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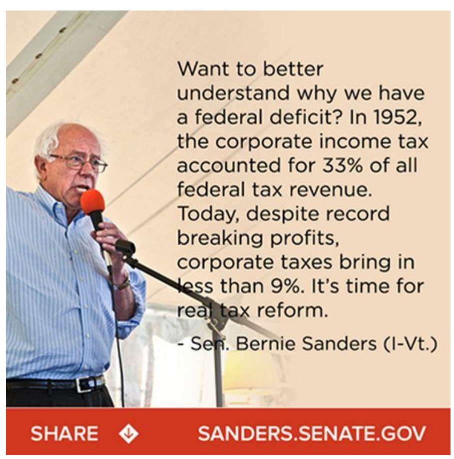
Bernie Sanders says tax share paid by corporations has fallen from 33% to 9% since 1952

"In 1952, the corporate income tax accounted for 33 percent of all federal tax revenue. Today, despite record-breaking profits, corporate taxes bring in less than 9 percent."
Bernie Sanders on Wednesday, August 27th, 2014 in a meme on social media

The Truth-O-Meter Says:



Sen. Bernie Sanders, I-Vt., produced this meme on corporate taxation. We checked to see whether it's correct.

As politicians and commentators were criticizing decisions by companies to shift their corporate headquarters overseas in order to cut their tax bill to Uncle Sam, Sen. Bernie Sanders, I-Vt., created a shareable meme to illustrate how much corporate tax collection has plunged over the past few decades.

The meme says: "Want to better understand why we have a federal deficit? In 1952, the corporate income tax accounted for 33 percent of all federal tax revenue. Today, despite record-breaking profits, corporate taxes bring in less than 9 percent. It's time for real tax reform."

A reader asked us to check his claim, so we did.

First, we can confirm that corporate profits are very near an all-time high. This chart from the Federal Reserve Bank of St. Louis shows that corporate profits after taxes as a percentage of gross domestic product hit their historical peak in the third quarter of 2013, before dropping marginally since then.

But what about corporate taxes as a percentage of all federal tax revenue? Sanders is basically on the mark here, too.

Here's the relevant historical data from the Office of Management and Budget. The first chart shows 1952. The first row features raw dollars and the second row shows the percentage of all tax revenues that particular tax represented:

1952 taxes

Individual income taxes	Corporate income taxes	Social insurance and retirement taxes	Excise taxes	Other taxes	Total tax revenue
$27.9 billion	$21.2 billion	$6.4 billion	$8.9 billion	$818 million	$65.3 billion
43 percent	33 percent	10 percent	14 percent	1 percent	100 percent

And here's the data for 2013:

2013 taxes

Individual income taxes	Corporate income taxes	Social insurance and retirement taxes	Excise taxes	Other taxes	Total tax revenue
$1.3 trillion	$274 billion	$948 billion	$84 billion	$19 billion	$2.6 trillion
50 percent	10 percent	36 percent	3 percent	1 percent	100 percent

So, corporate taxes accounted for 33 percent of all tax revenue in 1952 but just 10 percent in 2013. The 2013 figure is slightly higher than what Sanders said, but his claim is basically accurate on the numbers.

That said, the measurement Sanders used may not be the best. Economists told us that it would be more useful to know what corporate taxes were as a percentage of gross domestic product.

But looking at it that way, the general pattern also holds. In 1952, corporate taxes accounted for 5.9 percent of GDP, a figure that has fallen to 1.6 percent today.

So Sanders has a point that corporate tax collections have plummeted as a percentage of all taxes collected, even as corporate profits have hit record highs. But a range of economists offered two bits of cautionary context worth considering.

• **The year 1952 is somewhat cherry-picked**. That year ranks third-highest in history for corporate taxes as a percentage of GDP. "It was a time when the U.S. was the colossus of the world economy and faced very little competition from foreign-based firms," said Daniel Mitchell, a Cato Institute economist.

That said, even as recently as 1979, corporate taxes accounted for 2.6 percent of GDP, a full percentage point higher than today. So the decline is real, even if you use a subsequent year.

• **Today, most business income is taxed through the individual income tax code, rather than the corporate code.** This concerns a distinction only a CPA could love. One type of corporation, a "C-corporation," pays corporate income taxes on its profits. Another type, the "S-corporation," pays taxes on its profits through the individual income-tax returns of the owner.

"Changes in tax rates and rules for C- and S-corps contributed to more firms becoming S-corps and thus paying individual rather than corporate income tax," said Kyle Pomerleau, an economist with the Tax Foundation. That has boosted individual income-tax collections and reduced corporate income-tax collections.

Between 1980 to 2010, the category of businesses that includes S-corporations, sole proprietorships, partnerships and LLCs has increased by 10.9 million to over 30 million, while the number of corporations has declined, Pomerlau said.

This means there are fewer corporations to pay the corporate income tax. In addition, the amount of business income generated by these types of businesses has risen as well, Pomerlau said. Between 1980 and 2010, this type of income has increased fivefold, from $320 billion to more than $1.6 trillion, he said.

"In fact, most recent data shows that (these) businesses are earning more total net income than traditional C-corporations," Pomerlau said. "In 1980, it was the complete opposite."

Roberton Williams, a fellow at the Urban Institute-Brookings Institution Tax Policy Center, agreed that looking at C-corporations alone produces a cloudy picture.

"It's hard to say what share of revenue would come from corporate income tax today if those changes hadn't occurred," he said.

Our ruling

Sanders said, "In 1952, the corporate income tax accounted for 33 percent of all federal tax revenue. Today, despite record-breaking profits, corporate taxes bring in less than 9 percent."

Sanders is right if you use the official numbers, but it’s worth noting that the figure for individual income taxes now includes a significant chunk of taxes assessed on corporate profits. That muddies the otherwise clear picture Sanders tries to paint. On balance, we rate his claim Mostly True.