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Corporate Lobbying Campaign Against Biden Tax Proposals Is Inaccurate, Unpersuasive

By Chuck Marr and George Fenton

Motivated by “outrage from companies that had spent significant sums four years ago to secure more favorable tax rules under President Donald Trump,” corporate lobbyists are launching a major campaign to fight President Biden’s proposals to partially reverse those 2017 tax cuts, the *Washington Post* reports.¹ Congress is crafting an economic recovery package that would use those revenues to help pay for measures to improve families’ economic security, expand educational opportunities and improve workforce development, and address a rapidly changing climate.

The centerpiece of the 2017 tax law was a cut in the corporate tax rate from 35 percent to 21 percent and a shift toward a “territorial” tax system, in which the foreign profits of U.S.-based multinational corporations largely no longer face U.S. corporate taxes. The Biden plan would partially reverse that deep rate cut, raising the corporate rate from 21 percent to 28 percent. It also would tighten the 2017 law’s international tax regime, for example by raising the global minimum tax that multinationals pay on certain foreign profits and making it more robust so that companies are less able to “game” it.

The economic recovery legislation (also known as “Build Back Better”) aims to provide for a landmark reduction in child poverty, increased preschool and college opportunities, more affordable access to medical care, paid family leave so working people can take time off to care for their families, and investments in child care to help make it possible for parents to work. It will also invest in efforts to address climate change, a crisis that scientists make clear cannot be ignored any longer. Yet some of the country’s most influential corporations, ignoring the benefits of these investments — and the substantial benefits corporations reap from federal investments — are lobbying against the tax proposals because they would require companies to pay somewhat more in taxes.

¹ Tony Romm, “Corporate America launches massive lobbying blitz to kill key parts of Democrats’ \$3.5 trillion economic plan, *Washington Post*, August 31, 2021, <https://www.washingtonpost.com/us-policy/2021/08/31/business-lobbying-democrats-reconciliation/>.

The case made against the Biden corporate tax proposals has five serious flaws:

- The 2017 corporate tax cut failed to deliver the promised gains in economic growth, job creation, or wage growth, so it's highly unlikely that reversing them would have large deleterious effects.
- Critics overstate the potential economic harm from the proposed tax increases while ignoring the benefits of the investments those revenues would support.
- U.S. multinationals don't need to retain tax breaks that encourage them to shift profits overseas in order to be competitive.
- Corporate opposition to the tax increases ignores the large benefits that firms and their shareholders reap from government investments.
- Polls show the public strongly supports corporations paying a fairer share of tax.

2017 Corporate Tax Cut Did Not Deliver Promised Economic, Jobs, Wage Gains

The Trump Administration, Republicans in Congress, and corporate lobbyists promised that the 2017 tax law would benefit average working people by boosting wages, economic growth, and job creation. According to Council of Economic Advisers Chair Kevin Hassett, for example, "The truth is a tax cut like this very conservatively will increase the median wage about \$4,000 a year."² The U.S. Chamber of Commerce wrote: "All credible evidence considered, the Tax Cuts and Jobs Act . . . would be reasonably expected to increase Gross Domestic Product by between 3% and 4%."³

The promised gains never materialized. (See Figure 1.) As Jason Furman, chair of President Obama's Council of Economic Advisers, told the House Ways and Means Committee in 2020:

- "GDP growth did not increase following the 2017 tax law: it was 2.4 percent in the eight quarters leading up to the law and 2.4 percent in the eight quarters since the law."
- "The major private domestic components of GDP [gross domestic product] slowed in the two years since the 2017 tax law, including slowing consumption growth, business fixed investment growth and residential investment growth. In contrast, government expenditures and investments grew at a faster pace."
- "The macroeconomic data to date appear to rule out the immediate and large effects on investment that were predicted by many cheerleaders of the 2017 tax law and provide no reason to update the ex ante projections of minimal longer-term growth effects made by a range of economic modelers."⁴

² Damien Paletta, "'Objective analysis' or 'an absurdity'? Life as Trump's top economist," Washington Post, October 12, 2017, <https://www.washingtonpost.com/news/business/wp/2017/10/12/objective-analysis-or-an-absurdity-life-as-trumps-top-economist/>.

