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Analysis of Democratic Presidential Candidates' Corporate Tax Proposals

Erica York
Economist

Key Findings

- 2020 Democratic presidential candidates have proposed various changes to the corporate income tax to raise revenue for their policy proposals. This includes increasing the corporate income tax rate, ranging from 25 percent to 35 percent, imposing a corporate surtax or a minimum tax, and lengthening depreciation schedules.

- The effect of each of these proposals will be to increase the cost of capital in the United States, making it more expensive for businesses to make productivity-enhancing investments, and by doing so, reduce economic output, wages, and employment.

Summary of Democratic Presidential Corporate Tax Proposal Estimates

	Fmr. Vice President Biden (D)	Fmr. Mayor Bloomberg (D)	Fmr. Mayor Buttigieg (D)	Sen. Klobuchar (D-MN)	Sen. Sanders (I-VT)	Sen. Warren (D-MA)
Plan Details	28% corporate income tax rate and 15% minimum tax on book income	28% corporate income tax rate	35% corporate income tax rate	25% corporate income tax rate*	35% corporate income tax rate and economic depreciation for all investments	35% corporate income tax rate and 7% surtax on book income
Conventional Revenue, 2020-2029 (Billions)	$1,553	$1,253	$2,507	$716	$3,871	$3,379
Dynamic Revenue, 2020-2029 (Billions)	$1,351	$1,093	$2,149	$629	$2,689	$2,683
Gross Domestic Product (GDP)	-1.20%	-1.00%	-2.10%	-0.50%	-3.80%	-3.70%
Capital Stock	-2.90%	-2.30%	-5.10%	-1.30%	-9.10%	-8.70%
Wage Rate	-1.00%	-0.80%	-1.80%	-0.40%	-3.20%	-3.10%
Full-time Equivalent Jobs	-236,000	-187,000	-413,000	-103,000	-755,000	-722,000

*Sen. Klobuchar has proposed a variety of corporate tax rate increases, ranging from 25 percent to fund infrastructure improvements, 27 percent to fund deficit reduction, and 28 percent to fund child care and paid family leave, and has mentioned in debates that she would repeal the Tax Cuts and Jobs Act corporate tax rate.
Source: Tax Foundation General Equilibrium Model, November 2019.

Editor, Rachel Shuster
Designer, Dan Carvajal

Tax Foundation
1325 G Street, NW, Suite 950
Washington, DC 20005

202.464.6200

taxfoundation.org

Introduction

All the leading Democratic presidential candidates have proposed increases to the corporate income tax rate as part of their 2020 policy platforms. Over the last three decades, countries across the globe have lowered their corporate income tax rates, and in 2017, the United States followed suit—lowering its corporate income tax rate from the highest among countries in the OECD to a rate in line with the average.[1]

The corporate income tax hinders capital formation by increasing the cost of capital; this reduces productivity growth, employment levels, wages, and economic output.[2] Potential investments must meet the required after-tax rate of return, or hurdle rate, to be worthwhile for a business to pursue. Imposing a corporate income tax raises the pretax return required to yield an acceptable after-tax return, as the return must cover the tax. Thus, the corporate income tax limits capital formation, which discourages growth. While virtually all taxes have varying degrees of negative impact on economic growth, the corporate income tax is considered the most harmful.[3]

This paper reviews corporate income tax proposals from the 2020 Democratic presidential candidates, including changes to the tax rate, proposed minimum taxes, and depreciation using the Tax Foundation General Equilibrium Model. Each proposal would increase the cost of capital, making the United States a less attractive location for investment. This reduces the size of the economy and burdens taxpayers across the income spectrum.

Corporate Tax Rate Changes

The Democratic presidential candidates have proposed increasing the corporate income tax rate: Sen. Amy Klobuchar (MN) to 25 percent, former Vice President Joe Biden and former New York City Mayor Michael Bloomberg to 28 percent, and Sen. Bernie Sanders (I-VT), former South Bend, Indiana Mayor Pete Buttigieg, and Sen. Elizabeth Warren (MA) to 35 percent. Candidates Klobuchar, Bloomberg, and Buttigieg's corporate income tax proposals contain only rate increases, while candidates Biden, Warren, and Sanders propose rate increases as well as other policy changes, which are analyzed in the following sections.

