Taxes Explained: Corporate Taxes

Cutting Public Goods to Finance Corporate Windfalls

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Key Takeaways

Congressional Republicans are pushing tax proposals that would significantly reduce taxes for corporations by slashing the corporate tax rate from 21 percent to 15 percent. Their tax plan, including these proposed tax cuts, would be a major windfall for the ultrawealthy and corporations while widening the racial wealth divide and costing the country more than $4.5 trillion over 10 years.[1] Lowering the corporate tax rate will cost the country at least $522 billion over 10 years, money that should be invested in public goods that benefit us all, not further enriching the already wealthy.[2]

A strong corporate tax system with adequate enforcement is essential to creating a fairer tax code that distributes resources more equitably.

These tax cuts for corporations will come at the expense of hardworking families. When policymakers make changes that reduce tax revenues significantly, the government must find other revenues or cut spending. Republicans in Congress plan to pay for corporate tax giveaways in part by cutting over $1 trillion in funding for public programs, including Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and financial assistance for higher education.[3] For example, the current budget plan could lead to $880 billion in cuts to health care programs, including Medicaid, which would result in 36 million people losing health care coverage.[4]

Economic hardship plagues millions of hardworking families who face challenges like high costs from inflation and corporate greed. A strong corporate tax system with adequate enforcement is essential to creating a fairer tax code that distributes resources more equitably and raises sufficient revenues to support both the public good and relief for everyday people—particularly Black and brown people who have borne the brunt of generations of economic exclusion.

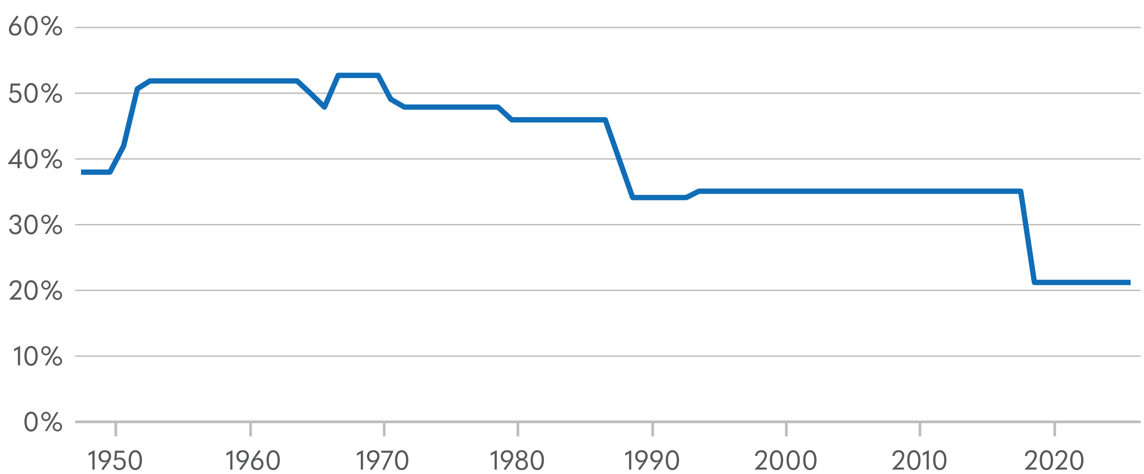
Background

Why is there a big focus on corporate taxation right now?

During his first administration, President Trump and Republican members of Congress cut taxes for corporations and wealthy households in a major tax reform bill called the “Tax Cuts and Jobs Act” (TCJA) that did very little for households with low or moderate incomes. With some elements of that bill set to expire at the end of 2025, President Trump and Republican lawmakers are seizing the opportunity to prioritize even deeper tax cuts for profitable corporations.

