Personalizing the Corporate Income Tax

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The U.S. corporate tax rate—now the second highest among OECD nations—is getting renewed attention as countries ranging from Malaysia to Germany are cutting their corporate tax rates to remain competitive in the global race for capital investment and jobs. The federal statutory corporate tax rate of 35 percent is now as much as 10 percentage points higher than the average corporate tax rate among European Union countries.

Typically, the arguments for cutting the U.S. corporate tax rate center on improving the ability of American firms to compete globally and making the U.S. more attractive for investment by foreign firms. While true, these arguments overlook who actually bears the economic burden of the corporate tax and who will benefit most from cutting corporate taxes—American workers, investors, and consumers.

Economists have traditionally been divided on whether the eventual economic burden (or incidence) of corporate taxes falls on consumers through higher prices, workers through lower wages, or shareholders through smaller dividends. Decades of Tax Foundation studies assumed an even split among the three groups. Recently, however, this longstanding assumption of a third/a third/a third has been challenged.

New research is indicating that in a global economy over the long-term, where capital is highly mobile but workers are not, labor is bearing the brunt of corporate taxation. In a working paper for the Congressional Budget Office, William Randolph concludes that under certain assumptions of freely flowing capital, 70 percent of the burden of corporate taxes falls on domestic workers while the remaining 30 falls on owners of capital.[1]

When Tax Foundation economists Andrew Chamberlain and Gerald Prante put forth two reports in March 2007 estimating the federal tax burden by geographic regions and the fiscal incidence of the

U.S. fiscal system, they used Randolph's assumption when measuring how the burden of the U.S. corporate tax affects various American households. These results should bring a new perspective to the debate over cutting the corporate tax rate.

Examining income groups, Chamberlain and Prante found that low-income households pay more in corporate income taxes than they pay in personal income taxes. Geographically, households in largely urban congressional districts and metropolitan areas bear a disproportionate share of corporate income taxes today and, thus, would receive a significant boost in living standards if the corporate tax burden were reduced.

Corporate Tax Burden by Household Income
In 2005, the federal government collected $320 billion in corporate income taxes, roughly $2,757 per household. However, based upon the Randolph formulation, some households will bear more of that burden than others.

Using Randolph's assumption, Prante and Chamberlain estimated the burden of every federal tax by income group, or quintile. Table 1 shows that the typical low-income household (those earning under $23,700 in 2004), pays $171 in personal income taxes, but $271 in corporate income taxes. As a share of their total tax burden, personal income taxes comprise just 4 percent with corporate taxes at 6.3 percent. Indeed, only the payroll tax puts a heavier burden on low-income households than the corporate income tax.

By contrast, as Table 2 shows, personal income taxes comprise nearly 36 percent of a high-income household's (those earning more than about $99,000) total tax burden while corporate taxes comprise about 8 percent. In dollar terms, the typical high-income household pays $29,257 in individual taxes compared to $6,597 in corporate taxes.

Table 1. Average Dollar Tax Burdens by Type of Tax Per Household
Calendar Year 2004

	Quintiles of Household Cash Money Income, Calendar Year 2004				
	Bottom 20 Percent	Second 20 Percent	Third 20 Percent	Fourth 20 Percent	Top 20 Percent
Total Federal	**$1,684**	**$6,644**	**$13,028**	**$22,719**	**$57,512**
Income	$171	$1,431	$3,720	$7,973	$29,257
Payroll	$917	$3,656	$6,788	$10,737	$18,470
Corporate Income	$271	$999	$1,734	$2,894	$6,597
Gasoline	$69	$138	$202	$286	$493
Alcoholic Beverages	$34	$52	$75	$102	$141
Tobacco	$51	$67	$73	$68	$59
Diesel Fuel	$10	$38	$65	$109	$248
Air Transport	$22	$51	$81	$147	$312
Other Excise	$43	$66	$89	$124	$177
Customs, Duties, etc.	$96	$147	$200	$279	$396
Estate & Gift	$0	$0	$0	$0	$1,362

Source: Gerald Prante and Andrew Chamberlain, "Who Pays Taxes and Who Receives Government Spending? An Analysis of Federal, State and Local Tax and Spending Distributions, 1991-2004," *Tax Foundation Working Paper*, No. *1*, March 2007, available at http://www.taxfoundation.org/files/wp1.pdf.