Using the Tax Foundation General Equilibrium model, we estimated the long-run economic effects, the 10-year conventional and dynamic revenue effects, and the conventional and dynamic distributional effects of raising the corporate income tax rate to 25 percent, 28 percent, and 35 percent.

1 Kyle Pomerleau, "The United States' Corporate Income Tax Rate is Now More in Line with Those Levied by Other Major Nations," Tax Foundation, Feb. 12, 2018, https://taxfoundation.org/us-corporate-income-tax-more-competitive/.

2 Scott A. Hodge and Bryan Hickman, "How Lowering Corporate Tax Rates Encourages Economic Growth," Tax Foundation, May 10, 2018, https://taxfoundation.org/corporate-tax-cut-economic-growth/.

3 Asa Johansson, Christopher Heady, Jens Arnold, Bert Brys, and Laura Vartia, "Tax and Economic Growth," OECD, July 11, 2008, https://www.oecd.org/tax/tax-policy/41000592.pdf.

Economic Effect

TABLE 1.

Economic Effect of Raising the Corporate Income Tax Rate

	25 Percent	28 Percent	35 Percent
Gross Domestic Product (GDP)	-0.5%	-1.0%	-2.1%
GDP, billions of 2016 $	-$98	-$179	-$393
Capital Stock	-1.3%	-2.3%	-5.1%
Wages	-0.4%	-0.8%	-1.8%
Full-time Equivalent Jobs	-103,000	-187,000	-413,000

Source: Tax Foundation General Equilibrium Model, November 2019.

Increasing the corporate rate from 21 percent to 25 percent would reduce the long-run level of economic output by 0.5 percent ($98 billion) and shrink the capital stock by 1.3 percent, wages by 0.4 percent, and employment by 103,000 jobs. Raising the rate to 28 percent would reduce the long-run level of economic output by 1.0 percent, the capital stock by 2.3 percent, wages by 0.8 percent, and employment by 187,000 jobs. Raising the rate to 35 percent would reduce the long-run level of economic output by 2.1 percent, the capital stock by 5.1 percent, wages by 1.8 percent, and employment by 413,000 jobs.

Revenue Effect

We estimate that from 2020 to 2029, the 25 percent rate would raise $716 billion, the 28 percent rate would raise $1.253 trillion, and the 35 percent rate would raise $2.507 trillion on a conventional basis. Tax collections under each rate would grow over the decade as the U.S. and world economies grow and increase the tax base.

TABLE 2.

Revenue Effect of Raising the Corporate Income Tax Rate (Billions of Dollars)

Rate	Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020-2029
25%	Conventional	$52	$56	$61	$68	$76	$82	$81	$78	$81	$82	$716
	Dynamic	$51	$54	$57	$63	$69	$73	$70	$64	$65	$63	$629
28%	Conventional	$91	$97	$106	$119	$133	$143	$142	$136	$142	$143	$1,253
	Dynamic	$89	$94	$100	$110	$120	$127	$122	$110	$112	$109	$1,093
35%	Conventional	$183	$195	$213	$239	$266	$285	$285	$273	$284	$285	$2,507
	Dynamic	$179	$187	$199	$218	$238	$249	$239	$215	$217	$210	$2,149

Source: Tax Foundation General Equilibrium Model, November 2019.

On a dynamic basis, each rate increase would raise a smaller amount of revenue due to lower output as a result of the tax. Collections from the individual income tax, the payroll tax, and other taxes would fall relative to the conventional estimate. On a dynamic basis, we estimate that from 2020 to 2029, the 25 percent rate would raise $629 billion, the 28 percent rate would raise $1.093 trillion, and the 35 percent rate would raise $2.149 trillion.

Distributional Effect

The Tax Foundation General Equilibrium Model estimates that on both a conventional and dynamic basis, increases in the corporate tax rate would be progressive while burdening taxpayers across the income spectrum.