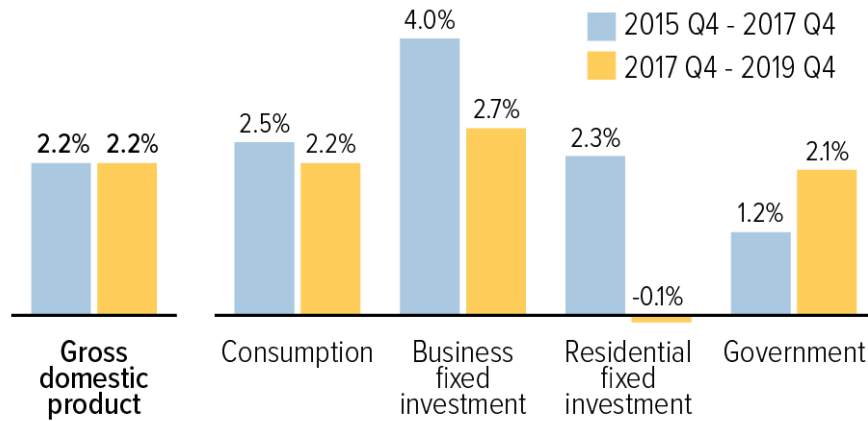
³ J.D. Foster, "Tax Reform's Growth: A Balm for Deficit Worries," U.S. Chamber of Commerce, November 27, 2017, <https://www.uschamber.com/series/the-case-tax-reform/tax-reform-s-growth-balm-deficit-worries>.

⁴ Jason Furman, Prepared Testimony for the Hearing "The Disappearing Corporate Income Tax," House of Representatives, Committee on Ways and Means, February 11, 2020, <https://www.congress.gov/116/meeting/house/110494/witnesses/HHRG-116-WM00-Wstate-Furman-20200211.pdf>.

FIGURE 1

GDP Didn't Grow Faster After the 2017 Tax Law

Percent change, annual rate



Note: Figures differ slightly from other published estimates due to data revisions.

Source: CBPP calculations of Bureau of Economic Analysis (BEA) data

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Similarly, a 2019 Congressional Research Service report found “no indication of a surge in wages in 2018 either compared to history or relative to GDP growth.”⁵ The one-time bonuses for employees that companies announced (and publicized widely) after the tax cuts were modest overall, averaging \$28 per U.S. worker, and amounted to just 2 to 3 percent of the total benefits from the corporate tax cut. And a 2021 Brookings Institution analysis found no evidence that the corporate tax cuts created new jobs: “The patterns in the data suggest instead that corporate tax cuts did not help workers very much,” it concluded, noting that growth in non-farm employment and the employment-to-population ratio both slowed somewhat following the 2017 law.⁶

Instead, the 2017 law led to a large increase in stock buybacks, which benefit shareholders by raising the value of the stock they already hold and which exceeded a record-breaking \$1 trillion in 2018.⁷ An International Monetary Fund (IMF) study on the 2017 law’s impact on investment cited a survey of firms showing that just 11 percent of businesses reported accelerating investment because of the tax cuts. Examining data for firms on the Standard & Poor’s 500 index, the IMF researchers asked, “Where then have firms put the incremental free cash from the [tax cuts]?” and answered that

⁵ 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>.

⁶ William G. Gale and Claire Haldeman, “Searching for supply-side effects of the Tax Cuts and Jobs Act,” Brookings Institution, July 6, 2021, <https://www.brookings.edu/research/searching-for-supply-side-effects-of-the-tax-cuts-and-jobs-act/>.

