INVESTOR'S BUSINESS DAILY®

Corporate Tax Cuts Are Great For Companies, But They'll Help Workers The Most

September 28, 2017

Tax Reform: Among the most potent provisions in the GOP tax reform package unveiled Wednesday by President Trump are the big cuts in taxes on corporations and small businesses. Inevitably, they will be styled by foes as a sop to the rich and Wall Street. In fact, they're one of the best middle-class tax cuts of all.

How we tax businesses is among the most distorted, costly and anti-competitive elements of our tax code. Today, U.S. corporations competing on the world stage face a top tax rate of 39%, compared to a 23% average for the rest of the world.

Autoplay: On | Off The proposed Republican tax reform would slash that to 20%, below the average. It would also shift the U.S. to a "territorial taxation" model, which keeps overseas profits from being taxed twice — once when the profit is earned overseas, and again when repatriated to the U.S. The U.S. is almost alone among nations in doing this.

Meanwhile, new rules would level the playing field between U.S.-headquartered companies and foreign-headquartered companies by keeping our rates low. This will keep companies from buying foreign companies and relocating their headquarters overseas to take advantage of lower rates.

Then there's small businesses. Among other things, the plan cuts levies on so-called S corporations (small businesses and sole proprietorships, in which the profits go to the owner's individual tax form) to 25%, thus giving many small business owners who now pay super-high individual tax rates of 30% or higher a big tax cut. It also lets businesses write off investments (except for structures) immediately. This would let companies recapture the value of their investments more quickly, lowering their tax bite now and boosting profits later on.

And, as noted in a companion piece on individual tax cuts, the proposed reforms include getting rid of the estate tax, aka the "death tax," paid when someone dies and leaves a business or valuables to loved ones. The death tax is one of the cruelest taxes in existence, since it takes from someone what they worked their entire lives to leave to others. But it's also a business tax, because it forces many families to sell or dismantle successful businesses to pay the estate tax.

The point of all this? The real benefits of these cuts won't just go to fat-cat owners or investors, as you might think. Nope. The real benefits will largely go to workers.

Study after study shows this to be true: The bulk of higher corporate taxes, somewhere between 75% and 100%, are paid for by workers in the form of much lower wages. As Adam Michel of the The Daily Signal noted last week, "Despite the name — 'corporate' tax reform — the burden of the corporate income tax falls almost entirely on workers in the form of lower wages."

The reason for this is simple: Higher taxes mean less investment. Less investment means older equipment, less training for workers (and thus fewer relevant work skills). Ultimately, it also means lower incomes for less-productive employees. Properly seen, corporate tax cuts are really worker tax cuts.

And no, that's not just opinion. A survey of tax-cut research by the Heritage Foundation finds 10 studies demonstrating that corporate tax cuts improve worker welfare by upgrading their skills, improving the equipment they work with, and boosting their pay.

Another recent study, this one published in August by economists Andrew Hanson of Marquette University and Ike Brannon of the Cato Institute, asserted that "recent tax reform discussionsthat propose a (corporate) rate reduction between 30% to 57% ... would imply employment gains between 6% to 22% and wage increases between 15% to 28%." That's quite a gain, and a big reason why tax reform could put us back on the path to 3% average GDP growth.

Sadly, because of the relentless anti-business bias of the U.S. media, many Americans think corporations are "greedy," and so they should be taxed to the gunwales.

But Ryan Bourne, also of Cato, notes this week in the National Review that even the tax-happy European Union, in a 2007 study, found that "a 10 percentage point increase in the corporate tax rate of high-income countries reduces mean annual gross wages by 7%." And the nonpartisan Congressional Budget Office has estimated that workers bear as much as 70% of the corporate income tax burden.

In short, when it comes to reform, corporate and small-business tax cuts are a win-win.

Unfortunately, in the coming weeks middle-class workers will be subjected to a nonstop propaganda barrage about tax cuts being for "greedy corporations," "fat cats," "Wall Street" and "the rich." Don't believe it. It's rank class warfare, based entirely on progressive fairy tales about the U.S. economy.

By supporting corporate and small-business tax cuts that will boost investment, create more and better jobs, and raise average workers' incomes, Americans won't just be cutting taxes for businesses. They'll be cutting their own taxes, too.