January 8, 1985

THE FEDERAL TAX DEBATE: HOW MUCH SHOULD CORPORATIONS PAY?

INTRODUCTION

Taxation of corporations is among the most complex issues in the field of taxation. It is uncertain, for example, who pays the corporate income tax or whether there is justification for levying it. Professor Arnold Harberger of the University of Chicago, a leading authority on the corporate tax, argues that it lacks any economic rationale whatever.[1] Nevertheless the tax remains a major source of revenue for governments at all levels and periodically draws the ire of tax reformers, who feel that corporations are not paying their "fair share" of taxes--based on a naive and incorrect assumption that, if corporations paid more, other Americans would pay less. Some of this flawed thinking even finds its way into the Treasury Department's recent tax reform proposals. Though recommending a lower marginal tax rate for corporations, the Treasury would end so many deductions that the corporate tax burden in fact would increase.

Discussion of the corporate income tax is clouded by confusion and poor economic analysis. Notes Professor George F. Break of the University of California at Berkeley: "Perhaps no issue in public policy illustrates more clearly people's preference

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[1] Arnold C. Harberger, "The State of the Corporate Income Tax: Who Pays It? Should It Be Repealed?" in Charles E. Walker and Mark A. Bloomfield, eds., New Directions in Federal Tax Policy for the 1980s (Cambridge, Massachusetts: Ballinger, 1983), p. 161. For general discussions of the corporate tax, see J. Gregory Ballentine, Equity, Efficiency, and the Corporation Income Tax (Washington, D.C.: American Enterprise Institute, 1980); Karlyn Mitchell, "Taxation of Corporate Income" Federal Reserve Bank of Kansas City Economic Review, September-October 1983, pp. 7-23.

This is the second in a series of studies analyzing federal taxes. The first was "The Federal Tax Debate: Capital Gains," Backgrounder No. 399, December 27, 1984. Among the topics examined by subsequent studies will be the value-added tax.

for clinging to simplistic images...than does that of the corporation income tax."[2] If these misunderstandings about the nature of taxation lead to a further increase in the corporate tax burden, the economic impact could be severe. Administration officials and legislators thus should not be seeking ways to increase the corporate share of taxation. They should be moving toward abolishing the separate corporate income tax and fully integrating it into the individual income tax system. Such a step would recognize that ultimately it is always people who pay taxes. And further, shifting the entire corporate burden to the income tax would mean that richer Americans would pay most of these taxes, now classed as corporate but being passed on, in large part, in the form of lost output and higher prices for all Americans.

HOW MUCH TAX DO CORPORATIONS PAY?

Perhaps the most vocal advocate of higher taxes on corporations is Robert S. McIntyre of Citizens for Tax Justice, a Naderite group, who has written widely on the subject.[3] He mainly examines corporate annual reports or other sources and tabulates the number of companies paying little or no tax. From this he claims that corporations are undertaxed.

McIntyre and his colleagues appeal to the emotions of the overburdened individual taxpayer, easily angered by the suggestion that big business is somehow evading taxation. On numerous occasions, the Treasury Department has attempted to set the record straight, but to little avail. A 1977 study by Treasury economist Seymour Feikowsky, for example, explained that simply taking the figure for federal income taxes paid from a corporate income statement and comparing it with the firm's income before tax indicates very little. "In almost every case," notes Feikowsky, "the ratio thus computed tells little or nothing about the taxability of the corporation's income."[4] He points out that a number of factors determine the effective corporate tax rate. Among them:

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2 George F. Break, "Corporate Tax Integration: Radical Revisionism or Common Sense?" in Michael J. Boskin, ed., Federal Tax Reform: Myths and Realities (San Francisco: Institute for Contemporary Studies, 1978), pp. 55-56.

