TAX FOUNDATION

Why a Competitive Corporate Tax Rate Matters to the Average American

A common misconception is that what happens to corporations is not directly connected to the finances of average Americans; but in fact, the corporate income tax affects American workers and families through their jobs, purchases, and retirement savings.

Impact on Wages, Job Creation, and Employment Opportunity

Academic studies show that higher corporate tax rates depress worker wages and lead to fewer jobs. An Organisation for Co-operation and Development (OECD) study has found that the corporate tax is the least efficient and most harmful way for governments to raise revenue.[1] When corporations can put dollars toward building a new factory or buying new equipment and upgrading software, workers become more productive, which leads to higher wages. Tax Foundation's model shows that by year five, half of the benefits of a corporate rate reduction accrue to workers.[2]

Studies also show that the workers most affected by corporate rate changes are people on the margins, often women and minorities.[3]

Quick Facts

25.6% The top combined US corporate tax rate, which includes the 21% federal rate and the average of state and local corporate tax rates (ranging from 2.5% to 9.8% in the 44 states with a corporate income tax).[4]

23.6% The average combined corporate rate of our global competitors.[5]

Impact on the Prices of Goods and Services

When corporations face larger tax obligations, some of those costs may be passed onto consumers. Given that households have faced significant inflation over the past two years, adding more pressure on business costs could in turn make budgets even tighter for the average American household. In fact, a recent study finds that up to half of the corporate tax incidence falls on consumers.[6]

1 https://doi.org/10.1787/241216205486.
2 https://taxfoundation.org/blog/corporate-tax-cuts-worker-wages/.
3 https://www.aeaweb.org/articles?id=10.1257/aer.20130570.
4 https://taxfoundation.org/data/all/state/state-corporate-income-tax-rates-brackets-2024/.
5 https://www.taxpolicycenter.org/fiscal-fact/oecd-corporate-tax-rates-2022.
6 https://www.nber.org/system/files/working_papers/w27058/w27058.pdf.

Impact on Retirement Savings and Other Investments

Sixty-one percent of Americans report owning stock directly or through retirement accounts.[7] The Federal Reserve has found that the majority of the stock market's exceptional performance over the past three decades can be attributed to lower interest expenses and lower corporate tax rates.[8]

Global Competitiveness

Foreign direct investment (FDI) is particularly sensitive to corporate tax rates. Given nearly eight million US workers are employed by investment from abroad,[9] attracting and retaining these jobs are important to Americans. The OECD and others in academia have found considerable evidence of a negative relationship between FDI and host country taxation.[10]

Conclusion

A higher corporate tax rate would raise revenue but come with steep trade-offs: lower wages, fewer jobs, higher prices on goods and services, lower returns on most Americans' retirement savings, and diminished international competitiveness. Rather than turn to one of the most economically damaging taxes, lawmakers should eliminate wasteful tax expenditures and broaden the tax base to raise revenue.

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