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Cut Corporate Tax Rates to Help American Consumers and Workers

by

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This year, Congress is expected to take up tax reform before several provisions of the Tax Cuts and Jobs Act expire. In its legislative efforts to provide Americans with tax relief, Congress should reduce the corporate income tax rate to 15% or less – or certainly not increase the rate above its current level. Cutting the corporate income tax rate would not only make America more economically competitive against foreign nations; it also would reduce the cost burdens of corporate taxation that are passed on to American consumers and workers.

Many economists and analysts have recognized that consumers and workers shoulder even more of the burden of corporate taxes than do corporate shareholders. This *Perspectives from FSF Scholars* highlights several examples of economic studies showing that a significant portion the costs of corporate taxes ultimately fall on consumers and workers. By reducing the corporate tax rate to 15% or less, Congress would provide them with needed help.

The Tax Cuts and Jobs Act of 2017 (TCJA) was a major overhaul of the tax code and a significant legislative accomplishment of the first Trump Administration. The TCJA provided significant tax breaks to individuals and businesses. For individual taxpayers, the TCJA increased the standard deduction, lowered the marginal income tax rate, increased the child credit, and increased alternative minimum tax exemption amounts. Also, the TCJA increased the estate tax exemption amount, and it increased the deduction for small business income. Additionally, the TCJA reduced the corporate income tax rate from approximately 38% to 21%.

However, several provisions in the TCJA are set to expire at the end of 2025.

The pending expiration of those TCJA provisions all but ensures that Congress will take up federal tax code legislation this year. Moreover, President Donald Trump's campaign promises included extending the TCJA tax cuts as well as exempting tips, overtime, and social security payments from taxes. President Trump also made public statements during the campaign indicating at least some interest in reducing the corporate tax rate from the current 21% rate.

As Free State Foundation Senior Fellow Andrew Long explained in his February 5, 2025, *Perspectives from FSF Scholars*, "Low Corporate Tax Rates Attract Global Capital, Drive Economic Growth." The TCJA's reduction in the corporate income tax rate brought the American corporate tax burden closer to Organization for Economic Co-operation and Development (OECD) nations. However, as Mr. Long observed, when the 21% federal corporate tax rate is added to the approximately 6.5% average corporate tax rate that presently exists at the state level, the combined U.S. corporate tax rate totals about 25%. That is slightly above the OECD average of 24% among 37 non-U.S. OECD nations. Reducing the federal corporate tax rate to 15% would put the U.S. below the OECD average and thereby enhance America's competitiveness with foreign economies.

Importantly, there are additional benefits resulting from a corporate tax rate reduction. Cutting the corporate income tax rate would benefit American consumers and workers who shoulder a significant portion of the costs of corporate taxation. Conversely, any increase in the corporate tax rate would adversely impact American consumers and workers.

Many economists and analysts have concluded that a large portion of corporate tax burdens fall on consumers. Indeed, several economic studies indicate that the burden of corporate taxes is greater on consumers and rank-and-file company workers than on corporate shareholders. For example, a paper published by the National Bureau of Economic Research, *Corporate Taxes and Retail Prices*, (April 2020/revised March 2023), focused on welfare changes resulting from corporate tax rate changes. The authors estimate that the corporate tax burden fell mostly onto consumers and workers: "We find the incidence [of corporate taxes] on consumers, workers and shareholders is 52%, 28% and 20%, respectively." Additionally, the authors found that a 1% increase in the corporate tax rate leads to a 0.24% increase in retail product prices.

Also, *Corporate Taxes and Retail Prices* (March 2020), a paper published by scholars at the Kenan Institute (University of North Carolina at Chapel Hill), examined the impact of corporate taxes on barcode-level product prices. The authors of the paper wrote: "[W]e can calculate that the incidence on consumers, workers and shareholders is 31%, 38%, and 31%, respectively. The results suggest that approximately one third of corporate taxes incidence falls on consumers, potentially making corporate taxes more similar to sales taxes and hence much less progressive." The paper's authors found that "[a] one percentage point increase in the corporate tax rate leads to an increase in retail product prices of approximately 0.17 percent."

In another study, *Do Consumers Pay the Corporate Tax?* (August 2023), the paper's authors focused entirely on gas price data, corporate taxes, and consumers in the gas market. They wrote: "Our results suggest that tax policies that increase effective corporate tax rates may have unintended consequences for consumers through higher prices." The authors found that approximately 64%, though possibly over 70%, of corporate tax increases are borne by consumers. Although the authors did not find evidence that tax cuts are passed on to consumers as savings, they acknowledged that limited available data regarding corporate tax reductions made any conclusion about corporate tax decrease effects unreliable. (Also, they caveated that oligopolistic market conditions in the gas market also may weaken the downward pressure on prices following corporate tax decreases.)

Furthermore, *Labor Bears Much of the Cost of the Corporate Tax* (October 24, 2017), published by the Tax Foundation, included the finding that at least half of costs to a company from corporate taxes are borne by rank-and-file employees rather than the shareholders. Responding to the U.S. Treasury and Tax Policy Center's tax models and approach that assigned most of the corporate tax to capital rather than labor (roughly an 80-20 split toward capital), the paper's author reached a far different conclusion: "Replicating Treasury's methodology, we find it overstates the amount of super-normal returns being earned by businesses by two or three times. Correcting for the overstatement, and assuming such returns determine incidence, implies a business tax incidence that is roughly split 50-50 between capital and labor, more in line with the empirical literature."

Additionally, in a paper published by the American Economic Review, *Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany* (February 2018), the authors analyzed local municipal corporate taxes in Germany. They found that 50% of the burden falls on workers: "Using event study designs and difference-in-differences models, we find that workers bear about one-half of the total tax burden." Moreover, they also found that "low-skilled, young, and female employees bear a larger share of the tax burden. This has important distributive implications."

Notably, an August 20, 2024 *Cato at Liberty* blog, "Have We Learned Anything New About Who Pays the Corporate Tax?", includes a brief review of studies regarding who carries the cost of corporate taxes. Its author concludes that "[t]he best economic evidence suggests that workers pay more than half, and likely three-quarters, of the cost of the corporate tax. Thus, cutting business taxes is a tax cut for working Americans."

Most of the studies cited above recognize that factors such as market sector concentration and market price elasticity for products likely influence how corporate tax burdens are allocated. Such factors vary across markets. The findings of the foregoing studies also varied as to who pays what relative portions of corporate tax costs. Thus, there likely is no definitive across-the-board answer regarding precisely how much of the costs of corporate taxes are passed on to consumers and workers in our economy. However, there does appear to be an unmistakable overall recognition that the portion borne by consumers and workers is significant. Based on that bottom-line recognition, it is most reasonable that corporate income tax rate cuts generally help ease those financial burdens on consumers and workers.

The positive effects that reducing corporate taxes provide to consumers and workers compel rejection of shallow and misleading slogans often used to oppose such corporate tax reductions, such as "tax cuts for the rich" or “corporations must pay their fair share." American consumers and workers stand to gain from lower corporate taxes. When Congress takes up legislation to extend the TCJA tax cuts, it also should include a reduction of the corporate income tax rate to 15% or less. In no event should it consider raising the rate above the current level.

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