Richard Cordray mostly on point comparing taxes paid by corporations versus individuals

Amy Sherman

January 30, 2018

Richard Cordray, a Democrat running for governor in Ohio who served under the Obama administration, described the tax bill as a "terrible deal" that helps the wealthy.

Cordray is one of many competing in the Democratic primary with hopes to succeed term-limited Republican Gov. John Kasich.

In a speech to the City Club of Cleveland Dec. 14, Cordray told the audience about his efforts to help consumers and fight big banks while serving as the first director of the Consumer Financial Protection Bureau.

When an audience member asked Cordray to weigh in on the federal tax bill that was in the works at the time (it later became law), he said it wouldn't do enough to help the middle class.

"If you go back and look 50 years ago, individuals paid about 7 percent of the total and corporations paid 5 percent. Fast forward 50 years: individuals still 7 percent, corporations (are) down to 2 percent. And yet we are making (it) a priority to give more tax cuts to corporations. There's slabs for them, there's crumbs for people like the middle-class people in our society. I think it is wrong."

Cordray spokesman Mike Gwin told PolitiFact that Cordray was referring to corporate and individual income tax revenue as a share of U.S. gross domestic product, which wasn't fully clear from Corday's comments.

We fact-checked Cordray's historical comparison and found that he was in the ballpark, but his comment required further explanation about how businesses actually end up filing their taxes.

Individuals vs. corporations payment on taxes

The tax bill signed by President Donald Trump in December will significantly reduce the on-the-books corporate tax rate. The top corporate rate will fall from 35 percent to 21 percent, and the business version of the alternative minimum tax will be repealed.

Gwin cited a 2017 chart by the Urban Institute-Brookings Institution Tax Policy Center that shows tax receipts as a percentage of GDP dating back to 1934. The chart is based on historical tables from the U.S. Office of Management and Budget.

Gwin said Cordray's point wasn't to make comparisons between individual years such as 1967 and 2017 since the numbers fluctuate from year to year, but to make a larger point that over the last 50 years individuals have contributed an increasing share of overall tax revenue, while corporations have paid a decreasing share.

Since Cordray mentioned looking back 50 years, we will use 1967 and 2017 as our comparison years, though it wouldn't change dramatically if we looked at different years in that general range.

In 1967, individual income taxes accounted for 7.3 percent of gross domestic product while corporate income taxes accounted for 4.1 percent. The center's estimate for 2017 shows that individual income taxes now represent a larger share -- 9.3 percent -- while the corporate share has fallen to 2.2 percent.

Joel Slemrod, a professor of business economics and public policy at the University of Michigan, said the comparison is broadly accurate -- however, to get to the 5 percent for the corporate tax that Cordray cited would require going back a bit further than 50 years, to 1954. He also said that Cordray's numbers only apply to federal taxes.

Since the United States has had a high corporate tax rate, millions of mid-sized businesses that would have paid the corporate tax have instead used alternative structures to lower their taxes.

That resulted in a huge amount of business income shifting from corporations to so-called pass-through entities, said Chris Edwards, director of tax policy studies at the libertarian Cato Institute.

"If you look at data the past couple of decades there has been a huge rise in LLCs" and other such entities, Edwards said. "About half of all business income in the U.S. is those pass-through entities that don't pay the corporate income tax -- they pay through the individual income tax code."

The business-backed Tax Foundation compiled data showing the decrease in the number of corporations subject to the corporate income tax and the increase in S corporations paying the individual income tax.

Between 1980 and 2012, the number of corporations subject to the corporate income tax fell from 2.2 million to 1.6 million. Meanwhile, the number of S corporations subject to the individual income tax increased from 0.5 million to 4.2 million, with the number of non-corporate businesses increasing dramatically as well, said Scott Greenberg, senior analyst at the Foundation.

In 2012, pass-through businesses earned $1.63 trillion in net income, compared to $1.10 trillion of net income earned by C corporations -- the traditional kind of corporation that pays corporate taxes.

"As a result, focusing on the corporate income tax, as an indicator for how much American businesses (or even American corporations) are paying in taxes, can be quite misleading," Greenberg said. "Because many businesses have switched away from the C corporate form, and are now taxed under the individual income tax, the comparison between corporate income tax revenue 50 years ago and today is not quite apples-to-apples."

Our ruling

Cordray said in a speech, "If you go back and look 50 years ago, individuals paid about 7 percent of the total and corporations paid 5 percent. Fast forward 50 years: individuals still 7 percent, corporations (are) down to 2 percent."

He was referring to taxes paid as a percentage of GDP, which wasn’t clear from his remarks. And, a growing portion of the individual income tax figure he cites was effectively taxes paid by businesses as "pass-throughs" on individual tax filings. Overall, though, his numbers are in the ballpark.

We rate this claim Mostly True.