3 Robert S. McIntyre, Corporate Income Taxes in the Reagan Years: A Study of Three Years of Legalized Corporate Tax Avoidance (Washington, D.C.: Citizens for Tax Justice, 1984); idem, "For Higher Corporate Taxes," New York Times, December 9, 1984, p. E21; idem, "The Loopholes Distort Incentives," New York Times, November 4, 1984; idem, "Companies Enjoy Too Many Loopholes," New York Times, January 29, 1984; idem, "The Corporate Tax: It's All But Disappeared," The Washington Post, November 16, 1983.

4 Seymour Fiekowsky, Pitfalls in the Computation of "Effective Tax Rates" Paid by Corporations, Office of Tax Analysis, OTA Paper 23 (Washington, D.C.: U.S. Treasury Department, July 1977), p. 1.

1) Both foreign and domestic tax and income items must be accounted for. Many corporations that appear to pay little U.S. tax pay huge taxes to foreign governments on their foreign operations. U.S. tax law allows companies a credit against U.S. taxes for foreign taxes in order to avoid unreasonable double taxation on the same income.

2) The accounting rules for determining income for financial reporting purposes are not the same as those used for tax accounting purposes. In general, reported income is larger than taxable income. While this has no effect on the taxability of corporate income, it tends to make the effective corporate tax rate reported on financial statements appear lower than it really is.

3) Allowances must be made for capital "consumption," that is, equipment worn out during the production process, because this represents a cost to the company. Moreover, depreciation and depletion schedules used for financial reporting and income tax accounting are different.

4) At the corporate and Treasury levels, current year tax accounts are ambiguous measures of the tax attributable to the income of that year. Corporations often have to file amended tax forms for earlier years to use carry-back losses or other items for tax purposes. Firms may have refunds carried forward from previous years, which may make the company's current year tax liability appear much lower at first glance than it really is.

Fiekowsky notes accounting procedures that cloud the calculation of real effective tax rate for corporations. He concludes that no single set of assembled income accounts, whether maintained by rules prescribed for financial reporting or tax return accounting, permits the calculation of a true effective tax rate.

A 1978 Treasury study employs a more rigorous methodology than that used by McIntyre and others to calculate effective tax rates for corporations. It concluded that effective tax rates were much higher than earlier studies had suggested. But it also cautioned, once again, against drawing an invalid conclusion from such results. Variances in industry's effective tax rates, the study noted, do not necessarily indicate that shareholders in the lower-taxed industries were benefiting at the expense of other taxpayers. "Rather," the study concluded, "they are crude indicators of the way in which the tax laws have been used to influence the pattern of economic activity in the private sector. Resources have been pushed into the low effective tax rate industries and away from high tax rate industries."[5]

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[5] Effective Income Tax Rates Paid by United States Corporations in 1972 (Washington, D.C.: Department of the Treasury, Office of Tax Analysis, May 1978). It is worth remembering that these Treasury studies were done during the Carter Administration, not the Reagan Administration.

While it may be true that, in terms of "fairness," there is little meaning to the different tax rates paid by corporations in different industries, this does not mean that such differential tax rates have no cost to the nation's economy. Professor Alan Auerbach of the University of Pennsylvania estimates that such differential tax rates create significant distortion in corporate investment, reducing the efficient use of capital. In 1981, he estimated this distortion at 3.19 percent of the total net corporate capital stock. This translates into a loss of about $5 billion in job-creating investment per year.[6]

Keeping in mind the limitations of the data, Table 1 presents the latest available estimates for corporate tax rates in various industries, based on Commerce Department figures. It reveals that effective tax rates vary from 16 percent in the electric, gas, and sanitary services industries to over 100 percent in agriculture.[7]

Table 1

Corporate Taxes by Industry, 1983
(in millions)

Industry	Profits	Taxes Paid	Percent
Agriculture	$47.0	$49.0	104.0
Mining	1,024.0	447.0	43.6
Construction	3,250.0	657.0	20.2
Manufacturing	69,996.0	33,071.0	47.2
Durable Goods	15,184.0	12,990.0	85.6
Nondurable Goods	54,812.0	20,081.0	36.6
Transportation	1,493.0	1,164.0	78.0
Communications	6,246.0	1,617.0	25.9
Electric, Gas & Sanitary Services	14,477.0	2,315.0	16.0
Wholesale Trade	20,827.0	7,111.0	34.1
Retail Trade	18,437.0	6,330.0	34.3
Finance, Insurance & Real Estate*	31,056.0	19,467.0	62.7
Services	11,553.0	3,547.0	30.7

*Taxes paid in this category include payments to the federal government made by the Federal Reserve System. In the most recent year for which there are data--1981--these payments amounted to 73 percent of all corporate taxes paid by this industry group. Thus the corporate tax rate on private sector firms is much lower than it appears.