⁷ Gravelle and Marples, *op. cit.*

“much of the remainder was used for share buybacks, dividend payouts, and other asset-liability planning and balance sheet adjustments.”⁸

Critics Overstate Harm From Tax Increases, Ignore Benefits of Investments

In attacking the Biden corporate tax proposals, corporate lobbyists are focusing on the supposed effects on average working people. For example, Blanche Lincoln (a former U.S. senator who is advising the corporate coalition) claims the modest increase in the corporate tax rate would have “devastating consequences for American workers,” while a National Association of Manufacturers lobbyist argues that “manufacturing families will suffer, jobs will be lost.”⁹ These claims are no more credible than the promises from corporations and others that the 2017 corporate tax cuts would result in strong benefits for workers and the economy — benefits that didn’t materialize.

Critics of partially undoing the tax cuts overstate the potential economic harm, particularly for workers. The argument that increasing the corporate rate hurts workers relies on the claim that the rate increase will deter investment, making workers less productive and thus ultimately lowering their wages. But as noted above, the experience of the 2017 law offers no evidence for these links: cutting the corporate rate produced neither an investment bounce nor improved wage growth. This is consistent with historical patterns. “Since World War II, productivity and wage growth in the U.S. economy have been significantly greater in periods with higher corporate tax rates,” an Economic Policy Institute report found.¹⁰ This doesn’t mean that higher corporate tax rates *caused* greater wage growth, but it is strong evidence that they didn’t unduly impede wage growth.¹¹

Opponents of undoing the corporate tax cuts also understate or ignore the benefits from the investments that the added revenue would help finance, as though the added revenues would simply vanish into thin air. The Biden proposals include a wide range of high-return investments, including in infrastructure — broadband, roads and bridges, and research and development — as well as in education and health care and in children’s economic security through the expanded Child Tax Credit. (The Child Tax Credit expansion alone, for example, would mean an income boost of \$2,600 for a middle-income family making \$60,000 with a toddler and a second-grader.) Raising the corporate rate to fund these investments would, on balance, benefit workers and the economy more broadly.

Of the Biden proposal, economist Raj Chetty states, “The impacts of the infrastructure programs are likely to be an order of magnitude larger than any disincentive effects from the taxes.”¹² Chetty has also documented the long-run benefits of tax credits for families, noting “there are substantial

⁸ Emanuel Kopp *et al.*, “U.S. Investment Since the Tax Cuts and Jobs Act of 2017,” International Monetary Fund, May 31, 2019, <https://www.imf.org/en/Publications/WP/Issues/2019/05/31/U-S-46942>. The study also found that just 4 percent of firms reported bringing investment or jobs back to the United States from abroad due to the tax cuts.

⁹ Romm, *op. cit.*

¹⁰ Josh Bivens, “Cutting corporate taxes will not boost American wages,” Economic Policy Institute, October 25, 2017, <https://www.epi.org/publication/cutting-corporate-taxes-will-not-boost-american-wages/>.

¹¹ For cross-country evidence, see Kimberly Clausing, “Who Pays the Corporate Tax in a Global Economy?” *National Tax Journal*, March 2013, <https://www.journals.uchicago.edu/doi/10.17310/ntj.2013.1.06>.

¹² Heather Long, “Biden’s infrastructure plan faces controversy over price tag and design,” Washington Post, March 31, 2021, <https://www.washingtonpost.com/business/2021/03/31/deficit-cost-infrastructure-biden/>.

returns to policies that help poor families with children.” Thus, with “policies such as the Earned Income Tax Credit and Child Tax Credit, policy makers should carefully consider the potential impacts of these programs on future generations.”¹³

Likewise, Mark Zandi and Bernard Yaros of Moody’s Analytics, using a model similar to those used by the Congressional Budget Office and Federal Reserve Board, estimate that the combined impacts of the proposed investments in people and infrastructure and the proposed tax increases would be *positive* for workers and the economy. In their latest estimates of the combined effects of the infrastructure and economic recovery legislation currently being negotiated in Congress, Zandi and Yaros conclude that the investments and taxes together would not only be a net plus for economic growth, but also “would direct the benefits of stronger growth to lower-income Americans and address the long-run skewing of the income and wealth distribution.”¹⁴

