"The Greek Menace"

Some responses to the Tax Foundation's announcement of a new campaign called Compete USA which claims high corporate tax rates are hurting US competitiveness. First, Paul Krugman:

The Greek menace, by Paul Krugman: …All our corporate investment are belong to ... Greece?

Run for the hills! Excessive taxes on corporations are threatening American prosperity, because we can't match the low, low taxes of other advanced countries. Or so says the Tax Foundation, which is rolling out a new campaign called Compete USA. John McCain has already made big cuts in corporate taxes a big part of his agenda.

There's a lot to say about this stuff, but right now I'd just like to mention one aspect. The Tax Foundation people start off with a graph that's supposed to be terrifying, with the headline “Europe cuts rates while U.S. stands still”; the graph shows European tax rates dropping far below the US rate.

What they don't make clear is that:

1. The graph shows the “statutory” tax rate, which is the maximum rate a corporation can pay in principle. But because corporate tax rules allow all kinds of deductions and exclusions, the statutory rate is a poor guide to the actual disincentives the corporate tax creates.

2. Even more important, while they don't explain how they calculate the “average” tax rate, the fact that their own data show that all the big economies have tax rates above 30%, while their graph shows an average rate of about 27%, seems to indicated that they’re showing us an unweighted average — that is, one that makes small economies like Ireland and Greece seem as important as big economies like Japan and Germany. And whaddya know, corporate taxes in big economies tend to be similar to those in the United States, a point made by the Congressional Budget Office in the study from which the chart above is drawn. (Yes Germany cut rates this year. Big deal.)

So basically, the Tax Foundation wants us to be frightened of the Greek menace. How can American business survive in a world in which Greek tax rates are drawn? (Yes Germany cut rates this year. Big deal.)

What have they not made clear is that:

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Links for 12-13-17 (206)
Trump, Macron: Same Fight (101)
Expect the Fed to Stand By Its 2018 Outlook (13)
Links for 12-11-17 (238)
Exploring the Job Ladder to High-Productivity Firms (12)
Paul Krugman: The Republican War on Children (26)
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Net Neutrality Likely to Accelerate the Trend in Media Consolidation (53)
Paul Krugman: Republicans Are Coming for Your Benefits (108)
Will Growth Slow In 2018? And Why? (28)
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Paul Krugman: Republicans’ Tax Lies Show the Rot Spreads Wide and Runs Deep (214)
Links for 11-29-17 (340)
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Fed Frets About Inflation While Preparing Another Rate Hike (0)
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Links for 11-21-17 (339)
Paul Krugman: Lies, Incoherence and Rage on Tax Cuts (21)
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The Rise and Future of Progressive Redistribution (20)
Links for 11-17-17 (360)
Productivity Growth and Real Interest Rates in...
also many corporations that have record high profits (including some Big Oil companies) that end up paying next to nothing in taxes.

That's because the statutory rate of 35% is only on paper. Corporations engage in aggressive tax planning that cheats the system, and they take advantage of a bountiful number of lucrative loopholes built into the system under the four decades of Reagan-style corporate favoritism and deregulation, including items such as accelerated depreciation, various expensing provisions that let corporations deduct before they really have an economic cost, and the lucrative research & development credit that lowers taxes dollar-for-dollar for R&D expenditures that corporations have to do anyway (so they do not serve as an incentive to greater development) and that corporations have often already done prior to the enactment of the one-year “extensions” of the credit that have been taking place as transitions to no-credit for years.

As a result, the US is actually a corporate tax haven, with the lowest effective corporate tax rates of almost all the countries that participate in the OECD. That's a little fact that the Tax Foundation apparently doesn't want the American public to understand, since all its hype is in terms of statutory rates and not in terms of effective tax rates. Now, the Tax Foundation does put out a figure for the amount of corporate taxes collected—a little more than $300 billion. But it doesn't provide the historical context—the share of federal revenues paid by corporate taxes has decreased substantially, while the share of overall revenues provided by everybody else (including the little guys through payroll taxes, among other means) has increased.

The Tax Foundation does something else it often tends to do in setting out its propaganda: quote one source as a definitive authority, without mentioning conflicting conclusions from other respectable sources. The Tax Foundation wants employees to believe that they are the ones who “really” pay corporate taxes come. But we don't know the incidence of the corporate tax, and there are a number of conflicting studies. Even the studies that exist make a number of assumptions that may bring their conclusions into doubt. Many experts think it is primarily the shareholders (of course, that's also the claim of many of the right-leaning organizations like the Tax Foundation when they are arguing for eliminating corporate taxation because, they claim, it amounts to “double taxation” of the same earnings when shareholders are taxed on their investments). But it may be predominantly consumers, or workers, or creditors, or so diffuse that it isn't borne by any one segment of the economy. What we do know is that many corporations have been making very high profits and paying low taxes, and that the corporate contribution to the fisc is considerably less as a percentage of GDP than it used to be, at the same time that wealthy US taxpayers are paying astonishingly low overall effective tax rates on their income, including very low rates on their income from capital, while they are garnering an ever larger share of the income pie.

