NATIONAL REVIEW

Trump's Plan to Cut Corporate Taxes Would Help Both Workers and Businesses

The devil is in the details, and spending cuts would be needed to prevent the national debt from ballooning even further, but lower corporate-tax rates would be good for everyone.

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Donald Trump is expected to announce his long-awaited tax-reform plan this week, the centerpiece of which is reportedly a reduction of the top federal corporate-tax rate from the current 35 percent to 15 percent. Even before the plan's formal announcement, critics have reacted with predictable wailing and gnashing of teeth.

If they really care about helping workers and reducing poverty, they should rethink their opposition.

It is easy to cherry pick statistics in this debate. Supporters of corporate-tax reform point out that the United States has one of the highest effective marginal corporate-tax rates in the world at 38.9 percent when both state and federal taxes are considered. Critics counter that the effective average corporate rate is actually much lower, with estimates ranging from 23 percent to 34.9 percent. The effective average rate and the effective marginal rate are, of course, very different things.

The marginal tax rate reflects the amount of taxes that a company will pay on the next dollar of income earned, while the average effective tax rate is calculated based on the amount of taxes that companies actually pay after taking into account all exclusions and deductions.

Those who cite marginal tax rates in the corporate tax-reform debate have the better case for two reasons. First, it is marginal rates that most affect incentives, the willingness of companies to innovate, invest, and expand. Second, all the effort that companies put into reducing their effective tax rates is highly inefficient and distortionary. Companies should be making decisions based on what is best for business, not what is most likely to reduce taxes. In fact, American corporations currently spend some 240 million man-hours every year preparing their taxes, much of that devoted to attempts at reducing their tax burdens. And those efforts come at the expense of productivity and competitiveness.

More importantly, we should understand that corporations are largely collectors of taxes, rather than payers. The vast majority of corporate taxes are simply passed through, ultimately paid by investors, consumers, or employees. Remember Mitt Romney's much derided comment that "corporations are people, too"? In the case of corporate taxes, it's entirely true.

Workers in particular appear to take much of the hit from higher corporate-tax rates. Because capital is mobile while labor is not, investors can often escape the pass-through of corporate taxation, while workers end up paying the price.

Several studies show that higher corporate taxes mean lower wages. For example, a 2007 EU Study found that "a ten percentage point increase in the corporate tax rate of high-income countries reduces mean annual gross wages by seven percent." Another study, for the American Enterprise Institute, concluded that "wages are significantly responsive to corporate taxation." And a study of state-level corporate taxes for the National Bureau of Economic Research found that cuts in corporate taxes benefit workers, especially unionized ones: "A one percent lower state [corporate] tax rate is associated with a 0.36 percent higher union wage premium, suggesting that workers in a fully unionized firm capture roughly 54 percent of the benefits of low tax rates."

Moreover, studies suggest that low-wage workers are as likely to be hurt by high corporate taxes as their high-wage counterparts. That means that those who want to help low-wage workers escape poverty should be among the first to embrace corporate-tax reduction.

Of course, there are many unanswered questions around the Trump plan. While the proposed rate deduction has been leaked, few other details are yet available, and the devil will undoubtedly be in the details. It remains to be seen, for example, whether Trump's proposal will include the much-debated Border Adjustment Tax, which would hit American consumers to the tune of $30 billion per year.

More concerning still is the proposal's potential impact on the deficit. Because a reduction in corporate taxes would reduce the double taxation of some investment income, the Brookings Institution/Urban Institute Tax Policy Center estimates that it could result in a $2.4 trillion reduction in federal tax revenue over the next decade. The Trump administration expects economic growth to recoup most of this loss, but many experts are skeptical. Tax cuts *do* increase economic growth — and this one is particularly likely to do so — but they rarely "pay for themselves." The administration's continuing refusal to embrace spending cuts means that it runs the risk of ballooning our $20 trillion national debt in pursuit of (sorely needed) tax cuts.

Those concerns aside, though, lower corporate-tax rates should draw broad bipartisan support. As a reform, corporate-tax cuts are far more likely to help workers than trade wars or minimum-wage hikes. It is hard to see why — beyond reflexive "resistance" to Trump — anyone would oppose the idea.

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