents cited as evidence that the corporate tax cut indeed benefited workers. But the temporary bonuses were quite modest, averaging $28 per U.S. worker and totaling $4.4 billion — just 2 to 3 percent of the total benefits from the corporate tax cut, according to the Congressional Research Service (CRS).[13] At the same time, the 2017 law led to a large increase in stock buybacks, which hit a record-breaking $1 trillion in 2018; buybacks often benefit shareholders, who are disproportionately wealthy households and foreign investors,[14] by raising the value of the stock they already hold.

FIGURE 1

2017 Corporate Rate Cut Didn't Boost Most Workers' Earnings



Note: See Kennedy et al. 2023 for further details. Reported gains and salaries are averages for the listed percentiles of the within-firm income distributions in the Kennedy et al. study.

Source: Kennedy et al. 2023

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Moreover, a range of early analyses showed that the 2017 law wasn't yielding the broadly shared benefits proponents had promised. For example, a 2019 CRS report on the law's economic impact concluded, "There is no indication of a surge in wages in 2018 either compared to history or to GDP growth."[15] Similarly, a 2021 Brookings report noted that "The Trump administration claimed that the [2017 law] would provide significant benefits to workers," but Brookings found "no evidence that any wage response close to these claims occurred in 2018 and 2019."[16]

The most recent rigorous research broadly confirms these earlier findings. A study from researchers at JCT and the Federal Reserve Board finds that corporations saw increased economic activity due to the tax cut, and that earnings rose for the highest-income 10 percent of workers within their firms and "particularly sharply for firm managers and executives."[17] Workers at the 95th percentile of the earnings distribution within their firms (making about $176,000 per year) saw an average gain of $1,500 per year from the corporate rate cuts, while executives (earning $989,000 per year on average) saw average gains of approximately $50,000 per year as a result of the tax cuts.[18] *None* of the earnings gains accrued to the bottom 90 percent. (See Figure 1.)

The study also found that 49 percent of the earnings gains from the corporate cut flow to firm owners, 11 percent to executives, 40 percent to high-paid workers (those in the top 10 percent in their firms), and 0 percent to the 9 in 10 workers whose earnings place them below the 90th percentile of earners. Some workers own stock and thus receive a share of the benefits going to owners, but even taking that into account, only 20 percent of the *overall* gains from the rate cut flow to the bottom 90 percent of workers.[19] Workers with low or moderate incomes and wealth see very little of those already modest gains, because stock ownership is heavily concentrated at the top. The bottom 50 percent of households by net worth held just 1 percent of overall equities as of 2019.[20]

Shareholders and high-paid workers tend to be concentrated in geographic areas with high incomes such as the Northeast and West Coast. The authors conclude that "the corporate income tax cuts not only increase income inequality across workers, but also contribute to growing inequality across regions and community zones."[21] For example, benefits from the tax cut were roughly five times larger in the San Francisco Bay area, and three times larger in New York City, than in the median area. Because tax returns do not include information on race, the study does not examine the impact of the corporate rate cuts on racial income inequities; but as David Mitchell of the Center for Equitable Growth explains, "it is likely that the distributional impacts on display in this study represent an exacerbation of racial income gaps in the United States."[22]

Advocates of lower corporate taxes commonly argue that broad wage gains to workers will only materialize in the long run. In theory, corporate rate cuts could lead to higher wages by increasing productivity. While it is impossible to prove that corporate tax cuts would *never* lead to meaningful wage gains for workers, pointing to eventual, possible raises for workers is far too low a bar when alternative policies (discussed below) are available that would provide direct, immediate, substantial support to the workers and households who most need it. Moreover, the study by JCT and Federal Reserve economists, which extends through 2019, notes that longer-run gains for workers are possible but concludes, "[we] do not find clear effects of tax cuts on productivity in our data, and estimate zero effect on low-income workers' earnings," despite increased investment.[23]

Another new study by a team of economists from Harvard, Princeton, the University of Chicago, and the Treasury Department finds that the corporate tax cuts — including the cut in the corporate tax rate, full expensing for capital investments, and international tax changes — increased investment.[24] The study does not examine how the corporate rate cut impacted earnings for workers with low and moderate incomes. It forecasts that in the long run, the corporate tax cuts could on average increase wages by about $750 per worker, an "order of magnitude below" proponents' predictions;[25] the separate paper by JCT and Federal Reserve economists finds that wage and salary gains accrued only for workers in the top 10 percent of their firm's earnings distribution.