Instead of talking about a need to reduce corporate tax rates, the Tax Foundation should be answering the following question: if low corporate taxes are the key to success, how does the Tax Foundation explain that very favorably taxed US corporations--like Big Pharma, Big Oil, and of course Big Banks--that pay among the lowest tax rates in the developed world, still claim they need more government subsidies in order to successfully compete against their international counterparts (or each other, in many cases). Isn't this just another one of those straw-man arguments claiming a “need” to reduce US taxes for the “public” good, when the real goal is to eliminate taxes on corporations and on income from capital, so that wealthy corporate owners and managers can continue to garner a larger and larger share of the nation's income?

What US corporations need is more long-term thinking and less of the
mentality, that has reigned for decades, that leads to restructuring to build profits into hedge funds and equity joint ventures and managers and shareholders, but not leaving much on the table to build long-term commercial success. It's not a tax cut these corporations need, but cuts to the drivel at the top (executives earning in half a day what their average employees earn in an entire year) and more committed participation in the community and nation that has made their incredible success possible.

I hope Americans are too smart to buy more of this propaganda that is part and parcel of the deceptive marketing of the corporatist state. It's time to recognize the power that corporatism gives to wealthy owners and managers of corporations and set the rules to benefit the public good, rather than the wealthy few.

As Dean Baker notes, the Washington Post has been pushing the same line:

Washington Post Mislleads Readers to Push for Lower Corporate Tax Rates, Beat the Press: The Washington Post editorial page has no qualms about making up data to further its agenda. ... Most newspapers might feel embarrassment about using such a blatant misrepresentation to push its preferred policies, but not the Post.

Today, the preferred policy is further reductions in corporate income taxes. To advance this agenda the Post tells readers that, “U.S. companies operating abroad already labor under a bigger tax burden than most foreign competitors.”

That's not what the OECD says. Data from the OECD show that in the average member country corporate taxes are equal to about 3.5 percent of GDP. In the United States, corporate taxes have generally been between 1.5 percent and 2.5 percent of GDP over the last two decades, according to the Congressional Budget Office (Table F-4).

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Ken melvin on Paul Krugman: Republicans Despise the Working Class
mulp on Paul Krugman: Republicans Despise the Working Class
ken melvin on Paul Krugman: Republicans Despise the Working Class
anne on Links for 12-15-17
anne on Links for 12-15-17
lilsa2u on Net Neutrality Likely to Accelerate the Trend in Media Consolidation
Gibbon on Paul Krugman: Republicans Despise the Working Class
anne on Links for 12-15-17
anne on Links for 12-15-17

Brad DeLong
Note to Self: This is Some Fairly-Recent Must- and Should-Reads... Should-Read: The end of business Thaler: Behavioral Economics Should-Read: JEC: The Taxonomy of An Appeal to the Republican-Supporting Plutocrats of America Weekend Reading: Richard Thaler: Behavioral Economics Should-Read: Thomas Robert Matthus: PPrinciples

Paul Krugman

Marginal Revolution
Political Incorrect Paper of the Day: Food Deserts The rate of return on everything Why Sex? And why only in

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Taxes and Turnout -- by Felix Bierbrauer, Aleh Tsyvinski, Nicolas D. Werquin
One Markup to Rule Them All: Taxation by Liquor Pricing Regulation -- by Eugenio J. Miravete, Katja Seim, Jeff Thurk Scale versus Scope in the Diffusion of New Technology: Evidence from the Farm Tractor -- by Daniel P. Gross
A Macroeconomic Model with Financial Panics -- by Mark Gertler, Nobuhiro Kiyotaki, Andrea Prestipino
The Mortality Effects of Retirement: Evidence from Social Security Eligibility at Age 62 -- by Maria D. Fitzpatrick, Timothy J. Moore
Persistent Effects of Teacher-Student Gender Matches -- by Jaegyu Lim, Jonathan Meer
The Effect of the Risk Corridors Program on Marketplace Premiums and Participation -- by Daniel W. Sacks, Khoa Vu, Tsan-Yao Huang, Pinar Karaca-Mandic
Infering the Ideological Affiliations of Political Committees via Financial Contributions Networks -- by Yiran Chen, Hamming Fang
Evolution of the Infant Health Production Function -- by Hope Corman, Dhaval M. Dave, Nancy E. Reichman
Does Size Matter? Bailouts with Large and Small Banks -- by Eduardo Davila, Ansgar Walther
Incentivizing Better Quality of Care: The Role of Medicaid and Competition in the Nursing Home Industry -- by Martin B. Hackmann
The Value of Pharmacogenomic Information -- by John A. Graves, Shawn Garbett, Zilu Zhou, Josh Peterson

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A Fine Theorem
A Fistful of Euros
Adam Smith
Adam Smith Institute
Alt-M
Andrew Biggs
Angry Bear
Antonio Fatas
Arnold Kling
Back of the Envelope
Bank Underground
Brad DeLong
Bud Meyers
Business Ethics
Cafe Hayek
Calculated Risk
Capital Ebbs and Flows
Captain Capitalism
Carola Binder
Cecchetti and Schoenholtz
Cheap Talk
Chris Blattman
City Economist
Complere Blog
Coordination Problem

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http://economistsview.typepad.com/economistsview/2008/08/the-greek-menac.html
Jon said...