The TCJA lowered the corporate tax rate from 35 to 21 percent, which is the lowest it has been for generations.[5] Yet President Trump and congressional Republicans now propose lowering the corporate tax rate to 15 percent and are considering giving corporations additional tax deductions. Corporate tax cuts will increase corporate profits and enrich executives, widen income inequality, and cost the country more than half a trillion dollars in revenue that should be invested in public goods and services like health care, education, and child care.[6]

Changes to the Corporate Tax Rate (1947-2025)



Source: Author's analysis of Bureau of Economic Analysis National Income and Product Accounts data (Table 1.1.1), Internal Revenue Service Statistics of Income Historical Table 24, and Gravelle (2006)

What does the corporate tax rate tax?

The IRS levies the corporate tax rate, which is currently 21 percent, on corporate profits. Corporate profit is equal to the corporation’s income (e.g., profit from sales) minus allowable deductions, which could include wages that the business paid, interest paid on loans, and other taxes paid. This means that a corporation’s tax bill will go down either when the corporate rate goes down and/or when the amount of their deductions increases.

The Corporate Tax Bill Equation

Corporate Tax Bill = **21%** x (**Corporation's Income** - **Allowable Deductions**)

21%	Corporation's Income	Allowable Deductions
Corporate Tax Rate	e.g., Profits from Sales	e.g., Cost of goods sold, wages, interest, other taxes, advertising

Impact on Equity

Low corporate tax rates and corporate tax avoidance contribute to the racial wealth divide

Cutting the corporate rate from 35 to 21 percent in 2017 contributed to wealth disparity and exacerbated racial inequality. In 2022, 88 percent of the benefit from the corporate tax cut went to white households, while Black and Latino households received only 1 percent of the benefits.[7] Lowering the corporate rate even further will allow corporations, executives, and often wealthy shareholders to accumulate massive profits while deepening economic inequality and causing a generational setback for typical Black and brown families. Here's how:

- **Less money for the public good:** Low corporate tax rates result in less revenue for investments in public goods like education, nutrition assistance, housing, and health care. Current proposals in Congress would make significant cuts to Medicaid and SNAP to pay for the proposed tax cuts for corporations and wealthy households.[8]

- **Higher wealth concentration**: Corporate tax cuts benefit wealthy shareholders, who are predominantly white, which exacerbates the racial wealth divide. In 2022, 66 percent of white families owned stock, as compared with only 39 percent of Black families and 28 percent of Hispanic families. A closer look shows that the wealth disparity within stock ownership is even more extreme than these numbers show. In 2022, the average stock value for white families was $568,100, as compared with $97,400 for Hispanic families and $80,400 for Black families.[9]

  There is also a significant racial disparity in who holds retirement accounts, which is the most common form of stock ownership. In 2022, 35 percent of Black families and 28 of Hispanic families held retirement accounts, whereas 62 percent of white families did. The disparity in mean value of retirement accounts is even starker: The mean value of a white family's retirement account was $380,000, while the mean value was $117,500 for a Black family and $120,300 for a Hispanic family.[10]

  This means that as corporate profits grow, mostly unchecked, white families receive the majority of the shareholder benefits. In fact, a recent study showed that the ratio of average white wealth to average Black wealth would be 25 percent lower if disparities in corporate stock ownership did not exist.[11]

- **Widening income inequality:** After the TCJA cut the corporate tax rate in 2017, the largest profitable corporations in the country saw their profits increase by 44 percent while their federal tax bills plummeted by 16 percent.[12] But that benefit did not trickle down to workers: A recent study on the impact of the corporate tax cuts showed that company executives experienced a massive boost in their pay while workers earning less than $114,000 did not receive any benefit.[13] Corporate executives are disproportionately white, meaning that increased executive pay as a result of lower taxes would disproportionately benefit white households, further exacerbating existing racial wealth disparities.