More broadly, in a review of the research on business taxes and labor markets, Stanford University economist Juan Carlos Suarez Serrato concluded, "The empirical evidence, in the end, does not support the belief that broad-based tax cuts consistently deliver on the promise of wage growth."[26] A 2023 overview of the trickle-down literature by Carnegie Mellon University economist Max Risch similarly found that "across different income tax policies that statutorily affect the rich, the evidence suggests the burden is predominantly born by the rich."[27] In other words, research indicates that tax cuts at the top don't generally benefit workers with low and moderate incomes. By contrast, Risch concludes that "substantial evidence suggests large direct, but also potential 'trickle-up' effects from providing benefits to low-income or vulnerable households."[28]

Corporate Rate Cut Will Cost $1.3 Trillion Over First Decade Alone

Proponents claimed the 2017 tax law would "pay for itself" by generating large amounts of new investment and economic growth.[29] Then-Treasury Secretary Steven Mnuchin, for example, said the tax plan would "pay for itself" and even "pay down debt."[30] However, the Congressional Budget Office estimated in 2018 that the total cost of the 2017 law — including both corporate and individual provisions — would be $1.9 trillion over ten years, not including the cost of interest payments on the debt from the resulting larger deficits.[31]

At a cost of $1.3 trillion over ten years, the corporate rate cut was the most expensive provision of the 2017 law.[32] While corporate tax cuts can have some positive economic effects, they don't come close to paying for themselves. The study by a team of leading Treasury and academic tax economists finds that the corporate tax cuts led to essentially dollar-for-dollar revenue losses, even after accounting for increases in economic activity due to those cuts.[33] The separate study by JCT and Federal Reserve economists estimated that for every dollar in corporate tax cuts, corporate tax revenue declines by 85 cents.[34]

Given the corporate tax cut's large cost and heavy tilt away from rank-and-file workers, policymakers should set a new course that raises revenues and makes investments that more directly expand opportunity for people and communities not already at the top of the income and wealth distributions. President Biden has proposed to reverse half of the rate cut by setting the corporate rate at 28 percent, which would raise $1.3 trillion over the next ten years.[35] President Biden's budget proposals combine this change to the corporate tax rate with updates to international corporate tax provisions, raising even more revenues. (See box, "2017 Law's International Tax Provisions Also Need Revision.") The Biden budget uses these and other revenue increases both to make investments in people, communities, and the economy and to reduce deficits.

2017 Law's International Tax Provisions Also Need Revision

In addition to the corporate rate cut, the 2017 tax law included major, permanent changes to the tax code's treatment of the foreign income of U.S.-based multinational corporations. It exempted some of that income from U.S. tax and added several provisions, including the global intangible low tax income (GILTI) minimum tax, to try to limit incentives for multinationals to shift profits to foreign tax havens.

Unfortunately, those provisions left significant room for multinationals to avoid taxes through profit shifting.[a] In 2019, economists Ludvig Wier and Gabriel Zucman found "no discernible decline in global profit shifting or in profit shifting by U.S. multinationals" as a result of the 2017 international tax changes.[b] This profit shifting costs governments significant revenue: globally, multinationals shift to tax havens about 36 cents of every dollar they make in profits, research suggests.[c]

In 2021, more than 130 countries signed an agreement to modernize the international tax system.[d] When fully implemented, the agreement will reduce profit shifting incentives by setting a 15 percent floor on global corporate tax rates — up from an effective floor of 0 percent today. This will also bolster countries' ability to raise corporate tax rates somewhat *above* 15 percent without significantly eroding their corporate tax bases, because the tax benefits of profit shifting will still be smaller than they are today and will often be outweighed by the benefits of doing business in particular countries, including the U.S.[e]

To comply with the agreement, the U.S. must make several changes to the tax code's international tax rules. These changes would ensure that U.S. multinationals' foreign profits are taxed at a rate closer to the rate for domestic profits and that more foreign profits are subject to the tax. They would also penalize foreign multinationals that operate in the U.S. if they earn profits in a country that does not impose adequate taxes. Conversely, if the U.S. fails to update its international tax rules, another country could levy new taxes on a U.S. multinational that operates within its borders — tax revenue that should be flowing to the U.S.[f]