Eliminate corporate tax and increase dividend and capital gains tax

Reply Tuesday, August 19, 2008 at 12:57 PM

Jon said...

Why do we tax corporate entities at all? That seems like a recipe for unintended consequences.

Reply Monday, December 06, 2010 at 07:53 PM

dilbert dogbert said in reply to Jon...

How does one keep the corps from owning themselves. Sounds like a great way to funnel money to the officers of the corp. They will then borrow their pay from the corp and pay no tax either. I am sure it won't go to the employees. Needs to be some hard thinking about how this could be done to prevent scams and frauds.

Reply Friday, May 13, 2011 at 10:48 AM

Julio said...

What? NOW they want to start imitating the Europeans?
The same Europeans who according to them are standing in line to get health care, are totally unproductive, etc. etc.?
The nerve of these people never ceases to amaze me...

Reply Tuesday, August 19, 2008 at 01:37 PM

btg said...

Why do we tax corporate entities at all? That seems like a recipe for unintended consequences?

1. Foreign owners who don't pay personal taxes in the US - and who would not pay taxes on it in their home countries either.
2. Companies can go bankrupt with massive tax losses that go unused.
3. There is a time lag between when a company earns money and when it pays out dividends - if it ever pays out dividends. Even if dividends are paid out, there is a time lag.
4. Changing over to a system with no taxes would mean that there would be a gap in revenue, because of the lag noted above.
5. Corporations are artificial persons - unlike partnerships or trusts, so why shouldn't they pay tax. And even if there is double taxation, that is still a small price to pay for "limited liability" that leaves creditors or injured parties left holding the bag.

Reply Tuesday, August 19, 2008 at 02:04 PM

gc said...

Is Jon willing to have all corps treated as S corps, i.e with profit distributed annually to shareholders for reporting on personal income returns? If not, then the suggestion is just a big dodge.

Reply Tuesday, August 19, 2008 at 02:06 PM

save_the_rustbelt said...

"But because corporate tax rules allow all kinds of deductions"

http://economistsview.typepad.com/economistsview/2008/08/the-greek-menace.html
Unless we are going to institute a revenues tax I think we will need to keep deductions.

It is an INCOME tax, as in revenue - deductions (expenses).

Reply Tuesday, August 19, 2008 at 02:07 PM

anne said...

http://www.epi.org/printer.cfm?id=29474&content_type=1&nice_name=webfeatures_snapshots_20080409

April 9, 2008

Corporate Tax Declines and U.S. Inequality
By John Irons

Over the last 60 years, the U.S. tax code has dramatically shifted away from corporate taxes and toward taxes on individuals, especially through the payroll tax, the financing backbone of Social Security and Medicare. In the 1950s, the corporate income tax brought in, on average, one of every four dollars in federal tax revenues. By the 2000s, however, it raised just one of every 10 tax dollars.

The shrinking share of corporate taxes was made up by an increase in payroll taxes to fund social insurance and retirement programs. Excise and other taxes--such as fuel taxes, phone taxes, etc.--shrank as well over the last 60 years, while the individual federal income tax rose slightly, from an average of 43% of total federal revenue in the 1950s to 46% in the 2000s.

This shift is important because of who pays these different taxes. The corporate income tax is significantly more progressive than other taxes. Those with incomes in the top 20% of the income distribution (those making more than about $86,000 a year in 2007) pay four times the average tax rate on corporate income than the middle 20% (those making between $27,000 and $48,000); while, for the payroll tax, those in the top 20% actually pay less than those in the middle as a share of their income.

This shift has been one of the factors leading to the drop in average federal tax rates for the very highest earners. Between 1960 and 2004, the average tax rate has fallen by about 14 percentage points (from 44.4% to 30.4%) for the top 1% of earners (those making more than $435,000 in 2007), while it has increased slightly (from 15.9% to 16.1%) for those in the middle 20%.

Without offsets, further erosion of corporate tax revenues—either through lower statutory tax rates or through special preferences—would expand the already wide and growing income inequality in the United States....

Reply Tuesday, August 19, 2008 at 02:41 PM

anne said...

By the way, through last year corporate revenues were conti8nually at or near record levels going back to the recovery from the short and shallow recession in November 2001. Corporate taxes, then, were the revenues the Administration could point to in pretending lowering individual taxes had increased general revenues.

Reply Tuesday, August 19, 2008 at 02:46 PM

JeffF said...

There is at least one good reason for the corporate income tax to work generally the way it does (as a profit tax rather than a gross revenue tax): gross revenue business taxes encourage vertical integration and that is not a policy goal.

Reply Tuesday, August 19, 2008 at 02:48 PM

Scott Hodge said...