Source: Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, July 1984, p. 78.

[6] Alan J. Auerbach, "Corporate Taxation in the United States," Brookings Papers on Economic Activity (2:1983), pp. 467-471.

[7] See also U.S. Congress, Joint Committee on Taxation, Study of 1983 Effective Tax Rates of Selected U.S. Corporations, Joint Committee Print, 98th Congress, 2d Session (Washington, D.C.: U.S. Government Printing Office, 1984).

Effective tax rates depend on the statutory tax rate, preference items in the tax code, economic conditions such as inflation and interest rates, and whether a particular industry is labor-intensive or capital-intensive, among other things. Table 2 indicates how the burden of corporate tax has evolved during this century. Statutory marginal tax rates on corporations rose from one percent before World War I to 75 percent during World War II and since have declined to 46 percent.

Table 3 shows the overall tax rate for all corporations. Corporate profits have been adjusted for the overstatement of earnings on inventories caused by inflation and the understatement of depreciation deductions. The first adjustment, called the inventory valuation adjustment (IVA) results from the use of first-in-first-out accounting rules. The second, called the capital consumption adjustment (CCA), results from the use of historical cost (the original purchase price) depreciation rather than replacement cost. During years of high inflation, the adjustments are significant.[8] Former presidential economic advisor Martin Feldstein, together with Lawrence Summers of Harvard, estimates that, in 1977 alone, U.S. corporations paid $32 billion in excess tax because tax rules did not account properly for inflation.[9]

Table 2

Statutory Marginal Tax Rate on Corporations

Year	Rate	Year	Rate
1978-1984	46.0	1944	75.0
1975	48.0	1940	39.0
1970	49.2	1935	13.7
1965	48.0	1930	12.0
1960	52.0	1925	13.0
1955	52.0	1920	10.0
1950	60.4	1909	1.0
1945	69.0		

Source: John J. Seater, "Marginal Federal Personal and Corporate Income Tax Rates in the U.S., 1909-1975," Journal of Monetary Economics, November 1982, p. 363; Facts and Figures on Government Finance, 22nd edition (Washington, D.C.: The Tax Foundation, 1983), pp. 146-147.

8 See T. Nicolaus Tideman and Donald P. Tucker, "The Tax Treatment of Business Profits Under Inflationary Conditions," in Henry J. Aaron, ed., Inflation and the Income Tax (Washington, D.C: Brookings Institution, 1976), pp. 33-74; George Terborgh, Inflation and Profits, 11th ed. (Washington, D.C.: Machinery and Allied Products Institute, 1983); Nicholas J. Gonedes, "Evidence on the 'Tax Effects' of Inflation Under Historical Cost Accounting Methods," Journal of Business, April 1981, pp. 227-270.

9 Martin Feldstein and Lawrence Summers, "Inflation and the Taxation of Capital Income in the Corporate Sector," National Tax Journal, December 1979, pp. 445-470.