Table 2. Fraction of Each Quintile's Total Tax Burden Accounted for By Each Type of Tax, Calendar Year 2004

	Quintiles of Household Cash Money Income, Calendar Year 2004				
	Bottom 20 Percent	Second 20 Percent	Third 20 Percent	Fourth 20 Percent	Top 20 Percent
Total Federal Taxes	38.9%	55.7%	61.5%	64.4%	70.2%
Income	4.0%	12.0%	17.6%	22.6%	35.7%
Payroll	21.2%	30.6%	32.0%	30.4%	22.5%
Corporate Income	6.3%	8.4%	8.2%	8.2%	8.1%
Gasoline	1.6%	1.2%	1.0%	0.8%	0.6%
Alcoholic Beverages	0.8%	0.4%	0.4%	0.3%	0.2%
Tobacco	1.2%	0.6%	0.3%	0.2%	0.1%
Diesel Fuel	0.2%	0.3%	0.3%	0.3%	0.3%
Air Transport	0.5%	0.4%	0.4%	0.4%	0.4%
Other Excise	1.0%	0.6%	0.4%	0.4%	0.2%
Customs, Duties, etc.	2.2%	1.2%	0.9%	0.8%	0.5%
Estate & Gift	0.0%	0.0%	0.0%	0.0%	1.7%

Source: Gerald Prante and Andrew Chamberlain, "Who Pays Taxes and Who Receives Government Spending? An Analysis of Federal, State and Local Tax and Spending Distributions, 1991-2004," *Tax Foundation Working Paper*, No. *1*, March 2007, available at http://www.taxfoundation.org/files/wp1.pdf.

What this means is that cutting the corporate income tax will benefit low-income wage earners more than is generally expected. Especially significant is the hefty potential savings for middle-income workers in the "Baucus middle class," that is, the middle three quintiles. Corporate income taxes comprise a higher portion of the tax burden for each of those quintiles than for the highest-earning quintile, although the corporate income tax is progressive. In the bottom quintile, some wage-earning households would benefit from a corporate tax cut, but the large number of non-wage-earning households drags down the average. Despite the desire of many lawmakers and candidates to cut income taxes for lower- and middle-income taxpayers, most of these taxpayers have little or no income tax liability to reduce further. Therefore, unless refundable credits were implemented, these taxpayers would actually benefit more from a cut in the corporate tax rate. Research has found that wages are very sensitive to corporate tax rates,[2] so it is likely that these workers would see higher wages as a result of a cut in the corporate tax rate.

The Corporate Tax Burden Landscape

Naturally, states and localities will bear different corporate tax burdens based upon their differing amounts of workers' total earnings and the number of households that have capital income. Using these criteria, Tax Foundation economists allocated the corporate tax burden according to various geographic units such as county, congressional district, and metropolitan area.[3]

When Metropolitan Statistical Areas (MSAs) are ranked according to their per-household corporate tax burden, the Stamford-Norwalk area of Connecticut has the top tax burden of $11,938—roughly three times the national average. Other high-income MSAs such as Naples, FL; San Francisco, CA;

San Jose, CA; and West Palm Beach-Boca Raton, FL, fill out the top five. Indeed, California has six MSAs in the top 20 of per-household corporate tax burden.

By contrast, the Texas MSA of McAllen-Edinburg-Mission has the lowest per-household corporate tax burden of $1,270. It is interesting to note, however, that households in this community pay more in corporate income taxes than they do in personal income taxes. The remaining five MSAs with the lowest per-household corporate tax burden include: Brownsville-Harlingen-San Benito, TX; Jamestown, NY; Cumberland, MD-WV; and Steubenville-Weirton, OH-WV.