Certainly the convention wisdom is that METR matters. But the new literature is showing that statutory rates matter too, especially for new economy firms that have nothing to depreciate, are service oriented (banking), or rely on intellectual property as their product. Here are just two studies on this:

Renters Spent a Record-
High Share of Income
on Rent This Spring
As Home Prices Rise, the
Foreclosure Crisis Continues to Recede
WSJ Survey: Oil and
Inflation Are Stubborn
Disappointments
China Fires the First Shot
in a Currency War

Workblog
To deter criminals, expand
data databases instead of
prisons
For roughly half of
Americans, the stock
market’s record highs
don’t help at all
The simple reason bitcoin will never be a currency
Of bitcoin, body snatchers and Buffett
The one thing the self-
employed want more than a tax cut
This old drug was free.
Now it’s $109,500 a
year.
Why the U.S. could slap
import duties on a
plane made in Alabama

Free exchange
Republicans grousse about
tax models they once
supported
Why scan-reading artificial
intelligence is bad
news for radiologists
Richard Thaler’s work
demonstrates why
economics is hard
The Nobel in economics
rewards a pioneer of
“nudges”
Bitcoin is flat money, too
The case against shrinking
the Fed’s balance-sheet
Is there a wage growth
puzzle in America?

FT Alphaville
Markets Live: Tuesday,
19th December, 2017
Further reading
Markets Live: Monday,
18th December, 2017
Further reading
Alpha Agenda, week before
Christmas edition
Thought for the weekend
FTAV Person of Interest
2017: The Longlist

The Upshot
The New Health Care: Why
New Blood Pressure
Guidelines Could Lead to Harm

http://economistsview.typepad.com/economistsview/2008/08/the-greek-menace.html
2008, Organization for Economic Cooperation and Development, "Tax and Economic Growth," Economics Department Working Paper No. 620, July 11, 2008. “Evidence in this study suggests that lowering statutory corporate tax rates can lead to particularly large productivity gains in firms that are dynamic and profitable, i.e. those that can make the largest contribution to GDP growth.”

2004, Lee and Gordon, Tax Structure and Economic Growth Young Lee and Roger Gordon
“We find that statutory corporate tax rates are significantly negatively correlated with cross-sectional differences in average economic growth rates, controlling for various other determinants of economic growth, and other standard tax variables. In fixed-effect regressions, we again find that increases in corporate tax rates lead to lower future growth rates within countries. The coefficient estimates suggest that a cut in the corporate tax rate by ten percentage points will raise the annual growth rate by one to two percentage points.”

Reply Tuesday, August 19, 2008 at 02:49 PM
James Parsons said...
Linda Beale was being dishonest when she claimed that some “Big Oil” companies don’t pay taxes. I checked the financial statements for all three American supermajors, and they all pay quite hefty taxes every year.

Reply Tuesday, August 19, 2008 at 03:34 PM
ken melvin said...
Define hefty. What part of $billions is hefty?

Reply Tuesday, August 19, 2008 at 04:01 PM
said...
Why this push and why now?

Reply Tuesday, August 19, 2008 at 04:13 PM
don said...
Econ 101 plus a bit -
With capital mobility, corporate taxes are paid by non-mobile factors, primarily labor. It’s better to tax labor directly, because it doesn’t discourage investment and thereby reduce labor productivity. The U.S. states have long known this, from experience. The electorate refuses to accept the notion that big companies should not pay taxes, though, so tax authorities try to fool them with statutory tax rates accompanied by deductions and exemptions to reduce the effective tax rates. Krugman knows this, too.
The corporate tax is no longer a tax on limited liability - innovations in state incorporation rules have rendered it a tax on being publicly traded. Corporate taxes as a percent of GDP are only slightly more informative than statutory tax rates and much less informative than effective corporate tax rates. For example, a low share of corporate taxes in GDP and a small share of corporate profits in GDP are consistent with high effective taxes on corporate profits.

Reply Tuesday, August 19, 2008 at 04:22 PM
me said...
"Remember the latest GAO report (reported elsewhere on ataxingmatter) that shows that two-thirds of US corporations pay no federal income tax. That’s not just the ones that are losing money, but also many corporations that have record high profits (including some Big Oil companies) that end up paying nothing at all in taxes.”

Linda said it all.

Reply Tuesday, August 19, 2008 at 04:25 PM
James said...
Most Companies in US Avoid Federal Income Tax

Once Unthinkable, Now Possible: Senate Looks Like a Tossup in 2018
Why Turnout Shifts in Alabama Bode Well for Democrats
Why No One Knows What Will Happen in Alabama
Sexual Harassment Training Doesn’t Work. But Some Things Do.
The New Health Care: People Don’t Take Their Pills. Only One Thing Seems to Help.
The Times in Person: Readers in Michigan: We Need More Skills, Not More Jobs

Bank Underground
The Bank Underground Christmas Quiz 2017
Our top 10 posts of 2017
Sterling weakness: FX mismatch risks in the UK corporate sector
Looking inside the ledgers: the Bank of England as a Lender of Last Resort
A prince not a pauper: the truth behind the UK’s current account deficit
Optimal quantitative easing
Is the economy suffering from the crisis of attention?

macroblog
Labor Supply Constraints and Health Problems in Rural America
Building a Better Model: Introducing Changes to GDPNow
How Ill a Wind? Hurricanes’ Impacts on Employment and Earnings
When Health Insurance and Its Financial Cushion Disappear

Liberty Street
Political Polarization in Consumer Expectations
How Much Is Priced In? Market Expectations for FOMC Rate Hikes from Different Angles
Did Investor Sentiment Affect Credit Risk around the 2016 Election?
The New York Fed DSGE Model Forecast—November 2017
What Makes a Safe Asset Safe?
Are Student Loan Defaults Cyclical? It Depends
Who Is More Likely to Default on Student Loans?
I wish I had kept a reference to the comment on an earlier post in the blog. The commenter explained how he was able to avoid paying income taxes on a large income because it was classified as a business expense or business income or something. Surely one of the economists reading this can explain it.

ken melvin says…
“Define hefty. What part of $billions is hefty?”