For example, increasing the rate to 28 percent, as former Vice President Biden and former New York City Mayor Bloomberg propose, would reduce after-tax income for taxpayers in the bottom quintile by 0.53 percent on a conventional basis and by 1.07 percent on a dynamic basis. The drop in after-tax income increases along the income spectrum, with taxpayers in the 99th to 100th percentile seeing a drop in after-tax income of 1.52 percent conventionally and 2.19 percent dynamically under a corporate tax rate of 28 percent.

TABLE 3.

Distributional Effect of Raising the Corporate Income Tax Rate (Percent-Change in After-Tax Income)

	25 Percent		28 Percent		35 Percent	
Income Group	**Conventional**	**Dynamic**	**Conventional**	**Dynamic**	**Conventional**	**Dynamic**
0% to 20%	-0.30%	-0.59%	-0.53%	-1.07%	-1.06%	-2.33%
20% to 40%	-0.23%	-0.48%	-0.40%	-0.86%	-0.80%	-1.90%
40% to 60%	-0.25%	-0.49%	-0.44%	-0.88%	-0.88%	-1.93%
60% to 80%	-0.26%	-0.47%	-0.45%	-0.85%	-0.91%	-1.86%
80% to 100%	-0.49%	-0.74%	-0.86%	-1.33%	-1.72%	-2.83%
80% to 90%	-0.28%	-0.48%	-0.49%	-0.87%	-0.99%	-1.89%
90% to 95%	-0.33%	-0.54%	-0.58%	-0.98%	-1.17%	-2.11%
95% to 99%	-0.46%	-0.68%	-0.80%	-1.22%	-1.59%	-2.62%
99% to 100%	-0.87%	-1.23%	-1.52%	-2.19%	-3.05%	-4.57%
TOTAL	**-0.38%**	**-0.62%**	**-0.67%**	**-1.12%**	**-1.34%**	**-2.41%**

Source: Tax Foundation General Equilibrium Model, November 2019.

In general, the corporate income tax falls on shareholders and workers. Shareholders bear the burden of the corporate tax directly through reduced after-tax returns on their investments, and workers bear the burden of the corporate tax indirectly through reduced compensation.

In the long run, the burden of the corporate income tax falls hardest on the least mobile factor in the economy—typically workers—as it is more difficult for a worker to move if their job location changes than a shareholder to invest elsewhere or for a customer to purchase from a competitor.[4] The share of the corporate tax borne by workers depends on how the corporate income tax impacts the incentive to invest.

4 Stephen Entin, “Labor Bears Much of the Cost of the Corporate Tax,” Tax Foundation, October 2017, https://files.taxfoundation.org/20171102152936/Tax-Foundation-SR2381.pdf.

Former Vice President Biden's Proposal

Biden has proposed increasing the corporate income tax rate to 28 percent and creating a minimum tax on corporations with book profits of $100 million or greater. According to the campaign, the tax is aimed at companies that report net income of $100 million or more in the United States but pay little to no federal income taxes on that due to tax breaks for buildings, investments, employee stock options, or loss carryforwards.[5]

The minimum tax would be set to 15 percent of book profits while still allowing for net operating losses and foreign tax credits; companies would pay the greater of their regular corporate income tax liability or the 15 percent minimum tax.

Economic Effect

According to the Tax Foundation General Equilibrium Model, Biden's corporate tax changes—the proposed increase of the corporate rate from 21 percent to 28 percent plus the 15 percent minimum book tax—would reduce economic output by 1.3 percent. The capital stock would fall by 2.9 percent, wages by 1.0 percent, and employment by 236,000 jobs.

TABLE 4.

Economic Effect of Biden's Corporate Tax Proposal

	28 Percent Rate	Minimum Tax	Combined Effect
GDP Change	-1.0%	-0.3%	-1.2%
GDP (billions of 2016 $)	-$179	-$47	-$226
Capital stock	-2.3%	-0.6%	-2.9%
Wage rate	-0.8%	-0.2%	-1.0%
Full-time Equivalent Jobs	-187,000	-49,000	-236,000

Source: Tax Foundation General Equilibrium Model, November 2019.

The primary difference between the tax base proposed by Biden and the current corporate income tax base is the treatment of capital investment: under the minimum tax proposal, accelerated depreciation deductions and bonus depreciation for investments would not be allowed. This means the proposal would place a higher burden on new corporate investment relative to a corporate income tax rate increase that allows accelerated deductions.