Profitable corporations pay a lower tax rate than many families

The average taxpayer is paying almost three times the tax rate of some of the country's most profitable corporations.[14] This happens because many corporations exploit a labyrinth of loopholes, credits, and special tax breaks that enable them to report significantly less profit than they actually earn. As a result, these corporations pay a tax bill that is substantially lower than the 21 percent tax rate required by law, leading to an unfair reliance on individuals and families to pay a higher share.[15] A recent study from the Institute on Taxation and Economic Policy found that 342 profitable corporations paid an average effective tax rate of only 14.1 percent from 2018 through 2022. The study showed that some companies, including Netflix, Bank of America, General Motors, and Nike paid a tax rate of less than 5 percent.[16] In contrast, the average tax rate for families was 14.9 percent in 2021.[17]

"Effective" versus "Statutory" Tax Rates

The statutory tax rate is the rate written in the law, which is applied to taxable income. The statutory corporate tax rate is currently 21 percent. In contrast, the effective tax rate is the percentage of income or profit that an individual or corporation actually pays after accounting for tax breaks (e.g., deductions, credits, loopholes, etc.).

Profitable Corporations Pay a Lower Effective Tax Rate Than Individuals and Families

Corporation	Profit earned between 2018 and 2022	Tax bill (2018-2022)	Effective tax rate (2018-2022)
Bank of America	$138.9 billion	$5.3 billion	3.8%
General Motors	$33.1 billion	$431 million	1.3%
Netflix	$15.1 billion	$236 million	1.6%
Nike	$19.4 billion	$954 million	4.9%

Source: Matthew Gardner, Steve Wamhoff, Spandan Marasini, "Corporate Tax Avoidance in the First Five Years of the Trump Tax Law." Institute on Taxation and Economic Policy. February 29, 2024

Corporations have outsized power

Elected leaders, including members of Congress and the president, are paving the way for corporations to increase their wealth and influence by cutting their taxes and shaping policy based on corporate interests. This is "government capture" in action, meaning policymakers are serving corporate interests rather than the public interest through tax policy.

Billionaire Elon Musk and his company, Tesla, serve as a clear example. Tesla earned $2.3 billion in income in 2024 but reports that it owes $0 in federal income tax.[18] As Musk attempts to take control of government agencies, including the Internal Revenue Service (IRS), which enforces the tax code, Congress is gearing up to give even more tax breaks to Tesla and other profitable companies.[19]

Government Capture

Government capture occurs when policymakers make policies to serve private interests (such as corporate profit) rather than the public interest. When corporate interests exert strong influence over tax policymaking to lower the corporate tax rate or create additional loopholes and deductions, it is a form of government capture.

Policy Recommendations

This is a pivotal moment for corporate tax policy, and we have a duty to advance tax justice by fighting tax cuts that benefit corporate profits, harm families, and widen the racial wealth divide. Instead of cutting taxes for corporations, Congress should make the tax system more equitable by requiring corporations to pay their fair share and invest in public goods that benefit us all and bolster our health care and economic well-being. Our tax system needs reform to make sure that corporations are paying adequate taxes to support a healthy, equitable economy. But it doesn't stop there: Congress must then invest that tax revenue in communities to ensure that all people, particularly Black and brown people who have been historically excluded from economic opportunity, can achieve economic security and mobility. Congress can start by:

- Rejecting any proposals that further cut taxes for corporations, including any additional cuts to the corporate tax rate and tax deductions that disproportionately benefit big corporations and wealthy households. Instead, Congress should raise the corporate rate to at least 35 percent.

- Rejecting cuts to programs that benefit the public good, including financial assistance for health care, nutrition, and education.

- Preserving the funding and integrity of the IRS. Recent attacks on IRS funding, autonomy, and security not only threaten taxpayer privacy but also undermine the agency's independent authority to enforce tax laws effectively, allowing corporations to evade paying their full tax obligation.

Endnotes

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Our Work to Build Power

For decades, Dēmos has been committed to advancing racial justice by working at the intersection of economic justice and democracy reform. Our recent publication, the Dēmos Power Agenda: A Framework for Building People Power, outlines our vision for creating a just, inclusive, multiracial democracy and economy. The Power Scorecard offers a data framework and tool to establish a baseline of the current economic, civic, and political conditions we face as we fight for that multiracial democracy and economy.

About Dēmos

Dēmos is a non-profit public policy organization working to build a just, inclusive, multiracial democracy and economy. We work hand in hand to build power with and for Black and brown communities, forging strategic alliances with grassroots and state-based organizations.

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