Though estimating the likely revenue effects from such an updating is complex and uncertain,[g] the United States will collect more revenue from adopting the agreement than from standing aside.[h] Enacting the Biden Administration's proposed reforms strengthening the GILTI minimum tax and making other international tax reforms would raise around $600 billion over ten years from large multinationals, according to the Treasury Department.[i]

a Samantha Jacoby, "International Tax Reform Proposals Would Limit Overseas Profit Shifting, End 'Race to the Bottom,'" CBPP, July 11, 2022, https://www.cbpp.org/research/federal-tax/international-tax-reform-proposals-would-limit-overseas-profit-shifting-end.
b Ludvig Wier and Gabriel Zucman, "New global estimates on profits in tax havens suggest the tax loss continues to rise," Centre for Economic Policy Research, December 4, 2022, https://cepr.org/voxeu/columns/new-global-estimates-profits-tax-havens-suggest-tax-loss-continues-rise.
c Thomas Tørsløv, Ludvig Wier, and Gabriel Zucman, "The Missing Profits of Nations," August 10, 2021, https://gabriel-zucman.eu/files/TWZ2021.pdf.
d OECD, "Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy," October 8, 2021, https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.htm.
e Natasha Sarin and Kimberly A. Clausing, "The Coming Fiscal Cliff: A Blueprint for Tax Reform in 2025," Hamilton Project, September 27, 2023, https://www.hamiltonproject.org/publication/policy-proposal/the-coming-fiscal-cliff-a-blueprint-for-tax-reform-in-2025/.
f Rebecca Kysar, "US must follow Europe's lead on global minimum tax — or be left behind," *Financial Times*, December 19, 2022, https://www.ft.com/content/0e13dbd3-70e6-4733-b546-a50cd9454f8d.
g Kimberly A. Clausing, "The Revenue Consequences of Pillar 2: Five Key Considerations," *Tax Notes,* July 25, 2023, https://www.taxnotes.com/tax-notes-today-federal/harmonization/revenue-consequences-pillar-2-five-key-considerations/2023/07/25/7gz6k.
h Joint Committee on Taxation, "Possible Effects of Adopting the OECD's Pillar Two, Both Worldwide and in the United States," June 2023, https://www.finance.senate.gov/imo/media/doc/118-0228b_june_2023.pdf.
i U.S. Department of the Treasury, "Revenue Proposals," March 2024, https://home.treasury.gov/policy-issues/tax-policy/revenue-proposals.

Corporate Tax Becoming More Efficient, Studies Suggest

Recent research suggests the corporate tax is becoming an increasingly efficient way to raise revenue because the degree to which it distorts business decisions by discouraging investment is declining. A primary reason is the growth in so-called "super-normal" returns on corporate investments — returns above what a firm needs to justify an investment, which means that taxing the returns would not deter the firm from making the investment because the investment would remain profitable. Super-normal returns result partly from declining competition and increasing concentration among firms, which give businesses "market power" that allows them to raise their prices well above their costs.

A study by Treasury Department economists Laura Power and Austin Frerick showed that super-normal returns are making up a growing share of taxable corporate income over time, based on an analysis of corporate tax returns for 1992-2013.[36] Another paper by University of Michigan law professor Edward Fox, using different data and methods, estimated that as much as 96 percent of the corporate tax fell on super-normal returns from 1995-2013.[37] And a team of International Monetary Fund economists found particularly high excess returns in the largest firms.[38]

More of the corporate tax is falling on super-normal returns not only because the amount of those returns is rising, but also because of changes in tax policy. Over time, corporate tax rules have increasingly allowed firms to deduct the full cost of their investments immediately, rather than gradually as the value of the investment declines. (For example, the 2017 tax law allowed firms to immediately deduct the full cost of equipment purchases.[39]) These changes have effectively exempted more and more of firms' *normal* return on investments from taxation, with the tax falling more and more on *super*-normal returns.

The fact that the corporate tax now applies increasingly to super-normal returns has important implications for tax policy. Fox and Liscow explain that the more the corporate tax base consists of super-normal returns, the less the tax will affect business activity.[40] A tax falling on these above-normal returns, Fox and Liscow write, "is a sweet spot because taxing them is likely to be both economically efficient and distributionally progressive."[41]

Efforts to promote competition and limit trust- and monopoly-like business practices can also reduce super-normal profits and benefit workers and consumers. This policy approach to achieving a fairer distribution of economic gains complements a higher corporate tax rate. Fox and Liscow explain that "higher taxes on rents discourage some inefficient rent-seeking behavior, such as lobbying to get laws changed to allow businesses to gain monopolies or otherwise drive out competition."