Table 3. Corporate Tax Burdens by Metropolitan Statistical Area, 2005

Rank	State	Metropolitan Statistical Area	Average Corporate Income Tax Burden Per Household	Total Corporate Tax Burden By MSA ($thousands)
1	CT	Stamford-Norwalk	$11,938	$1,524,686
2	FL	Naples	$6,458	$810,025
3	CA	San Francisco	$6,156	$4,284,810
4	CA	San Jose	$5,805	$3,528,621
5	FL	West Palm Beach-Boca Raton	$5,033	$2,695,001
6	NY	Nassau-Suffolk	$4,719	$4,515,129
7	NJ	Trenton	$4,636	$625,994
8	MA	Boston, MA-NH	$4,444	$5,947,132
9	DC	Washington, DC-MD-VA-WV	$4,441	$9,260,167
10	NJ	Bergen-Passaic	$4,434	$2,282,571
322	VA	Danville	$1,528	$69,802
323	TX	El Paso	$1,512	$356,903
324	AZ	Yuma	$1,510	$104,708
325	PA	Johnstown	$1,489	$144,943
326	CO	Pueblo	$1,480	$90,652
327	OH	Steubenville-Weirton, OH-WV	$1,477	$83,473
328	MD	Cumberland, MD-WV	$1,444	$64,098
329	NY	Jamestown	$1,393	$80,298
330	TX	Brownsville-Harlingen-San Benito	$1,363	$155,607
331	TX	McAllen-Edinburg-Mission	$1,270	$256,719

Source: Internal Revenue Service; Bureau of economic Analysis; Tax Foundation calculations

Ranking the MSAs according to the total amount of corporate taxes clearly shows that America's largest cities shoulder an enormous corporate tax burden. The 3.62 million households that comprise the New York City MSA have the largest overall corporate tax burden of $13.7 billion. Chicago households (3.1 million) have the second-highest burden of $11.5 billion, while the Los

Angeles-Long Beach MSA (3.3 million) comes in third at $10.1 billion. All in all, households in 65 MSAs pay more than $1 billion in total corporate income taxes.

The MSA with the lowest overall corporate tax burden is the tiny community of Enid, Oklahoma. The 22,908 households in that community pay a total of $44 million in corporate taxes, or $1,952 per household. The other small MSAs with the lowest overall corporate tax burden include: Pine Bluff, AR; Pocatello, ID; Elmira, NY; and Great Falls, MT.

View the full MSA chart here.

Estimating the corporate tax burden by congressional district is, in some ways, a more interesting measure because each district has roughly the same population. Thus, the driving factors for corporate tax burdens by congressional district are workers' total wages and the presence of households with capital income.

New York's 14th District, represented by Rep. Carolyn Maloney (D-NY), has the highest per-household corporate tax burden in the nation at $11,460, four times the national average. Households in this district pay more than $3.8 billion in corporate income taxes. The second- and fourth-highest ranking Congressional districts are in California: the 14th District, represented by Anna Eshoo (D-CA) and the 30th District, represented by Henry Waxman (D-CA). Indeed, California and New York each have three districts among the top ten in per-household corporate tax burdens.

From a political perspective, it is interesting to note that four of the top five districts with the highest per-household corporate tax burdens are all represented by Democrats. However, looking at the top 25 districts, or even the top 50 districts, shows that the parties are roughly evenly represented.

The bottom end of the rankings, by contrast, is heavily tilted toward Democrats. Eight of the 10 districts with the lowest corporate tax burdens are represented by Democrats. Of the 25 lowest districts, only four are represented by Republicans.

