Economist's View

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Tuesday, August 19, 2008

"The Greek Menace"

Some responses to the Tax Foundation's announcement of a new campaign called Compete USA which claims high corporate tax rates are hurting US competitiveness. First, Paul Krugman:

> The Greek menace, by Paul Krugman: ...All our corporate investment are belong to … Greece?
>
> Run for the hills! Excessive taxes on corporations are threatening American prosperity, because we can't match the low, low taxes of other advanced countries. Or so says the Tax Foundation, which is rolling out a new campaign called Compete USA. John McCain has already made big cuts in corporate taxes a big part of his agenda.
>
> There's a lot to say about this stuff, but right now I'd just like to mention one aspect. The Tax Foundation people start off with a graph that's supposed to be terrifying, with the headline "Europe cuts rates while U.S. stands still"; the graph shows European tax rates dropping far below the US rate.
>
> What they don't make clear is that:
>
> 1. The graph shows the "statutory" tax rate, which is the maximum rate a corporation can pay in principle. But because corporate tax rules allow all kinds of deductions and exclusions, the statutory rate is a poor guide to the actual disincentives the corporate tax creates.
>
> 2. Even more important, while they don't explain how they calculate the "average" tax rate, the fact that their own data show that all the big economies have tax rates above 30%, while their graph shows an average rate of about 27%, seems to indicated that they're showing us an unweighted average — that is, one that makes small economies like Ireland and Greece seem as important as big economies like Japan and Germany. And whaddya know, corporate taxes in big economies tend to be similar to those in the United States, a point made by the Congressional Budget Office in the study from which the chart above is drawn. (Yes Germany cut rates this year. Big deal.)
>
> So basically, the Tax Foundation wants us to be frightened of the Greek menace. How can American business survive in a world in which Greek corporations have a big tax advantage?

Next, from Linda Beale:

> Tax Foundation and Competitive Environments: more bunk!, by ataxingmatter: The Tax Foundation is busy again pushing its latest propaganda idea--that the US has such high corporate taxes that it stifles competition and hurts our economy--with a new "competeusa.com" organization.
>
> Wrong. Fact is, though our tax laws include statutory rates that are fairly high (35% for corporations earning about $18 million or more annually) but generally in the same ballpark as those of other developed western nations, the actual tax rates paid by US corporations are extraordinarily low, around 6%. Remember the latest GAO report (reported elsewhere on ataxingmatter) that shows that two-thirds of US corporations pay no federal income tax. That's not just the ones that are losing money, but

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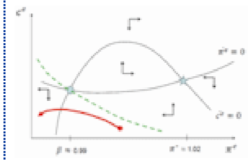

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George Stigler and How

also many corporations that have record high profits (including some Big Oil companies) that end up paying next to nothing in taxes.

That's because the statutory rate of 35% is only on paper. Corporations engage in aggressive tax planning that cheats the system, and they take advantage of a bountiful number of lucrative loopholes built into the system under the four decades of Reagan-style corporate favoritism and deregulation, including items such as accelerated depreciation, various expensing provisions that let corporations deduct before they really have an economic cost, and the lucrative research & development credit that lowers taxes dollar-for-dollar for R&D expenditures that corporations have to do anyway (so they do not serve as an incentive to greater development) and that corporations have often already done prior to the enactment of the one-year "extensions" of the credit that have been taking place as transitions to no-credit for years.

As a result, the US is actually a corporate tax haven, with the lowest effective corporate tax rates of almost all the countries that participate in the OECD. That's a little fact that the Tax Foundation apparently doesn't want the American public to understand, since all its hype is in terms of statutory rates and not in terms of effective tax rates.

Now, the Tax Foundation does put out a figure for the amount of corporate taxes collected--a little more than $300 billion. But it doesn't provide the historical context--the share of federal revenues paid by corporate taxes has decreased substantially, while the share of overall revenues provided by everybody else (including the little guys through payroll taxes, among other means) has increased.

