

Center for American Progress



The Corporate Tax Dodge

By **Cassandra Q. Butts** | April 10, 2004

The news that more than 60 percent of U.S. corporations failed to pay any federal taxes from 1996 through 2000 when corporate profits were soaring and that corporate tax receipts had fallen to just 7.4 percent of overall federal tax revenue in 2003 – the lowest since 1983 and the second-lowest rate since 1934 – is an outrage. But it should come as no surprise to anyone who has been paying attention to national tax policy over the past few years. The General Accounting Office (GAO) report also found that an astonishing 94 percent of corporations reported tax liability of less than 5 percent of their total income during the same time period. Corporate tax dodging has gone on for far too long. But the policies of the Bush administration have exacerbated the problem by furthering the culture of tax avoidance by big corporations and creating a pervasive unfairness in our tax code.

With Tax Day (April 15) fast approaching and the Bush administration continuing to make the case that the Bush tax cuts have benefited American families, the GAO report could not be timelier in painting a far less rosy picture. Both the GAO study and the historical record support the conclusion that any benefit working families have received from the Bush tax cuts has been more than offset by the additional tax burden they must bear because corporations no longer pay their fair share of taxes.

As the GAO study documents and the historical record proves, corporate tax dodging is directly linked to the reduction of corporate tax revenues. Corporate tax receipts dropped from an average of 4.8 percent of GDP during the 1950s to 1.3 percent of GDP in FY2003. Treasury Department figures show that actual corporate income tax revenues fell 36 percent from FY2000 to FY2003. And while the statutory corporate income tax rate is 35 percent, the effective corporate tax rate – the actual share of corporate taxes paid on corporate profits – has averaged just 26 percent since 1993, according to the Congressional Research Service.

While the more recent corporate tax shortfalls may reflect a weaker economy at the beginning of 21st century, much of it can be attributed to both the Bush administration's corporate tax cuts enacted in 2002 and 2003 and the loopholes in the tax code that have allowed corporations to shelter income offshore. The 2002 and 2003, tax bills cost \$177 billion in corporate tax breaks in fiscal years 2002 through 2005, \$44 billion in 2002, \$53 billion in 2003, \$64 billion in 2004 and \$16 billion in 2005 (all figures estimated by the Joint Committee on Taxation). Estimates of the cost of corporate tax loopholes have been projected at upwards of \$50 billion a year, according to Citizens for Tax Justice.

As corporate tax receipts decreased, payroll taxes, the most regressive of all taxes, increased dramatically. Specifically, payroll taxes increased from 1.6 percent of GDP in FY1950 to 6.8 percent of GDP in FY2002, surpassing both corporate income taxes and excise taxes in their contribution to total federal receipts. This rise in payroll taxes represented a 30 percent increase in the contribution of payroll taxes to overall federal revenues.

At the same time, individual income taxes also increased in the past half century as both a percentage of GDP and in their relative contribution to total federal tax receipts. Individual income taxes rose from 5.8 percent of GDP in FY1950 to 8.3 percent of GDP in FY2002. The regressivity of the Bush tax cuts has made this increase much more of a burden on middle and low-income taxpayers.

The Bush administration's responsibility for furthering corporate tax avoidance also extends to its underfunding of tax enforcement at the Internal Revenue Service (IRS). In 2003, an underfunded IRS pursued only 18 percent of the abusive tax shelter cases uncovered by IRS agents. As recently as March 30, the IRS Oversight Board released a special report imploring Congress to go beyond the president's 2005 budget request of a 4.6 percent increase in funding for IRS and detailing what it identified as a consistent underfunding of tax enforcement activities during the Bush administration. Despite the 4.6 percent increase, the report found that IRS's enforcement capability would still continue to decrease for the fourth year in a row because the increase inexplicably ignored \$230 million in expected cost increases related to pay raises and other required expenses. The report also found that the Bush budget for the IRS would lead to about a half-million unresolved delinquent tax cases and create a national tax gap of \$311 billion or 65 percent of the projected 2004 budget deficit.

Yet the Bush administration was able to find room in its 2004 budget to dramatically increase funding for compliance with the Earned Income Tax Credit (EITC) for low-income families. The Bush budget requested a 68.5 percent increase in EITC enforcement, despite the fact that EITC avoidance represents only 2.8 percent of the overall uncollected tax gap.

Rather than engaging in the empty rhetoric of Tax Day that conservatives have mastered, which does nothing to close the \$311 billion national tax gap or the gaping long-term fiscal gap, progressives must change the framework in which the debate on national tax policy is discussed. We must do so by offering a progressive alternative of fundamental tax reform that promotes simplicity in the tax code,

advances overall fairness in the treatment of all taxable income, closes the budget deficit, and provides the necessary revenue to fund our national priorities. Closing corporate tax loopholes and better enforcement must be a part of that discussion, but it must extend beyond an adherence to revenue neutrality in the treatment of corporate taxes to address the real fiscal challenges ahead.

Cassandra Q. Butts is the senior vice president and coordinator for economic policy at the Center for American Progress.

To speak with our experts on this topic, please contact:

For print and radio, John Neurohr, Deputy Press Secretary
202.481.8182 or jneurohr@americanprogress.org

For TV, Sean Gibbons, Director of Media Strategy
202.682.1611 or sgibbons@americanprogress.org

For web, Erin Lindsay, Online Marketing Manager
202.741.6397 or elindsay@americanprogress.org

© Center for American Progress | [About Us](#) | [Contact Us](#) | [Press Room](#) | [Privacy Policy](#) | [Reuse Policy](#)
| [Terms of Use](#)