Alternative Policies Would Provide Real Help to Workers and Families

In moving away from corporate tax cuts that haven't delivered on their economic promises, policymakers should move toward a tax system that raises more revenue through progressive policies — such as raising the corporate rate — and uses those resources for investments to make the economy work better for everyone, such as expanded tax credits, child care, and housing.

For example, the bipartisan Smith-Wyden tax bill pending in the Senate takes an important step toward making the Child Tax Credit work for children in families with low incomes, but more needs to be done. In 2025, policymakers should ensure that all low-income children receive the full Child Tax Credit (often called "full refundability") and that the Child Tax Credit parameters return to levels that were so successful in 2021 under the Rescue Act.

Measures like an expanded Child Tax Credit improve long-term opportunities for children, such as by improving their educational outcomes, and help families experiencing economic hardship meet their basic needs. Research has found that giving low-income families additional income when a child is young not only improves the child's immediate well-being but is associated with better health, higher educational performance, and higher earnings in adulthood — all of which support a strong economy.[42]

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[1] U.S. Department of the Treasury, "Revenue Proposals," March 2024, https://home.treasury.gov/policy-issues/tax-policy/revenue-proposals. This estimate covers the 2025-2034 budget window.

[2] Patrick J. Kennedy *et al.*, "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cuts and Jobs Act," November 14, 2023, https://patrick-kennedy.github.io/files/TCJA_KDLM_2023.pdf. The $114,000 threshold for the 90th percentile appears in an earlier version of the paper, dated December 9, 2022 (Table 5, Panel A).

[3] *Ibid.*

[4] Robert Gebeloff, "Who Owns Stocks? Explaining the Rise in Inequality During the Pandemic," *New York Times*, January 26, 2021, https://www.nytimes.com/2021/01/26/upshot/stocks-pandemic-inequality.html.

[5] This $1.3 trillion ten-year cost estimate of reducing the corporate tax rate from 35 percent to 21 percent is roughly equivalent to Treasury's estimated $1.3 trillion revenue gain from reversing only half of the original rate cut. However, the Treasury estimate covers a more recent budget window and reflects changing economic conditions, including economic growth and inflation, that have occurred since 2017. Treasury also includes the effects of interacting provisions of the 2017 tax law and makes somewhat different modeling assumptions than JCT.

[6] Gabriel Chodorow-Reich *et al.*, "Tax Policy and Investment in a Global Economy," NBER Working Paper, March 2024, https://www.nber.org/papers/w32180. The authors show that even when corporate tax cuts increase investment, there are countervailing, dynamic revenue impacts. On the one hand, more economic activity could expand the tax base and therefore increase tax collections; on the other, increased investment leads firms to take more depreciation deductions, which decreases tax collections. This study concludes that these two forces nearly offset over the first ten years, such that "the total revenue effect closely mirrors the mechanical corporate effect." In the long run, the paper projects that dynamic effects could "close roughly 20 percent of the mechanical revenue decline." Regarding claims that the 2017 tax law would pay for itself, see e.g., Kate Davidson, "Treasury Secretary Steven Mnuchin: GOP Tax Plan Would More Than Offset Its Cost," *Wall Street Journal,* September 28, 2017, https://www.wsj.com/articles/treasury-secretary-steven-mnuchin-gop-tax-plan-would-more-than-offset-its-cost-1506626980.

[7] Edward G. Fox and Zachary D. Liscow, "A Case for Higher Corporate Tax Rates," *Tax Notes,* Vol. 167, No. 12, June 22, 2020, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3657324.

[8] Kimberly A. Clausing, "Capital Taxation and Market Power," Working Paper, April 22, 2023, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4419599.

[9] Natasha Sarin and Kimberly A. Clausing, "The coming fiscal cliff: A blueprint for tax reform in 2025," Hamilton Project, September 27, 2023, https://www.hamiltonproject.org/publication/policy-proposal/the-coming-fiscal-cliff-a-blueprint-for-tax-reform-in-2025/.

[10] J. Baxter Oliphant, "Top tax frustrations for Americans: The feeling that some corporations, wealthy people don't pay fair share," Pew Research Center, April 7, 2023, https://www.pewresearch.org/short-reads/2023/04/07/top-tax-frustrations-for-americans-the-feeling-that-some-corporations-wealthy-people-dont-pay-fair-share/. See also Vanessa Williamson, "Back without popular demand: Tax cuts for the wealthy and corporations," Brookings Institution,

September 27, 2017, https://www.brookings.edu/articles/back-without-popular-demand-tax-cuts-for-the-wealthy-and-corporations/.

