THE HILL

10 reasons to oppose corporate tax hikes

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To fund their infrastructure and entitlement spending plans, House Democrats are proposing large tax increases over the coming decade. They want to increase taxes on businesses, investments, and high-earners, but the burdens of these hikes would ultimately fall on all of us in the form of lower wages, smaller retirement accounts, and slower growth.

Let's take a look at the proposed corporate tax increases, which are projected to raise $1 trillion. Such increases would be a lose-lose-lose proposition for businesses, workers, and the economy for at least 10 reasons.

Competition. Businesses can locate their automobile, semiconductor, and pharmaceutical plants in any of dozens of countries today. America needs to compete to attract these investments, but the Democrats' proposed corporate tax increase from 21 percent to 26.5 percent would push them away. With the increase, our combined federal-state corporate tax rate would be 30.9 percent, and thus much higher than the global average of 23.6 percent.

Investment. Corporations invest to earn after-tax profits. Higher taxes would reduce profits and thus undermine investment in factories, machinery, and other assets. Ironically, the Democrats want to boost infrastructure investment, but two-thirds of America's infrastructure is owned by the private sector and would be harmed by the tax increases.

Innovation. The Democrats want to increase research spending on energy, manufacturing, and other activities. But most of America's research is funded by businesses trying to earn after-tax profits, and funding would fall if taxes rose. President Biden's infrastructure plan mentions "innovation" 17 times, but a corporate tax hike would reduce innovation by slowing the process of businesses replacing older machines with newer, more advanced machines.

Wages. Despite leftist rhetoric, labor and capital are complements, not adversaries. When taxes rise on one factor of production, it hurts the other. If corporate taxes are raised, businesses would reduce investment in factories and machines, which in turn would reduce worker productivity and slow wage growth.

Foreign Operations. The Democrats would not only hike the corporate tax rate but also raise taxes on the foreign operations of U.S. companies. But the main purpose of foreign operations is to penetrate foreign markets, partly with products exported from the United States. When a U.S. corporation increases sales abroad, it benefits the workers in headquarters, research, and production facilities here at home. The Democratic tax hike would make U.S. companies less competitive abroad, thus undermining their domestic operations.

Transparency. The burden of the corporate tax lands on individuals as workers, consumers, and shareholders, with the latter including everyone who has a retirement plan. Politicians favor corporate taxes because they hide part of the cost of government from voters, but it is more transparent and democratic to impose simple and equal taxes on individuals so they can see the government's full cost.

Avoidance and Evasion. When tax rates rise, corporations have more incentive to reduce taxes with legal loopholes and illegal dodges. These problems have increased because corporate profits are difficult to measure in today's global economy, but Congress has made it worse by littering the tax code with narrow breaks and complex structures that businesses mix-and-match to save money when tax rates go up.

Complexity. The Democratic tax plan would increase tax complexity by adding dozens of special-interest breaks that businesses would likely abuse, especially if tax rates rise. The plan, for example, includes more than two dozen green energy breaks totaling $235 billion. The big winners from the added complexity would be high-paid lawyers and lobbyists who would find ways to twist them and expand them.

Government Revenue. The Democratic plan would raise government revenues in the short run but may lose revenues in the long run as corporations invest less and avoid and evade more. Treasury Secretary Janet Yellen claimed that governments are losing money from a "race to the bottom" on corporate taxes, but that is not true. For 22 high-income nations, the average corporate tax rate fell from 47 percent in 1980 to 25 percent in 2019, but average corporate tax revenues rose from 2.2 percent of gross domestic product in 1980 to 3.0 percent in 2019. Over time, businesses and markets respond to tax changes, so tax rates and revenues can move in opposite directions.

Dubious Spending. The Democrats want to raise taxes to fund higher government spending, but the private sector can likely use funds more productively at the margin. The Democrats have not performed any cost-benefit analyses to show that their spending would be higher in value than the private spending it would replace. Besides, if new government spending is needed, there is nothing stopping state governments from funding it themselves for their own residents.

Democrats want corporations to pay their "fair share," as if corporate taxes don't ultimately land on people. The truth is that corporate investment in pharmaceutical research, energy generation, internet infrastructure, and many other activities benefit all of us and would be damaged by corporate tax hikes.

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