Table 3

Taxes as a Share of Adjusted Corporate Profits
(billions of dollars)

Year	Corp. Profits	IVA*	CCA**	Adj. Profits	Taxes	Percent
1983	203.2	-11.2	+33.2	225.2	75.8	33.7
1982	165.5	-9.5	+3.1	159.1	60.7	38.1
1981	221.2	-23.6	-7.6	189.9	81.1	42.7
1980	234.6	-42.9	-16.3	175.4	84.8	48.3
1979	252.7	-43.1	-14.8	194.8	87.6	45.0
1978	229.1	-24.0	-12.7	192.4	83.2	43.2
1977	194.7	-16.2	-11.3	167.3	72.7	43.5
1976	166.3	-14.7	-13.5	138.1	63.8	46.2
1975	132.1	-11.6	-10.1	110.5	50.6	45.8
1974	136.7	-40.0	-1.8	94.9	51.6	54.4
1973	125.6	-20.0	+2.7	108.3	49.0	45.2
1972	100.6	-6.6	+2.7	96.6	41.6	43.1
1971	86.6	-4.6	+1.3	83.2	37.5	45.1
1970	75.4	-6.6	+2.5	71.4	34.2	47.9

* Inventory valuation adjustment: correct for understatement of depreciation.
**Capital consumption adjustment: correct for inflation.

Source: Department of Commerce, Bureau of Economic Analysis, as contained in <u>Economic Report of the President, 1984</u>, Table B-21, and <u>Survey of Current Business</u>, July 1984, p. 28.

These high effective and statutory tax rates--in recent years the effective corporate tax rate has actually exceeded the maximum statutory rate--do little to dampen the enthusiasm of so-called reformers for higher taxes on corporations. Indeed, advocates of higher corporate taxes continually point to the declining share of federal revenues obtained from the corporate tax.

As Table 4 indicates, the corporate share of federal revenues has fallen sharply since World War II. Whereas the corporate tax once accounted for more federal revenue than the individual income tax, it now accounts for just 6.2 percent of federal levies. This decline does not mean, however, that corporations are being pampered. Instead, it is the result of the decline of corporate profits as a share of GNP and the rapidly rising burden of Social Security taxes. As Table 5 demonstrates, corporate profits as a share of GNP have fallen from an average of 12.24 percent in the 1940s to 11.64 percent in the 1950s, 10.09 percent in the 1960s, 9.24 percent in the 1970s, and just 6.97 percent so far in the 1980s. Indeed, corporate profits as a share of GNP are lower now than they were in Depression years 1936 and 1937. And because the Social Security tax has been rising faster than

total receipts, its share of total tax revenue has increased. Corporate taxes, meanwhile, are expected to be one of the fastest rising revenue sources in coming years, largely the result of 1982 tax increases.[10]

Table 4

Corporate Taxes as a Share of Federal Receipts

Fiscal Year	Percent
1983	6.2
1982	8.0
1981	10.2
1980	12.5
1975	14.5
1970	17.0
1965	21.8
1960	23.2
1955	27.3
1950	26.3
1945	36.3
1940	15.6

Source: Department of the Treasury and Office of Management and Budget.

Measurements of corporate taxes as a share of government revenue can be a very misleading indicator in other ways as well. Socialist Sweden, for example, raises a far smaller portion of its government revenue from the corporate tax than does the U.S.--just 2.45 percent in 1980. The same is true for most other West European socialist nations (see Table 6). On the other hand, Japan, presumed to be a very pro-business country, raises over 17 percent of its government revenue from the corporate tax. The small share of corporate taxes in Sweden is a function largely of its extremely heavy taxes on individuals, while Japan's high share of corporate taxes is a function of its very low taxes on individuals.[11]

THE CASE FOR REPEAL

Common myth says that the corporate tax is paid by corporations. It is not. Taxes can only be paid by people, not paper organizations. Ultimately people shoulder the burden of any tax.

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10 See Tax Foundation, Tax Features, March 1984, pp. 3-4.

11 See Dharmendra Bhandari, "Corporate Taxation in Japan," Bulletin for International Fiscal Documentation, March 1982), pp. 99-110.