Stashing Profits in Tax Havens Is No Way to Bolster Competitiveness

Profits that U.S. multinationals report as earned offshore are taxed at rates far below the 21 percent rate for domestic profits — in some cases as low as zero percent. The lower rates cost the federal government roughly \$51 billion a year in revenue, according to the Joint Committee on Taxation (JCT).¹⁵ And the lower rates, along with other tax breaks for foreign profits, create an incentive for corporations to shift profits on paper to foreign tax havens such as Bermuda, Switzerland, and Luxembourg, even if the profits were actually earned in the United States. While proponents of the 2017 tax law claimed it would significantly reduce profit shifting, multinationals held the same share of their income in major tax havens after the law’s enactment as they had previously.¹⁶ Some elements of the 2017 law also may encourage multinationals to shift actual investments and operations offshore.¹⁷

President Biden’s international tax reform plan would reduce those tax advantages for offshore profits, including by raising the minimum tax rate on U.S. companies’ foreign profits closer to the rate on profits earned in this country and plugging holes in the minimum tax. It also would encourage other countries to enact similar minimum taxes by denying certain deductions to non-U.S. multinationals with U.S. operations if they are headquartered in countries that don’t impose minimum taxes.¹⁸

¹³ Raj Chetty, John N. Friedman, and Jonah Rockoff, “New Evidence on the Long-Term Impact of Tax Credits,” <https://www.ntanet.org/wp-content/uploads/proceedings/2011/018-chetty-new-evidence-longterm-2011-nta-proceedings.pdf>.

¹⁴ Mark Zandi and Bernard Yaros, “Macroeconomic Consequences of the Infrastructure and Budget Reconciliation Plans,” July 21, 2021, <https://www.moodyanalytics.com/-/media/article/2021/macroeconomic-consequences-infrastructure.pdf>.

¹⁵ Joint Committee on Taxation, “Estimates Of Federal Tax Expenditures For Fiscal Years 2020-2024,” August 5, 2021, <https://www.jct.gov/publications/2020/jcx-23-20/>.

¹⁶ Testimony of Kimberly A. Clausing, Deputy Assistant Secretary, Tax Analysis, U.S. Department of the Treasury, Before the Senate Committee on Finance, March 23, 2021, https://www.finance.senate.gov/imo/media/doc/DAS%20Clausing%20SFC%20Testimony_FINAL.pdf.

¹⁷ Chuck Marr *et al.*, “Corporate Rate Increase Would Make Taxes Fairer, Help Fund Equitable Recovery,” CBPP, May 25, 2021, <https://www.cbpp.org/research/federal-tax/corporate-rate-increase-would-make-taxes-fairer-help-fund-equitable-recovery>.

¹⁸ *Ibid.*

Multinationals claim these reforms would hurt their competitiveness. In other words, they claim they can't compete with businesses based in other countries unless the American public continues to provide them with a tax subsidy that rewards them for shifting profits to offshore tax havens.

This argument doesn't withstand scrutiny. U.S. multinationals are quite profitable. Indeed, even before the 2017 tax law gave them large new tax cuts, many were so profitable that corporations were holding about *\$2.6 trillion* in profits offshore in order to avoid U.S. tax and pushed for the 2017 tax law to allow them to access those profits at a greatly discounted rate.¹⁹ And, as noted above, multinationals didn't use their profits or tax cut windfalls to increase investment or hiring in this country but instead passed the money to shareholders. More recently, Bloomberg reported an upswing in buybacks in 2021, with "companies flush with cash as the U.S. economy rebounds from a year of lockdowns."²⁰

Further undercutting this competitiveness argument, a recent Reuters analysis found that large U.S. corporations generally pay lower taxes than their international competitors and likely would continue to do so under President Biden's proposed tax plan.²¹

In addition, while a recent report for the National Association of Manufacturers argued that Biden's international corporate tax changes would reduce firms' hiring in the United States,²² the report has serious analytical weaknesses. As former Joint Committee on Taxation economist Patrick Driessen has explained, "The study's framework is a too-familiar combination of selective academic and empirical results" and fails to take into account "the reconciliation [economic recovery] package as a whole, including outlay programs that may have positive effects on U.S. competitiveness, as well the effects of any separate infrastructure legislation." These problems, combined with the study's mistakes and omissions regarding "choices of tax rates and data pretty much destroy the study's credibility."²³