A higher burden on investment would discourage productivity-enhancing investments, leading to lower levels of output, a smaller capital stock, and lower levels of wages than under a corporate tax increase that allows accelerated depreciation deductions. For these reasons, our estimate of the Biden minimum tax is conservative and likely understates the full economic effect.

5 Jennifer Epstein, "Biden to Target Tax-Avoiding Companies Like Amazon With Minimum Federal Levy," Bloomberg, Dec. 4, 2019, https://www.bloomberg.com/news/articles/2019-12-04/biden-to-target-tax-avoiding-companies-with-minimum-federal-levy.

Revenue Effect

The Tax Foundation General Equilibrium Model estimates that Biden's corporate tax proposal would raise $1.553 trillion from 2020 to 2029, on a conventional basis. On a dynamic basis, the proposal is estimated to raise $202 billion less because of lower output caused by the proposal. Wages and profits would be lower, reducing overall collections from the individual income tax, payroll tax, and excise taxes.

TABLE 5.

Revenue Effect of Biden's Combined Corporate Tax Proposal (Billions of Dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020-2029
Conventional	$115	$122	$133	$147	$162	$173	$174	$170	$177	$180	$1,553
Dynamic	$113	$118	$125	$135	$146	$153	$148	$137	$139	$137	$1,351

Source: Tax Foundation General Equilibrium Model, November 2019.

Distributional Effect

The Tax Foundation General Equilibrium Model estimates that Biden's corporate tax proposal would make the tax code slightly more progressive. However, taxpayers at all income levels, on both a conventional and dynamic basis, would see a reduction in after-tax income.

On average, the proposal would reduce after-tax income of all taxpayers by 0.83 percent on a conventional basis (1.41 percent on a dynamic basis). Taxpayers in the middle quintile would see their after-tax income fall by 0.55 percent on a conventional basis (1.11 percent on a dynamic basis) while taxpayers in the 99^{th} to 100^{th} percentile would see their after-tax income fall by 1.88 percent on a conventional basis (2.73 percent on a dynamic basis).

TABLE 6.

Distributional Effect of Biden's Corporate Tax Proposal (Percent-Change in After-Tax Income)

Income Group	Conventional	Dynamic
0% to 20%	-0.65%	-1.35%
20% to 40%	-0.49%	-1.09%
40% to 60%	-0.55%	-1.11%
60% to 80%	-0.56%	-1.07%
80% to 100%	-1.06%	-1.66%
80% to 90%	-0.61%	-1.09%
90% to 95%	-0.72%	-1.23%
95% to 99%	-0.99%	-1.53%
99% to 100%	-1.88%	-2.73%
TOTAL	**-0.83%**	**-1.41%**

Source: Tax Foundation General Equilibrium Model, November 2019.

Sen. Warren's Proposal

Warren has proposed increasing the corporate income tax rate to 35 percent and imposing a corporate surtax equal to 7 percent of the worldwide profits reported on a corporation's financial statement. Under the surtax, the first $100 million in profits of a corporation would be exempt from the tax. Warren has also proposed ending accelerated depreciation and switching to economic depreciation for large businesses. We do not model the effect of the depreciation switch in this analysis because we do not have the details of which businesses would be subject to the change; if these changes were included, the negative economic effects would be larger than what is estimated below.

Economic Effect

According to the Tax Foundation General Equilibrium Model, Warren's proposal would reduce economic output (GDP) by 3.7 percent in the long run. We also estimate that the capital stock would be 8.7 percent smaller and wages 3.1 percent lower.

TABLE 7.

Economic Effect of Warren's Corporate Tax Proposal

	35 Percent Corporate Rate	7 Percent Surtax	Combined Effect
GDP Change	-2.1%	-1.5%	-3.7%
GDP (billions of 2016 $)	-$393	-$286	-$680
Capital stock	-5.1%	-3.6%	-8.7%
Wage rate	-1.8%	-1.3%	-3.1%
Full-time Equivalent Jobs (in thousands)	-413,000	-309,000	-722,000

Source: Tax Foundation General Equilibrium Model, November 2019.