Table 5

Corporate Profits as a Share of GNP

Year	Percent	Year	Percent
1983	6.1	1959	10.8
1982*	5.4	1958*	9.3
1981	7.5	1957	10.8
1980*	8.9	1956	11.7
1979	10.4	1955	12.3
1978	10.6	1954	10.5
1977	10.1	1953	11.2
1976	9.7	1952	11.4
1975*	8.5	1951	13.4
1974	9.5	1950	15.0
1973	9.5	1949*	11.3
1972	8.5	1948	13.7
1971	8.0	1947	13.6
1970*	7.6	1946	11.8
1969	9.2	1945	9.3
1968	10.1	1944	11.5
1967	10.0	1943	13.2
1966	11.0	1942	13.7
1965	11.2	1941	14.3
1964	10.4	1940	10.0
1963	10.0	1939	7.9
1962	9.7	1938	4.7
1961*	9.5	1937	7.6
1960	9.8	1936	7.6

*Recession troughs.

Table 6

Corporate Taxes as Percentage of Total Revenue, 1980

Country	Percent	Country	Percent
Sweden	2.45	Switzerland	5.80
Denmark	3.21	The Netherlands	6.61
Austria	3.43	United Kingdom	7.69
Greece	4.19	New Zealand	7.77
Finland	4.45	Italy	8.34
Ireland	4.55	UNITED STATES	10.13
Turkey	4.71	Canada	11.34
France	5.04	Australia	11.95
West Germany	5.51	Norway	13.22
Spain	5.56	Luxembourg	16.45
Belgium	5.72	Japan	17.28

Source: Revenue Statistics of OECD Member Countries, 1965-1981 (Paris: Organization for Economic Cooperation and Development, 1982), p. 73.

But in the case of the corporate tax, no one is quite certain which people. Some studies suggest that it is entirely paid by the stockholders--the owners of the corporation--while others suggest that substantial portions of the tax ultimately are paid by the firm's employees and the purchasers of its products in the form of lower wages and higher prices.[12] One thing is very certain, however. All the resources used to pay corporate taxes ultimately must come out of the pockets of individual Americans.

Regardless of the share of the corporate tax paid by shareholders, moreover, corporate income is taxed twice: once at the corporate level and again when corporate profits are paid out as dividends. With a maximum corporate tax rate of 46 percent and a maximum individual tax rate of 50 percent, the marginal tax rate on corporate income can be as high as 73 percent.

There is a consensus among economists that the U.S. tax burden on capital is excessive. By making it less attractive to own corporate stock, such taxes force companies increasingly to borrow in order to raise capital. In 1968, corporate equities composed over 35 percent of household financial assets; now they make up only about 18 percent. Companies thus become more vulnerable in economic downturns, because interest payments must be paid regardless of whether there are profits, whereas dividends need not. In Japan, where companies raise far more capital through borrowing than American firms do, bankruptcy rates are four to five times higher.

Even more important, small firms just starting up generally must raise their capital through equity, because the risk in making such loans is too great for banks. The more difficult the tax code makes it for companies to raise capital through sales of stock, the more difficult it is for new firms to become established. Of course, other taxes--particularly the capital gains tax--also discourage investments in new firms. This is the reason that the 1978 and 1981 cuts in the maximum marginal tax rate on long-term capital gains have triggered a three-fold increase in new issues of corporate common stock and a three-fold increase in trading volume on the New York Stock Exchange. Thanks to these tax cuts, equity capital is much easier to raise today than it was just a few years ago, helping to spur today's high-tech boom.

The corporate tax wreaks havoc with the U.S. economy. It misallocates capital, diverts corporate behavior from more efficient activities, and imposes an excessive tax burden on capital. This leads to fewer jobs and lower standards of living than if the coporate income tax did not exist. Economist Arnold Harberger calculates the corporate tax's cost to the economy at 0.5 percent

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12 See Joseph A. Pechman, Federal Tax Policy, 4th ed. (Washington, D.C.: The Brookings Institution, 1983), pp. 135-141.

of national income.[13] Gregory Ballentine of the University of Florida (currently chief economist for the Office of Management and Budget) puts it at 25 percent of all revenues actually collected by the corporate tax.[14] For these and other reasons, many economists now advocate abolishing the corporate tax.