Here’s an example from the biggest of big oil, ExxonMobil:

Earnings before taxes (TTM): $78,880
Income taxes (TTM): $35,240
Tax rate (TTM): 44.7%

Source:
Country=USA&amp.Symbol=XOM

I should point out that those numbers were in millions of dollars.

The high-statutory, low-effective corporate tax is not simply a means of fooling the electorate that wants to see corporations taxed, as per Don’s comment. It is also a very useful way for the political system to implement an industrial policy (aka “economic development”) that favors the industries….. which favor the politicians back. Many, many favors going around. Only the “less favored” pay taxes.

This is a massive distortion of the free market. But, for some reason, these distortions bother economists less than protectionism. Lower overall rates, but fewer loopholes by which to not pay them, would lead to:

- more government revenue,
- a fairer playing field for businesses,
- and a more predictable and less corrupt business environment, in which both investors and consumers could plan for the future with more confidence.

Corporations:

Ah…taxes are written into corporate ledgers as “cost of production” and are added to the cost of the final product.

The consumer pays anyway.

Jon asked: Why do we tax corporate entities at all? That seems like a recipe for unintended consequences.

They exist because we exist. When a corporation comes into being it has in place a multitude of supports which enable it to function, most of which it could not possibly put in place from scratch.

A new corporation is like a baby. It doesn't matter how fine and healthy a baby is, it will die without the generosity of the people and culture into which it is born -- a generosity so freely offered that we don't even notice it.

When babies grow up and become teens, they often see themselves as independent and self sufficient, and see demands upon them as burdens. They accept the support of their families as a given, but complain if their support is required in return. Most grow out of this. Some do not, and they are not admired. Yet because they are people, some level of support is generally made available, despite their cluelessness, with the hope they may learn better. If they are ill or disabled and cannot pay their way, again they are supported because they are human.

But a corporation is not a person. If it is allowed to get away with the teen model of "what's mine is mine, and what's yours is mine" *, it isn't a person needing guidance, it's a parasite.

Either a corporation serves a purpose within the larger society at a modest price, or else it makes a ton of money and damn well pays taxes on it. If it does neither, it is a parasite.

Noni

(*) a small percentage of teens -- my apologies to the others.

Reply Tuesday, August 19, 2008 at 08:42 PM

John V said...

The Tax Foundation's willful glibness on this matter deserves a mention and clarification. Well Done.

But I just can't help but smile...not with joy...but rather with awkward bemusement at the intent of the authors and Beale in particular.

Beale:

"the Tax Foundation does put out a figure for the amount of corporate taxes collected-a little more than $300 billion. But it doesn't provide the historical context--the share of federal revenues paid by corporate taxes has decreased substantially, while the share of overall revenues provided by everybody else (including the little guys through payroll taxes, among other means) has increased."

What Beale doesn't care to do is mention that much of the income that was formerly filed as corporate income is now passing through and simply showing up on individual tax returns because tax rates on top brackets dropped.

Beale also seems to show a contempt for business write-offs and deductions. Meanwhile, I'm sure she takes every deduction she can or is aware of when she does her taxes...as well she should. Should we contemptuously say that she's cheating the system with loopholes? Of course. And the people she's criticizing most certainly wouldn't either. More power to her. But that's the difference in the POVs and the problem with poisonous tone of politics when it comes to taxes and money. People like Beale are stuck in the uncomfortable position of criticizing others for doing what she would instinctively do herself were she in their shoes...as well as what she does in her way when she and others file their own taxes.

So when she bemoans "corporate favoritism" for the myriad of deductions they get to write off, she should reconsider all the deductions that individuals write off as well as another form of favoritism. On my end, I have no problem with either.

As a business owner, I take every deduction I can get. As well I should. Nothing fancy, nothing dishonest. It's not cheating and it's not wrong. I'll bet a large majority of those...
2/3 of corps that file no income tax are small businesses...like mine. Though there were only a few years of my seven in business where I paid no tax. Not enough to write off I suppose. But write offs from losses on a second business whose sale last year did not recoup my initial investment will give me losses to keep me from paying corporate tax for a few years. Oh the horror! Terrible loophole: losses carry over. Am I cheating? not at all.

Of course, Beale could simply advocate a simple and predictable tax code with super low rates and no deductions and eliminate all the hard work to pay as little tax as possible that every person who pays taxes in this country goes through...including people like Beale. Then she could stop criticizing a universal impulse.

Reply Tuesday, August 19, 2008 at 08:51 PM

bullbust said...

James Parsons says...

ken melvin says...

“Define hefty. What part of $billions is hefty?”