Corporations, Shareholders Reap Large Benefits From Government Investments

The corporate lobby campaign against the Biden tax proposals also ignores the substantial benefits to corporations and their shareholders from government investments. Corporations rely

¹⁹ Institute on Taxation and Economic Policy, "Fortune 500 Companies Hold a Record \$2.6 Trillion Offshore," March 28, 2017, <https://itep.org/fortune-500-companies-hold-a-record-26-trillion-offshore/>. Prior to the 2017 tax law, the U.S. operated under a modified or hybrid worldwide tax system. Profits were taxed on a worldwide basis with a credit system for taxes paid in foreign countries. U.S. taxes owed on foreign profits were deferrable until the profits were brought home to the U.S. This led to a massive amount of profit buildup overseas.

²⁰ Jeran Wittenstein, "Corporate Buybacks Gain Steam With Banks Poised to Boost Buying," Bloomberg, July 3, 2021, <https://www.bloomberg.com/news/articles/2021-07-03/corporate-buybacks-gain-steam-with-banks-poised-to-boost-buying>.

²¹ Tom Bergin, "How Reuters Compared U.S. Corporations' Taxes with Their Foreign Rivals," Reuters, June 22, 2021, <https://www.reuters.com/business/how-reuters-compared-us-corporations-taxes-with-their-foreign-rivals-2021-06-22/>.

²² EY, "Estimated impacts of proposed changes to GILTI provision on US domestic economic activity," August 2021, <https://www.nam.org/wp-content/uploads/2021/08/EY-NAM-Analysis-of-proposed-GILTI-changes-FINAL.pdf>.

²³ Patrick Driessen, "EY's GILTI Study Flawed on Data and Tax Rates," *Tax Notes*, August 30, 2021, <https://www.taxnotes.com/tax-notes-international/global-intangible-low-taxed-income-gilti/eys-gilti-study-flawed-data-and-tax-rates/2021/08/30/777bt>.

heavily on our roads, airports, and ports to move their goods and employees. They also benefit from the large spillover effects of government-funded research and development — as well as from investments in education, which provides skilled workers for their industries.

For example, the campaign includes major tech firms, which historically have benefited from government investments that develop technologies the businesses then use to generate wealth. (For example, the National Science Foundation and Defense Department contributed significantly to the technological foundation of companies such as Amazon, Google, and Facebook — and the personal wealth of their executives.²⁴) The campaign also includes major banks; this is especially noteworthy given the aggressive, taxpayer-funded effort to support these institutions during the financial crisis a little over a decade ago. As the Congressional Research Service has summarized:

Interventions to stem the 2007-2009 financial crisis were undertaken by the Treasury, the Federal Reserve, and the FDIC, separately and jointly. Because the crisis had many causes and symptoms, the response tackled a number of disparate problems, and can be broadly categorized into programs that increased institutions' liquidity, provided financial institutions with equity to rebuild their capital, purchased illiquid securities, intervened in specific financial markets that had ceased to function smoothly, or prevented the failure of large troubled institutions that some deemed "too big to fail."²⁵

Not only do corporations enjoy the benefits of government investments, but many are responsible for significant costs to society, such as pollution. It is somewhat jarring that ExxonMobil, a major producer of fossil fuels, is lobbying against an increase in corporate taxes that would help fund efforts in the upcoming legislation to slow climate change. A widely reported investigation found that Exxon executives knew about climate change nearly 40 years ago and "spent millions to spread disinformation" about it.²⁶ Self-interested, inaccurate claims by corporations should not prevent Congress from raising revenue needed to combat climate change.

Polls Show Public Supports Corporations Paying Fairer Amount of Tax

By arguing that the Biden plan would harm average working people, the corporate lobbying campaign effectively claims to speak on their behalf. Polls show, however, that the public strongly supports corporations paying higher taxes.