LIBERAL SUPPORT FOR ABOLITION

The case for abolishing the corporate income tax has been accepted by many liberals. In 1977, for example, Americans for Democratic Action, an old-line liberal group, endorsed the following resolution at its annual convention:

> The corporate income tax should be abolished. All corporate income--regardless of whether it is or is not actually paid to the shareholder--should be allocated to individual shareholders and these shareholders should pay tax on this income at their own personal income tax rates. Such a proposal would mean that poor and rich shareholders would pay taxes on their corporate income at rates appropriate to their circumstances. Large shareholders would pay more taxes than they now pay; small shareholders would pay less taxes than they now pay.[15]

Liberal economist Lester Thurow of the Massachusetts Institute of Technology also wants to end the corporate income tax. In his 1980 book, The Zero-Sum Society, he argues that:

> The corporate income tax should be abolished regardless of whether you are a conservative or a liberal. Based on our principles of taxation, the corporate income tax is both unfair and inefficient. In a country with a progressive personal income tax, every taxpayer with the same income should pay the same tax (horizontal equity), and the effective tax rate should rise in accordance with whatever degree of progressivity has

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[13] Arnold C. Harberger, "Efficiency Effects of Taxes on Income from Capital," in Marian Krzyzaniak, ed., Effects of Corporation Income Tax (Detroit: Wayne State University Press, 1966), reprinted in Arnold C. Harberger, Taxation and Welfare (Boston: Little, Brown, 1974), pp. 163-170.

[14] J. Gregory Ballentine, "The Cost of the Intersectoral and Intertemporal Price Distortions of a Corporation Income Tax," Southern Economic Journal, July 1981, pp. 87-96. See also Alan J. Auerbach, "Welfare Aspects of Current U.S. Corporate Taxation," American Economic Review, May 1983, pp. 76-81.

[15] Memorandum from the Economic Commission to the 1977 convention of Americans for Democratic Action regarding tax reform (No. 301), p. 3. See also "Liberal Group Calls for End of the Corporate Income Tax," The Washington Post, May 9, 1977.

> been established by the political process (vertical equity). The corporate income tax violates both of these canons of equity. Consider the earnings that are retained in the corporation on behalf of the individual shareholder. Low income shareholders with personal-tax rates below the corporate rate of 46 percent are being taxed too much on their share of corporate income. To the low-income shareholder the corporate income tax is unjustly high. Conversely, high-income shareholders with personal-tax rates above 46 percent are being taxed too little on their share of corporate income. To the high-income shareholder the corporate income tax is a tax shelter or tax loophole. As a consequence, vertical equity is being violated. Horizontal equity is also being violated, since two individuals with exactly the same income will pay different taxes, depending upon the extent to which their income comes from corporate sources.[16]

Among leading newspapers, The New York Times has endorsed abolition.[17]

BENEFITS OF REPEAL

A recent econometric study suggests that merging the corporate tax with the personal income tax could have enormous benefits. Static efficiency gains, that is, immediate increases in output thanks to the more rational taxation of income, would amount to $12 billion more per year in national income (1983 dollars). Abolition would also generate economic activity, resulting in an increase in long-term real economic growth of almost one percent. If this had been instituted in 1973, it would have translated into as much as a $500 billion increase in national wealth; and if this wealth had been reinvested and new income generated, the improvement would have yielded about $1 trillion by today.[18]

Those who favor eliminating the double tax on corporate profits by abolishing the corporate tax do not always agree on how to do it. For example, some experts suggest that dividends received by individuals should be tax-free, while others suggest it would be better to allow corporations simply to deduct all dividends paid from their taxable income as a business expense. Others believe there should be a different tax rate on dividends

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16 Lester Thurow, The Zero-Sum Society (New York: Basic Books, 1980), pp. 97-98. See also Lester Thurow, "Abolish the Corporate Income Tax," Wall Street Journal, July 6, 1977.