Here’s an example from the biggest of big oil, ExxonMobil:

Earnings before taxes (TTM): $78,880
Income taxes (TTM): $35,240
Tax rate (TTM): 44.7%

In 2007 Exxon Mobil’s net income before taxes = $70,474,000

The company’s consolidated statement reported taxes of $29,864,000. But only $4,490,000 was actually US Federal Income Taxes. That represents 6.4% of its total income.

The non-US income taxes paid (which are deduction from its net income) amounted $24,744,000 or almost 6 times the US amount.

Deductions were also made for sales and other operating sales-based taxes of $31,728,000 for 2007, of which $7,154,000 was the US portion. Still more foreign tax deductions were taken for tariffs and duties amounted to $39, 945,000.

If you don’t believe this, then I suggest you research the companies 2007 SEC report which provides lots more detail than what you’re normally fed by the industry and James Parsons’ of the world.

Reply Tuesday, August 19, 2008 at 09:37 PM

Little Yang said...

I’m very glad to read stuff like this. I would never in a million years have known about the Tax Foundations methodology. Instead, I would’ve just accepted it as true, because, seriously, how much does the average person no about weighted averages and inclusion of small economies inappropriately into big sectors? Perhaps Krugman and all are off on their analysis, but it’s at least nice to see something other than some constant “just lower taxes” mumbo jumbo taken as gospel.

Reply Tuesday, August 19, 2008 at 09:44 PM

german_reader said...

Perhaps a few words on the very low number ( 1.0% ) of taxes on corporate income as a share of GDP for Germany in 2002 in the CBO study.

In 2002 Germany was in a recession ( 0.0% growth ) and after the corporate tax reform of the ( nominal ) left red-green Schroeder government tax revenues from corporate income experienced a dramatic decline. The situation in 2001/2002 marks the absolute low point of tax revenues from corporate income taxes in Germany. In 2000 the share of GDP of corporate taxes was 2.5% and in 2006 2.7% of GDP. During the same period corporate profits rose from 14.8% of GDP in 2000 to 19.7% in 2006. Germany has seen in these years a dramatic shift from wages and salaries to profits
and capital income and the combined losses in corporate taxes during the same time
amount to 100-150 billion euros. Corporate investments were for a few years on a
record low and have now recovered to the historical average, nothing more, no
investment boom.

As so often in history tax cuts don't pay for themselves. And low taxes on corporate
income are not necessarily an incentive for more productive investments. On contrary
they seem to lead - at least here in Germany - to an unproductive allocation of
capital, shortsighted transactions in the financial market, capital destroying "mergers"
or higher ( tax privileged ) dividends and stock market gains for share holders, which
means a further upwards distribution of income, because most shares are owned by the
top 1 or 5% of the population.

Reply Tuesday, August 19, 2008 at 10:28 PM
Ryan said...

I'm not entirely sure why the Tax Foundation is comparing American tax rates to
Europe in the first place. If their whole argument is essentially the US can't compete
because of taxes, suggesting investment is going out of the country as apposed to in.
In that case, wouldn't it make more sense for them to compare rates to countries that
comprise the biggest percent of US Owned Foreign Assets/FDI Abroad? My google-fu is
weak, so I couldn't find a link providing these numbers.

Reply Wednesday, August 20, 2008 at 04:28 AM
Ryan said...

Never mind, I found the info I was looking for at BEA, and made a little graph of the
major recipients of US foreign investments.

http://www.bea.gov/international/ii_web/timeseries_chart-6.cfm?
tableid=211&yearid=38&indtypeid=1%2C2&fktrowid=3%2C10%2C15%2C19%2C20%2C78%2C31
Cost%20Basis%3CBR%3EBy%20Country%20Only%20(All%20Countries)%20for%20(2007)&chartid=

http://www.bea.gov/international/ii_web/timeseries7-2.cfm

Looks like if we were to do a weighted average, as Krugman suggests, the countries
with the biggest weights would be the UK and Netherlands, which both have sub 30%
tax rates, followed by Canada, which is around 35%. So, while I agree with Krugman
about the necessity of weighing averages, I'm not sure that the weighted average
would be much more than the 27% cited, if we consider the magnitude of US
investments.

Of course, Beale questions whether statutory rates are relevant. As I'm not a corporate
accountant, nor a business owner, I really couldn't say.

The last point, which Baker makes, is that GDP to Tax ratios are lower in the US. That
could mean a whole lot of different things, including budget deficits being relatively
higher and labor paying proportionally more in taxes. I hold out on an opinion, as all
three of these (four if you include tax heritage) seem rather cursory.

Reply Wednesday, August 20, 2008 at 05:11 AM
Real Person from the Real World said...

"BEST OF ABOVE:

Julio says...

What? NOW they want to start imitating the Europeans?
The same Europeans who according to them are standing in line to get health care,
are totally unproductive, etc. etc.?

The nerve of these people never ceases to amaze me…”

The hypocrisy of the conservatives and libertarians in this country is always twisting
information.

Reply Wednesday, August 20, 2008 at 06:13 AM
a different chris said...
>and are added to the cost of the final product. The consumer pays anyway.