For example, an Ipsos poll earlier this year found that 65 percent of respondents agreed that corporations should pay more in taxes, and in a Pew poll 59 percent of respondents said that some corporations not paying their fair share bothered them "a lot."²⁷ Also, the Peterson Foundation

²⁴ National Science Foundation, "A Brief History of NSF and the Internet," August 13, 2003, https://www.nsf.gov/news/news_summ.jsp?cntn_id=103050.

²⁵ Congressional Research Service, "Costs of Government Interventions in Response to the Financial Crisis: A Retrospective," updated September 12, 2018, <https://crsreports.congress.gov/product/pdf/R/R43413>.

²⁶ Shannon Hall, "Exxon Knew about Climate Change Almost 40 Years Ago," *Scientific American*, October 26, 2015, <https://www.scientificamerican.com/article/exxon-knew-about-climate-change-almost-40-years-ago/>.

²⁷ See Americans for Tax Fairness, "Polling Compilation on Biden Plan, Taxing Wealthy, Corps, TCJA," August 25, 2021, https://docs.google.com/document/d/1TqG1ut1x0FDagAjjCFArIw_Y5xmd2w5CNmnyq-yJTtk/edit, and

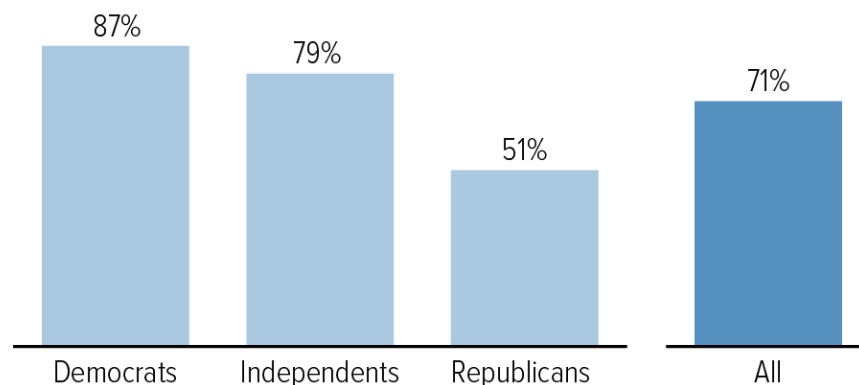
found last year that raising the corporate tax rate was the majority view not only of Democrats but also of Independents and even Republicans.²⁸ (See Figure 2.)

It is particularly notable that unions — which have an obligation to reflect the views and interests of workers, while corporations are obligated to maximize value for shareholders — have expressed support for raising revenues through international tax reforms. In a recent letter to House Ways and Means Committee Chair Richard Neal, a number of major unions stated, “We must not waste this historic opportunity to crack down on offshore corporate tax avoidance and align our tax rules with the interests of working people rather than the ultra-wealthy and multinational corporations.”²⁹

FIGURE 2

Most Voters Support Higher Taxes for Corporations

Percentage supporting corporate tax increase



Source: “Majority Of Voters Support Higher Taxes For Wealthy And Corporations — And Want Next President To Pay For His Priorities.” Peter G. Peterson Foundation, October 2020

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Amina Dunn and Ted Van Green, “Top tax frustrations for Americans: The feeling that some corporations, wealthy people don’t pay fair share,” Pew Research Center, April 30, 2021, <https://www.pewresearch.org/fact-tank/2021/04/30/top-tax-frustrations-for-americans-the-feeling-that-some-corporations-wealthy-people-dont-pay-fair-share/>.

²⁸ Peter G. Peterson Foundation, “Majority of Voters Support Higher Taxes for Wealthy and Corporations — And Want Next President to Pay for His Priorities,” October 2020, <https://www.pgpf.org/infographic/majority-of-voters-support-higher-taxes-for-wealthy-and-corporations-and-want-next-president-to-pay-for-his-priorities>.

²⁹ Letter to Rep. Richard Neal by AFL-CIO *et al.*, August 24, 2021, https://americansfortaxfairness.org/wp-content/uploads/Union-support-for-strong-international-tax-reform_AUG-24-2021-1.pdf.