17 Editorial, "Abolish the Corporate Income Tax," New York Times, September 11, 1977.

18 Don Fullerton, A. Thomas King, John B. Shoven, and John Whalley, "Corporate Tax Integration in the United States: A General Equilibrium Approach," American Economic Review, September 1981, pp. 677-691.

and on retained earnings, while some would keep the current tax structure but give shareholders credit for their pro-rata share of the corporate income tax paid.

Each method has problems in terms of its impact on different income classes and on corporate behavior. For example, there is concern that allowing dividends to be deducted would encourage firms to pay out excessive amounts of dividends, rather than using earnings for expansion. This is typical of the practical problems with every method. And although such problems are important, they should not distract policy makers from the fundamental goal of eliminating the corporate income tax. The technical problems can be dealt with as long as the goal is understood.[19]

Despite the strong arguments for abolishing the corporate tax, neither of the two major congressional tax reform proposals--Kemp-Kasten or Bradley-Gephardt--nor the recent Treasury proposal have much to offer on the subject. Each would lower the top statutory tax rate on corporations, but would retain the basic corporate tax structure, which is really the root of the problem. Recent research indicates that the elimination of various tax incentives for corporations, such as the Investment Tax Credit and accelerated depreciation, while continuing to retain the corporate tax, even at lower rates, would slow the economy. Economists at Washington University in St. Louis, for instance, estimate that the Kemp-Kasten "FAST" tax proposal would raise the cost of capital 7.7 percent and reduce the real stock of equipment 6.2 percent by 1989. The Bradley-Gephardt "FAIR" tax proposal, on the other hand, would increase the cost of capital 12.7 percent and reduce the real stock of equipment 8.1 percent by 1989.[20]

The deficiencies of existing proposals should not dissuade reformers from moving forward with steps to reduce the impact of the corporate income tax. It only means that more care should be taken to design a tax reform program that recognizes that "fixing" the corporate tax structure is not enough--it needs to be abolished.

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19 See Charles E. McLure, Jr., "Corporate Income Tax: Restoration, Integration, or Elimination?" in John H. Moore, ed., To Promote Prosperity: U.S. Domestic Policy in the Mid-1980s (Stanford, California: Hoover Institution Press, 1984), pp. 303-318; idem, Must Corporate Income Be Taxed Twice? (Washington, D.C.: Brookings Institution, 1979); idem, Once Is Enough: The Taxation of Corporate Equity Income (San Francisco: Institute for Contemporary Studies, 1977); idem, "Integration of the Income Taxes: Why and How," Journal of Corporate Taxation, Winter 1976, pp. 429-464; idem, "Integration of the Personal and Corporate Income Taxes: The Missing Element in Recent Tax Reform Proposals," Harvard Law Review, January 1975, pp. 532-582.

20 Joel L. Prakken, Lawrence H. Meyer, and Chris P. Varvares, Flat Taxes and Capital Formation (St. Louis, Missouri: Center for the Study of American Business, Washington University, October 1984).

CONCLUSION

Reforming the corporate income tax surely will be discussed in the coming months. While, at first glance, it might appear that abolition of the corporate tax would benefit the rich, there is no evidence for this. For one thing, one-third of all corporate stockholders have incomes below $25,000 per year. For another, all consumers will benefit from lower prices charged by firms after their taxes fall. In fact, economist Joseph Pechman of the Brookings Institution has concluded that the corporate tax is actually regressive--imposing higher rates on the poor than on the rich. He estimates that in 1975 the corporate tax burden on households with the lowest 5 percent of income was 9.7 percent--but only 3.2 percent on the top one percent.[21] Over one-third of all corporate stock, moreover, is managed by financial institutions, such as pension funds and insurance companies, on behalf of working people. So the corporate tax hits the savings of these middle- and lower-income Americans.

A reduction in taxes that improves corporate profitability would be of greatest benefit to average Americans. And, of course, all Americans would benefit from higher economic growth, more jobs, and a better standard of living. Any tax "reform," therefore, that does not include abolition of the corporate tax really does not deserve the name.

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21 Pechman, Federal Tax Policy, pp. 140-141.