Bull. The consumer pays what he thinks the thing is worth to him. He couldn’t care less what it cost you to bring it to the marketplace.

If corporations don’t want to pay taxes then they should do their best to spend the money. How did those “new economy” (aka dot-bombs or, nowadays, real-estate developers and the fake value industry built around them) manage to become more productive with a tax break? Did they spend it on printers, computers, a better quality of foosball tables?

Well, no, because that money was by definition a cost, therefore it was subtracted from income, and the tax was on what was left.

So what was the magic? I suspect that little story will not hold up well to closer examination.

Now, I know this (hitting zero every year) is far from a trivial exercise since - despite the starry-eyed worshippers of the market - in real life we generally have no idea what we are actually going to spend on something, and what anybody is going to pay if by some miracle we actually get it into production, and finally how many “anybodys” there are actually out there. So we tend to rattle between big losses and big gains, and we need to be able to income-average.

But any corporation that is really, really interested in what it is doing (as opposed to pleasing Business Week) is going to re-invest in itself, and not squirrel away profits in the bank.

In fact we are doing them a favor with the tax code, as this spurs them to really think about what to do with all the moola.

Reply Wednesday, August 20, 2008 at 12:40 PM

Ex-Worker said...

Anne’s article about taxes moving from corporations to individuals is oft-repeated in the left, but flat wrong.

Linda Beale’s quote “Reagan-style corporate favoritism” shows her to be a political hack spewing nonsense. Reagan and the tax reform act of 1986 simplified the corporate tax code, eliminating deductions. Congress has since undone this effort in its bi-partisan rent-seeking fashion.

And Anne,

The reason that more taxes are reported as “individual” instead of corporate is that in the past top individual rates of 70% or even 90% caused wealthy individuals to divert and shelter income in corporate entities facing lower tax rates. So few people paid the high individual rates until the 1980’s when the individual rate was lower than the corporate rate. Now the corporate rate is higher, fewer wealthy individuals pay the corporate rate.

And yes, the US corporate rate is higher than the rest of the world.

Think for a second as someone who has money and wants to keep it, and you’ll soon figure this out (with the help of elementary school math).

Reply Wednesday, August 20, 2008 at 01:25 PM

Ex-Worker said...

And of course Dean Baker is not considering the large share of US corporate income that is paid for through the S Corp structure at the top marginal income rate of 35%, so his claim is equally useless.
Ryan said...

"And of course Dean Baker is not considering the large share of US corporate income that is paid for through the S Corp structure at the top marginal income rate of 35%, so his claim is equally useless."

Baker definitely seemed to have the more trivial view of the three.

James Parsons said...

bullbust said...

"In 2007 Exxon Mobil's net income before taxes = $70,474,000

The company's consolidated statement reported taxes of $29,864,000. But only $4,490,000 was actually US Federal Income Taxes. That represents 6.4% of its total income.

The non-US income taxes paid (which are deduction from its net income) amounted $24,774,000 or almost 6 times the US amount."

Bullbust is correct that I made an error, comparing ExxonMobil's total taxes to its total profits. However, Bullbust also makes an error, comparing ExxonMobil's U.S. taxes to its global profits, rather than to its U.S. profits.

ExxonMobil is a multinational company. 75% of its after-tax profits come from outside the U.S. (See page 43 of its 2007 annual report.)

ExxonMobil's tax rate on U.S. profits is 30.6% ($4490 / ($4490 + $10,170)), still far from Linda Beale's 6% claim. I'm not disputing Krugman or Baker, just Linda Beale.

ExxonMobil's annual report is here:
http://thomson.mobular.net/thomson/7/2675/3201/

Begonia Buzzkill said...

Lower the corporate tax rate? LOL ... since last week's news revealed that 75% of America's corporations pay no taxes whatsoever no matter what the tax rate is AND receive Federal subsidies in the billions while paying NO taxes (while they profit on their very own choreographed 'wars' and homeland that made them rich)these "patriotic" corporations would up their profit margins if their tax rates were lowered because________?

ROFLMAO!

anne said...

"The reason that more taxes are reported as 'individual' instead of corporate is that in the past top individual rates of 70% or even 90% caused wealthy individuals to divert and shelter income in corporate entities facing lower tax rates...."

A proper explanation, with linking references:
http://www.cbpp.org/3-29-07tax.htm

March 29, 2007


By Aviva Aron-Dine

In a new study, Thomas Piketty and Emmanuel Saez, economists who have done groundbreaking work on the historical evolution of income inequality in the United States, examine how the progressivity of the federal tax system has changed over time.[1] Unlike previous analyses, theirs examines effective federal tax rates going...
The advantage of a VAT is that one does not need a large contingent of tax collectors reimbursed to the states-of-origin. It thus becomes a sales tax revenue to the government, that can be a products/services evolves in transformation to end up finally as purchased by the consumer. Yes, it is regressive, but it is also easily collectible, since companies roll it forward, as

Frankly, the whole tax system should be junked, and changed to a Value Added Tax. Pervasive Greed

Irons article: Those with incomes in the top 20% of the income distribution (those making more than about $86,000 a year in 2007) pay four times the average tax rate than the middle 20% (those making between $27,000 and $48,000); while, for the payroll tax, those in the top 20% actually pay less than those in the middle as a share of their income.