[11] Council of Economic Advisers, "Corporate Tax Reform and Wages: Theory and Evidence," October 2017, https://trumpwhitehouse.archives.gov/sites/whitehouse.gov/files/documents/Tax%20Reform%20and%20Wages.pdf.

[12] TPC, Table 17-0180 - Share of Change in Corporate Income Tax Burden; By Expanded Cash Income Percentile, 2017, June 6, 2017, https://www.taxpolicycenter.org/model-estimates/distribution-change-corporate-tax-burden-june-2017/t17-0180-share-change-corporate.

[13] Jane G. Gravelle and Donald J. Marples, "The Economic Effects of the 2017 Tax Revision: Preliminary Observations," Congressional Research Service, updated June 7, 2019, https://crsreports.congress.gov/product/pdf/R/R45736.

[14] Steve Rosenthal and Theo Burke, "Who's Left to Tax? US Taxation of Corporations and Their Shareholders," New York University School of Law, October 27, 2020, https://www.law.nyu.edu/sites/default/files/Who's%20Left%20to%20Tax%3F%20US%20Taxation%20of%20Corporations%20and%20Their%20Shareholders-%20Rosenthal%20and%20Burke.pdf.

[15] Gravelle and Marples.

[16] William Gale and Claire Haldeman, "The Tax Cuts and Jobs Act: Searching for supply-side effects," Brookings, July 2021, https://www.brookings.edu/wp-content/uploads/2021/07/20210628_TPC_GaleHaldeman_TCJASupplySideEffectsReport_FINAL.pdf.

[17] The Kennedy *et al.* paper finds increases in sales, profits, investment, employment, and payrolls in C-corporations relative to comparable S-corporations. The employment result — a 2.2 percent relative uptick in employment at C-corporations in the study's sample — does not include a distributional analysis of which types of workers benefited.

One limitation of the Kennedy *et al.* and Chodorow-Reich *et al.* studies is that they do not fully reflect the role of the largest C-corporations. However, the largest C-corporations comprise a significant share of the corporate tax base and may also be the firms with the most market power, meaning the behavior of these firms is both highly relevant for policymakers and potentially less responsive to corporate tax rate changes than smaller firms.

[18] The sample period is 2013-2019, and gains from the tax cut are reported in nominal dollars.

[19] *Ibid.* These results reflect within-firm — not economy-wide — income distributions.

[20] Gebeloff.

[21] Kennedy *et al.*

[22] David Mitchell, "Six Years Later, More Evidence Shows the Tax Cuts and Jobs Act Benefits U.S. Business Owners and Executives, Not Average Workers," Washington Center for Equitable Growth, December 20, 2023, https://equitablegrowth.org/six-years-later-more-evidence-shows-the-tax-cuts-and-jobs-act-benefits-u-s-business-owners-and-executives-not-average-workers/.

[23] The productivity findings appear in the earlier version of the Kennedy *et al.* working paper, dated December 9, 2022..

[24] Chodorow-Reich *et al.* Economist Patrick Driessen argues that due to methodological issues relating to intellectual property, the Chodorow-Reich *et al.* study could overstate the effects of the 2017 corporate tax cuts on investment. In an earlier paper, economists Eric Zwick and Owen Zidar note that proponents' promised investment boost from the corporate tax cuts may have come closer to materializing than predictions about wages and revenue "but was likely overstated." Patrick Driessen, "The 'It' Paper on the Effects of the TCJA," *Tax Notes Federal*, February 26, 2024, https://www.taxnotes.com/tax-notes-today-federal/corporate-taxation/it-paper-effects-tcja/2024/02/28/7j7nd?highlight=driessen; Owen Zidar and Eric Zwick, "The Next Business Tax Regime: What Comes After the TCJA?" Aspen Economic Strategy Group, in *Building a More Resilient US Economy,* November 8, 2023, https://www.economicstrategygroup.org/publication/the-next-business-tax-regime-what-comes-after-the-tcja/.

[25] Jim Tankersley, "Trump's Tax Cut Fueled Investment but Did Not Pay for Itself, Study Finds," *New York Times*, March 4, 2024, https://www.nytimes.com/2024/03/04/us/politics/trump-corporate-tax-cut.html.

[26] Juan Carlos Suarez Serrato, "Targeting business tax incentives to realize U.S. wage growth," Washington Center for Equitable Growth, January 14, 2021, https://equitablegrowth.org/targeting-business-tax-incentives-to-realize-u-s-wage-growth/.