Warren's proposal would reduce output primarily through an increase in the service price of capital, or the rate of return that is required for an investment to break even. Under a higher service price of capital, due to higher tax rates, fewer investments would be worthwhile to pursue, leading to reduced investment, a smaller capital stock, and lower output, worker productivity, and wages.

Notably, the surtax would have a larger negative impact on the incentive to invest in the United States than a 7 percentage-point increase in the corporate income tax rate. This is chiefly because companies would not be able to use expensing or accelerated depreciation for their capital investments.

Revenue Effect

We estimate that on a conventional basis, Warren's proposal would raise nearly $3.4 trillion over the 10 years from 2020 to 2029. On a dynamic basis, revenue collections would be lower, at nearly $2.7 trillion. That 20 percent reduction in revenue over the 10 years is due to lower economic output as a result of the tax increases. Wages and profits would be lower, reducing overall collections from the individual income tax, payroll tax, and excise taxes. Total revenue would be $695 billion lower over the decade as a result of the proposal.

TABLE 8.

Revenue Effect of Warren's Corporate Tax Proposal (Billions of Dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020-2029
Conventional Revenue	$262	$274	$292	$320	$350	$372	$375	$367	$382	$387	$3,379
Dynamic Revenue	$252	$254	$260	$276	$292	$301	$286	$258	$258	$248	$2,683

Source: Tax Foundation General Equilibrium Model, November 2019.

Distributional Effect

On a conventional basis, the proposed 35 percent corporate income tax rate and additional 7 percent surtax would be progressive. However, taxpayers at all income levels, on both a conventional and dynamic basis, would see a reduction in after-tax income. On a conventional basis, overall, after-tax income would fall by 1.34 percent. The bottom 80 percent of earners would see a reduction in after-tax income ranging from 0.91 percent to 1.06 percent, while the top 1 percent would see a larger reduction in after-tax income of 3.05 percent.

On a dynamic basis, the reduction in economic output would have a large impact on all taxpayers, reducing after-tax incomes by 3.68 percent overall. For the top 1 percent, after-tax income would fall by 6.01 percent, compared to a 3.21 percent fall in after-tax income for the middle quintile.

TABLE 9.

Distributional Effect of Warren's Corporate Tax Proposal (Percent-Change in After-Tax Income)

Income Group	Conventional	Dynamic
0% to 20%	-1.06%	-3.67%
20% to 40%	-0.80%	-3.17%
40% to 60%	-0.88%	-3.21%
60% to 80%	-0.91%	-3.09%
80% to 100%	-1.72%	-4.11%
80% to 90%	-0.99%	-3.07%
90% to 95%	-1.17%	-3.33%
95% to 99%	-1.59%	-3.88%
99% to 100%	-3.05%	-6.01%
TOTAL	**-1.34%**	**-3.68%**

Source: Tax Foundation General Equilibrium Model, November 2019.

Sen. Sanders' Proposal

Sanders has proposed imposing a 35 percent corporate income tax rate and transitioning to economic depreciation for all investments.

Economic Effect

According to the Tax Foundation General Equilibrium Model, Sanders' proposal would reduce economic output (GDP) by 3.8 percent. The capital stock would shrink by 9.1 percent, wages would be 3.2 percent lower, and employment would fall by 755,000 full-time equivalent jobs.

TABLE 10.

Economic Effect of Senator Sanders' Corporate Tax Proposal

	35% Corporate Rate	Section 179 Elimination	Economic Depreciation	Combined Effect
GDP Change	-2.1%	-0.1%	-1.6%	-3.8%
GDP (billions of 2016 $)	-$393	-$22	-$295	-$711
Capital stock	-5.1%	-0.3%	-3.7%	-9.1%
Wage rate	-1.8%	-0.1%	-1.4%	-3.2%
Full-time Equivalent Jobs	-413,000	-23,000	-319,000	-755,000

Source: Tax Foundation General Equilibrium Model, November 2019.