But, that is because, I think, the payroll tax is capped. Uncap it, institute a progressive tax rate and this anomaly (of lower payroll taxes of the rich) should disappear.

Frankly, the whole tax system should be junked, and changed to a Value Added Tax. The advantage of a VAT is that one does not need a large contingent of tax collectors snooping about for tax evaders. Meaning the Net Tax Revenue is higher.

Over the same period in which high-income households benefited the most from changes in the distribution of pre-tax income, they also benefited the most from changes in effective federal tax rates. In 1970, the top 1 percent of households paid an average of 47 percent of their income in federal taxes; under 2004 law, Piketty and Saez estimate they faced an average tax rate of just 30 percent, a difference of 17 percentage points.[4] (2004 is the last year for which Piketty and Saez provide tax rate estimates.[5]) In 2004 terms, this difference works out to an average of more than $200,000 per household in additional after-tax income.…
As we are learning, the Trickle Down idiocy of tweaking tax regimes with rebates does not have the intended fullest impact of bolstering economic activity. Rebates for the rich go back into the economy as investments (either through savings or private equity.) It is employed because it pleases a notion that the American government does not "interfere" with high tax and spend policies -- an idea near and dear to the Rightist policy wonks.

In fact, it is the higher "tax and spend" that is most effective in either reigning in a runaway economy or prompting one out of the doldrums. Also, a high marginal income tax has the added advantage of negating the Pervasive Greed that infected business mentalities since Reaganomics and has brought about America's inane Income Unfairness (as expressed in its Gini Coefficient.)

And has brought Uncle Sam to the financial mess within which he clearly finds himself deeply embedded.

Reply Saturday, August 23, 2008 at 10:55 PM

CJ said...

"...the actual tax rates paid by US corporations are extraordinarily low, around 6%..."

If I'm going to beat up my right-leaning friends with this figure (which I believe is relatively accurate), I'm going to need a source other than Linda Beale.

If anybody can help, please do.

Reply Sunday, August 24, 2008 at 04:17 PM

CJ said...

Following up on my previous post, it seems that, to determine effective corporate tax rates, we'd need to limit the calculation to corporations that actually report a profit to owners/shareholders (irregardless of profits/losses reported on tax returns). A company that suffers a loss, as reported to owners/shareholders, it seems, shouldn't be included in any such calculation.

Again, I know that our effective corporate rate is relatively low, but unfortunately, I haven't been able to find anything online lately to back that up???

In addition, if somebody can prove me wrong...I'm happy to stand corrected.

Reply Sunday, August 24, 2008 at 04:29 PM

Sean said...

Guys & Gals, corporations may remit taxes, but they don't "pay" any taxes, and they never have, at least not in the sense of bearing the actual burden of them. Rather, The tax burden is borne by the corporation's owners (in the form of lower profits/dividends) and its clients/customers (in the form of higher prices).

So, don't kid yourself. Corporations don't pay taxes, PEOPLE do.

Reply Sunday, August 24, 2008 at 05:02 PM

Don said...

ex-worker wrote: Anne's article about taxes moving from corporations to individuals is oft-repeated in the left, but flat wrong.

So do you have a source or just a talking point? It seems like "grade school math" to figure the percentage of tax revenues by source in a given year. Has Anne made a mathematical error or is there a basis for believing that the share of federal revenue coming from payroll taxes has not increased and the share coming from corporate taxes has? If it is "flat wrong" and not merely misinterpreted then I expect data.

I think it's too early to say definitively how regressive/progressive the Republican Tax Cut, Borrow, and Spend policies will turn out to be. Until the spending cuts and tax hikes that will be needed in the future to bring deficits in line* are realized it is unclear in the long run who will pay the most and the least. What is clear is we will...
pay a lot more than we would have otherwise.

*Bush has ensured we won't leave deficit any time soon

Reply Monday, August 25, 2008 at 04:39 AM

**Daniel Reeves** said...

“What? NOW they want to start imitating the Europeans? [Going on about 'hypocrisy' …]"

Perhaps they think that the Europeans did something right for once? How is that hypocritical at all? That's completely ad hominem.

Anyway, I propose getting rid of corporate taxes in the first place. There are way too many loopholes and many corporations can get away without even paying any taxes. Tax the people who own the money, not those invisible, imaginary structures that the money runs through.

Reply Tuesday, August 26, 2008 at 05:01 PM

**Stuart Eugene Thiel** said...

2/3 of corporations paying zero tax seems high to me, unless they're including: Mom and Pop operations that eke along for a few years running up carry-forward deductions and then going bankrupt (or not; either way they won't be paying tax any time soon); or S-corporations. Anybody know?

Reply Wednesday, August 27, 2008 at 10:22 AM

**Leaning Toward Right** said...

I, for one, don't want to live like Europeans. Their welfare system sucks. Those who think the European systems are better than the US systems, should simply move their and enjoy the welfare for the next 20 years till those countries are all bankrupt.
Economist's View: "The Greek Menace"

http://economistsview.typepad.com/economistsview/2008/08/the-greek-menac.html