Table 4. Corporate Tax Burden by Congressional District, 2005

Rank	State	District	Member (110th Congress)	Political Party	Average Corporate Income Tax Burden Per Household	Total Corporate Tax Burden for Households in District ($thousands)
	U.S. Total		N/A	N/A	**$2,757**	**$319,800,000**
1	NY	14	Carolyn Maloney	D	$11,460	$3,894,139
2	CA	14	Anna Eshoo	D	$10,118	$2,549,602
3	CT	5	Christopher Shays	R	$9,035	$2,347,969
4	CA	30	Henry Waxman	D	$8,707	$2,526,602
5	NY	18	Nita Lowey	D	$8,001	$1,930,678
6	IL	10	Mark Kirk	R	$7,923	$1,919,647
7	NY	8	Jerrold Nadler	D	$7,820	$2,508,569
8	FL	22	Ron Klein	D	$7,111	$2,146,948
9	CA	48	John Campbell	R	$6,677	$1,828,024
10	NJ	11	Rodney Frelinghuysen	R	$5,899	$1,465,312
427	NC	1	G.K. Butterfield	D	$1,420	$352,344
428	AR	1	Marion Berry	D	$1,400	$388,069
429	TX	29	Gene Green	D	$1,400	$285,710
430	AL	7	Artur Davis	D	$1,389	$350,255
431	MS	2	Bennie Thompson	D	$1,388	$364,036
432	OK	2	Dan Boren	D	$1,377	$384,350
433	MO	8	Jo Ann Emerson	R	$1,370	$366,247
434	WV	3	Nick Rahall	D	$1,292	$323,113
435	KY	5	Harold Rogers	R	$1,167	$318,504
436	NY	16	Jose Serrano	D	$963	$227,132

Source: Internal Revenue Service; Bureau of Economic Analysis; Census Bureau; Tax Foundation calculations

View the full list of all 435 congressional districts (and the District of Columbia) here.

The district with the lowest per-household corporate tax burden is the 16h District of New York, represented by Rep. Jose Serrano (D), at $963 per household. Rep. Serrano's district is the only district with an average corporate tax burden of less than $1,000 per household.

From a sheer numbers perspective, Democrats would seem to have a slightly greater incentive than Republicans to cut the corporate income tax. Of the 151 districts whose per-household corporate tax burden is above the national average, 78 districts, or 52 percent, are represented by Democrats. Since Democrats hold the majority in the House of Representatives, districts represented by Democrats paid a total of $167 billion in corporate income taxes in 2005, while Republican-represented districts paid a total of $153 billion. On average, households represented by a Democratic member had a corporate tax burden of $2,740, while the average for those households represented by a Republican member had an average of $2,775.

Conclusion
Unfortunately, the debate over cutting corporate taxes tends to focus solely on the benefit to multinational firms or the broader economy rather than on the American households upon which the economic burden of the corporate tax actually falls.

While the average per-household burden of the corporate tax is $2,757, a disproportionate share of the burden falls on urban areas where households have higher wages and more capital income. However, lower-income households tend to pay more in corporate income taxes than they do in personal income taxes. This indicates that a general cut in corporate income tax rates (or other taxes on capital) would provide a greater benefit to low-income households than would further rate cuts in individual taxes. Indeed, there are 43 million Americans who already have no income tax liability after they take advantage of their credits and deductions. Those households would benefit most from a cut in corporate taxes.

While all American households would benefit from a lower corporate tax burden, both political parties could make the case that their constituents would be made better off. Thus it would seem that cutting the corporate tax rate to catch up to the global trends should have bipartisan support.

Notes

1. William C. Randolph, "International Burdens of the Corporate Income Tax," *Working Paper Series*, Congressional Budget Office, August 2006, p. 44, available at http://www.cbo.gov/ftpdocs/75xx/doc7503/2006-09.pdf.

2. Kevin Hassett and Aparna Mathur, "Taxes and Wages," *American Enterprise Institute Working Paper* #128, June 2006.

3. Gerald Prante and Andrew Chamberlain, "Estimating Federal Tax Burdens for Major City Areas, Counties, and U.S. Congressional Districts," *Tax Foundation Working Paper*, No. *2*, March 2007.

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