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2020 Democratic candidates put Trump's corporate tax rate cut in crosshairs

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They may be split on Obamacare and whether to decriminalize illegal immigration, but a consensus is emerging among the 2020 Democratic presidential field that the 2017 cut to the U.S. corporate tax rate needs to be repealed.

Whether it's former Vice President Joseph R. Biden, who wants to raise the 21% rate to 28%, or those who want it once again at 35%, the sense among the White House contenders is that the engine of capitalism must pay more so that the government can do more.

Yet the different proposals are telling, according to analysts. They said the calls for tax increases are more about partisan posturing than a coherent economic vision for taxing and spending.

"They understand in sort of a true economic sense that we can't go back to a pre-[tax law] world, but they are doing the political dance," said Adam Michel, a senior policy analyst at the conservative Heritage Foundation. "If they actually believed their rhetoric, they would be advocating for a 50% corporate tax rate, or 100%. Pick your number."

The corporate rate cut was a major part of the 2017 tax overhaul, taking the U.S. from the highest marginal rate of any major economy to one of the lowest.

President Trump initially wanted a 15% rate, while congressional Republicans wanted 20%. But budget scorers said that would do more damage to the deficit than Republicans anticipated, so they settled on a final rate of 21%.

Republicans predicted an economic surge and now say solid economic growth and a historically good jobs market are proof that the tax cuts are working.

Democrats counter that corporations have used their savings to improve their own bottom lines through stock buybacks rather than sharing the benefits with workers or customers. The Congressional Research Service gave some support to that view in a report this year.

"While evidence does indicate significant repurchases of shares, either from tax cuts or repatriated revenues, relatively little was directed to paying worker bonuses, which had been announced by some firms," CRS concluded.

The field of presidential candidates doesn't want to wait to see what happens next.

Mr. Biden, the leading contender, says the rate should be raised to 28% — a middle ground between the Obama-era figure and Mr. Trump's rate. Montana Gov. Steve Bullock and former Rep. Beto O'Rourke of Texas also support 28%.

Sen. Amy Klobuchar of Minnesota has floated a 25% rate to pay for infrastructure and housing initiatives, but she suggested a 23% rate as part of separate retirement savings legislation she offered in April.

Former Rep. John Delaney of Maryland, meanwhile, suggested a 23% rate to fund infrastructure last year, before moving to 27% in his plans this year.

For some Democrats, the rate was picked less because of its economic sense and more because they needed to sweat out a certain amount of revenue to pay for their agenda.

"Once you promise to spend the money, you're going to have to pay for it somehow, and that's going to be damaging to the economy," said Douglas Holtz-Eakin, a former director of the Congressional Budget Office and now president of the free market American Action Forum. "They have a collection of very anti-growth platforms. I think there's no question about that."

Some Democrats approach the corporate tax issue from the perspective of reversing anything Mr. Trump has touched.

Sen. Kamala D. Harris of California in April said she wanted to "get rid of the whole thing," which would return the corporate rate to 35% absent other changes. Sen. Kirsten E. Gillibrand of New York and author Marianne Williamson also have supported reversals of the corporate cuts.

Party strategist Brad Bannon said a full do-over could be popular with Democratic primary voters.

"Democratic primary voters love the idea of getting rid of Trump's tax plan, doing it over and starting with real middle-income tax cuts," he said. "It's a great issue to use against Biden, basically. Maybe someone will bring it up Wednesday night."

Raising rates would defy the global trend, however.

Part of the rationale for the 2017 cut was to make the U.S. more competitive in a world where the average corporate tax rate for the 36 major economies in the Organization for Economic Cooperation and Development is about 24%.

"We're only about average still," said Chris Edwards, director of tax policy studies at the libertarian Cato Institute. "There's tons of great places for multinational businesses to locate, and so that's why corporate taxes become more important over time."

He said U.S. businesses could see any effort to raise the rate, even to 23%, as reason to fear even higher rates in the future.

Sen. Elizabeth Warren of Massachusetts says the debate among Democrats over the correct corporate tax rate misses the point. She said there are so many loopholes in the tax code that some companies manage to duck paying. She has proposed a 7% tax on companies' profits that exceed $100 million, on top of liabilities that the companies would have under the new 21% rate.

“To raise the revenue we need — and ensure every corporation pays their fair share — we need a new kind of tax that big companies can’t get around,” Ms. Warren said.

Steve Wamhoff, director of federal tax policy at the Institute on Taxation and Economic Policy, agreed that the rate alone isn’t enough.

“If we raise the corporate income tax rate but we leave in place some of the rules right now that seem to be encouraging American corporations to have more tangible assets offshore, more actual equipment and factories and operations offshore, then how have we solved the problem, right?” Mr. Wamhoff said. “I think it’s a lot more complicated than sort of choosing a rate.”

Mr. Edwards and Mr. Michel said it’s difficult to tease out the precise effects the lower corporate rate has had on the U.S. economy since the tax law passed in December 2017.

That is partly because Mr. Trump has been active in other areas, such as imposing or threatening tariffs.

Mr. Michel, though, said there is evidence businesses “are no longer fleeing the United States like they were previously.”

“The most recent GDP numbers don’t necessarily tell that story, but there’s a lot of other stuff going on, including the trade war, which is pushing in the opposite direction,” he said.