The tax code under current law allows businesses to deduct the cost of their investments according to the Modified Accelerated Cost Recovery System (MACRS), in which businesses receive larger depreciation deductions in the early years of an asset's life using the declining-balance method.[6] Under Internal Revenue Code (IRC) Section 179, businesses may deduct up to $1 million of equipment purchases, with the deduction then phasing out dollar-for-dollar beginning at $2.5 million of purchases. Additionally, investments with asset lives of 20 years or less are currently eligible for 100 percent bonus depreciation.

Under Sanders' proposal of economic depreciation, we assume that businesses would be required to take depreciation deductions in equal increments (straight-line method), according to the Alternative Depreciation System (ADS). Because investment is one of the main drivers of economic growth and relatively sensitive to tax policy, even small changes to the tax treatment of investment create large economic effects. Lengthening depreciation schedules decreases overall investment and leads to a smaller economy.

Revenue Effect

We estimate that Sanders' proposal to increase the corporate income tax rate to 35 percent and end all forms of accelerated depreciation would raise approximately $3.87 trillion between 2020 and 2029 on a conventional basis. The revenue gain from switching to economic depreciation is front-loaded, which means that the provision raises much more in its first years than it does in subsequent years. On a dynamic basis, we estimate that Sanders' proposal would raise about 30 percent less

6 See Internal Revenue Service, "Publication 946 (2018), How To Depreciate Property," https://www.irs.gov/publications/p946.

revenue than on a conventional basis. Revenue collections would total nearly $2.7 trillion from 2020 to 2029 on a dynamic basis as output would be lower as a result of the tax.

TABLE 11.

Revenue Effect of Sanders' Corporate Tax Proposal (Billions of Dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020-2029
Conventional	$595	$601	$423	$409	$389	$352	$299	$239	$275	$288	$3,871
Dynamic	$565	$545	$346	$312	$274	$221	$152	$76	$100	$99	$2,689

Source: Tax Foundation General Equilibrium Model, November 2019.

Distributional Effect

Sanders' proposal would make the tax code more progressive, but it would reduce after-tax incomes across all quintiles on average, and middle- and lower-income taxpayers would be particularly affected when factoring in the smaller economy caused by the tax.

On a conventional basis, after-tax incomes of all taxpayers would fall by 1.66 percent on average, the middle quintile by 1.05 percent, and the top 1 percent by 3.95 percent. On a dynamic basis, the smaller economy would reduce the after-tax incomes of all taxpayers by 4.00 percent, the middle quintile by 3.38 percent, and the top 1 percent by 6.93 percent.

TABLE 12.

Distributional Effect of Sanders' Corporate Tax Proposal (Percent-Change in After-Tax Income)

Income Group	Conventional	Dynamic
0% to 20%	-1.26%	-3.90%
20% to 40%	-0.95%	-3.34%
40% to 60%	-1.05%	-3.38%
60% to 80%	-1.08%	-3.25%
80% to 100%	-2.17%	-4.55%
80% to 90%	-1.18%	-3.25%
90% to 95%	-1.41%	-3.57%
95% to 99%	-2.00%	-4.26%
99% to 100%	-3.95%	-6.93%
TOTAL	**-1.66%**	**-4.00%**

Source: Tax Foundation General Equilibrium Model, November 2019.

Modeling Notes

We use the Tax Foundation General Equilibrium Tax Model to estimate the impact of tax policies.[7] The model can produce both conventional and dynamic revenue estimates of tax policy. Conventional estimates hold the size of the economy constant and attempts to estimate potential behavioral effects of tax policy. Dynamic revenue estimates consider both behavioral and macroeconomic effects of tax policy on revenue.

The model can also produce estimates of how policies impact measures of economic performance such as GDP, wages, employment, the capital stock, investment, consumption, saving, and the trade deficit. Lastly, it can produce estimates of how different tax policy impacts the distribution of the federal tax burden.

This analysis is based on details released by each presidential candidate and their advisors. Ultimately, the impact of each proposal depends on its final details and whether it is applied in combination with other policies that may create interaction effects.

7 Stephen J. Entin, Huaqun Li, and Kyle Pomerleau, "Overview of the Tax Foundation's General Equilibrium Model," Tax Foundation, April 2018 Update," https://files.taxfoundation.org/20180419195810/TaxFoundaton_General-Equilibrium-Model-Overview1.pdf.