[27] Max Risch, "Trickle-Down Revisited," *Oxford Review of Economic Policy*, 2023, https://www.law.columbia.edu/sites/default/files/2023-02/Trickle_Down_Feb14%20%281%29.pdf.

[28] *Ibid.*

[29] Jacob Pramuk, "GOP tax cuts will pay for themselves — but only if other changes happen too, Treasury says," CNBC, December 11, 2017, https://www.cnbc.com/2017/12/11/treasury-department-report-says-gop-tax-cuts-will-pay-for-themselves.html.

[30] Davidson.

[31] CBO, "The Budget and Economic Outlook: 2018 to 2028," April 9, 2018, https://www.cbo.gov/publication/53651.

[32] Joint Committee on Taxation, "Estimated Budget Effects Of The Conference Agreement For H.R.1, The Tax Cuts And Jobs Act," December 18, 2017, https://www.jct.gov/publications/2017/jcx-67-17/.

[33] Chodorow-Reich *et al.* See note 6 for a discussion of the study's findings that despite increased investment, the corporate tax cuts led to large, nearly dollar-for-dollar revenue losses.

[34] Kennedy *et al.*

[35] Treasury.

[36] Laura Power and Austin Frerick, "Have Excess Returns to Corporations Been Increasing Over Time?" *National Tax Journal,* Vol. 69, No. 4, December 2016, https://www.journals.uchicago.edu/doi/epdf/10.17310/ntj.2016.4.05.

[37] Edward Fox, "Does Capital Bear the U.S. Corporate Tax After All? New Evidence from Corporate Tax Returns," *Journal of Empirical Legal Studies,* Vol. 17, No. 1, March 2020, https://repository.law.umich.edu/cgi/viewcontent.cgi?article=3191&context=articles.

[38] Sebastian Beer *et al.,* "Exploring Residual Profit Allocation," *American Economic Journal: Economic Policy,* Vol. 15, No. 1, February 2023, https://www.aeaweb.org/articles?id=10.1257/pol.20200212.

[39] The 2017 law also resulted in somewhat less generous treatment of research and experimentation costs and capital investments beginning in 2022, as well as limitations on the amount of interest that businesses can deduct. The House-passed Smith-Wyden tax bill would reinstate full expensing of domestic research and experimentation costs and capital investments and relax the limitation on interest deductions.

[40] Fox and Liscow.

[41] The study by JCT and Federal Reserve economists offers a somewhat different view. It argues that the corporate tax is roughly as progressive as the individual income tax but has a larger negative impact on economic activity, so generating less federal revenue from corporate taxes and more from individual taxes "may yield efficiency gains without sacrificing much in progressivity." Kennedy *et al.* Other dimensions of equity and efficiency, however, favor a strong entity-level tax, meaning a tax that applies to business-level income.

All else equal, shifting federal tax revenue away from the corporate tax base and towards the individual income tax would further widen the gap in the tax treatment of income from capital and labor. "[M]uch of the capital income tax base is unreachable if one is limited to the individual layer of taxation," warns UCLA economist and former Treasury Department official Kim Clausing. In a proposal to raise the corporate tax rate to 28 percent, economists Owen Zidar of Princeton and Eric Zwick of the University of Chicago explain that "a robust corporate tax is a key component of a progressive tax system that taxes capital income and reduces tax sheltering opportunities for high-earning business owners."

Professor Clausing also notes that "The importance of market power strengthens the argument for taxing capital income at the entity level, rather than the individual level" because the corporate tax can target rents (i.e., super-normal returns) more directly than the individual income tax. Fox and Liscow explain that, as a result, the corporate tax can discourage companies from wasteful rent-seeking behavior. They conclude, "As a matter of both equity and efficiency, this entity-level tax is likely to be desirable."

See Clausing; Zidar and Zwick; Fox and Liscow.

[42] Andrew Barr, Jonathan Eggleston, and Alexander A. Smith, "Investing in Infants: the Lasting Effects of Cash Transfers to New Families," *Quarterly Journal of Economics*, April 20, 2022, https://academic.oup.com/qje/article/137/4/2539/6571263; Samantha Waxman *et el.*, "Income Support Associated with Improved Health Outcomes for Children, Many Studies Show," CBPP, May 27, 2021, https://www.cbpp.org/research/federal-tax/income-support-associated-with-improved-health-outcomes-for-children-many.