The Tax Foundation does something else it often tends to do in setting out its propaganda: quote one source as a definitive authority, without mentioning conflicting conclusions from other respectable sources. The Tax Foundation wants employees to believe that they are the ones who "really" pay corporate taxes come. But we don't know the incidence of the corporate tax, and there are a number of conflicting studies. Even the studies that exist make a number of assumptions that may bring their conclusions into doubt. Many experts think it is primarily the shareholders (of course, that's also the claim of many of the right-leaning organizations like the Tax Foundation when they are arguing for eliminating corporate taxation because, they claim, it amounts to "double taxation" of the same earnings when shareholders are taxed on their investments). But it may be predominantly consumers, or workers, or creditors, or so diffuse that it isn't borne by any one segment of the economy. What we do know is that many corporations have been making very high profits and paying low taxes, and that the corporate contribution to the fisc is considerably less as a percentage of GDP than it used to be, at the same time that wealthy US taxpayers are paying astoundingly low overall effective tax rates on their income, including very low rates on their income from capital, while they are garnering an ever larger share of the income pie.

Instead of talking about a need to reduce corporate tax rates, the Tax Foundation should be answering the following question: if low corporate taxes are the key to success, how does the Tax Foundation explain that very favorably taxed US corporations--like Big Pharma, Big Oil, and of course Big Banks--that pay among the lowest tax rates in the developed world, still claim they need more government subsidies in order to successfully compete against their international counterparts (or each other, in many cases). Isn't this just another one of those straw-man arguments claiming a "need" to reduce US taxes for the "public" good, when the real goal is to eliminate taxes on corporations and on income from capital, so that wealthy corporate owners and managers can continue to garner a larger and larger share of the nation's income?

What US corporations need is more long-term thinking and less of the

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On technological regress - Stumbling and Mumbling
Hayek's Rapid Rise to Stardom - Uneasy Money

NBER Working Papers

Investment Responses to Trade Liberalization: Evidence from U.S. Industries and Plants -- by Justin R. Pierce, Peter K. Schott
The Geography of Poverty and Nutrition: Food Deserts and Food Choices Across the United States -- by Hunt Allcott, Rebecca Diamond, Jean-Pierre Dube
The Rate of Return on Everything, 1870-2015 -- by Oscar Jorda, Katharina Knoll, Dmitry Kuvshinov, Moritz Schularick, Alan M. Taylor
The Influence of Peer Genotypes and Behavior on Smoking Outcomes: Evidence from Add Health -- by Ramina Sotoudeh, Dalton Conley, Kathleen Mullan Harris
The Long-Run Effects of the Earned Income Tax Credit on Women's Earnings -- by David Neumark, Peter Shirley
Weak States: Causes and Consequences of the Sicilian Mafia -- by Daron Acemoglu, Giuseppe De Feo, Giacomo De Luca
Endogenous Production Networks -- by Daron Acemoglu, Pablo D. Azar
On the Estimation of Treatment Effects with Endogenous Misreporting -- by Pierre Nguimkeu, Augustine Denteh, Rusty Tchernis
The Diffusion of New Institutions: Evidence from Renaissance Venice's Patent System -- by Stefano Comino, Alberto Galasso, Clara Graziano
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Geography, Income, and Trade in the 21st Century -- by Dan Liu, Christopher M. Meissner
The Effects of Quantitative Easing: Taking a Cue from Treasury Auctions -- by Yuriy Gorodnichenko, Walker Ray

> mentality ,that has reigned for decades, that leads to restructuring to build profits into hedge funds and equity joint ventures and managers and shareholders, but not leaving much on the table to build long-term commercial success. It's not a tax cut these corporations need, but cuts to the drivel at the top (executives earning in half a day what their average employees earn in an entire year) and more committed participation in the community and nation that has made their incredible success possible.
>
> I hope Americans are too smart to buy more of this propaganda that is part and parcel of the deceptive marketing of the corporatist state. It's time to recognize the power that corporatism gives to wealthy owners and managers of corporations and set the rules to benefit the public good, rather than the wealthy few.

As Dean Baker notes, the Washington Post has been pushing the same line:

> Washington Post Misleads Readers to Push for Lower Corporate Tax Rates, Beat the Press: The Washington Post editorial page has no qualms about making up data to further its agenda. ... Most newspapers might feel embarrassment about using such a blatant misrepresentation to push its preferred policies, but not the Post.
>
> Today, the preferred policy is further reductions in corporate income taxes. To advance this agenda the Post tells readers that, "U.S. companies operating abroad already labor under a bigger tax burden than most foreign competitors."
>
> That's not what the OECD says. Data from the OECD show that in the average member country corporate taxes are equal to about 3.5 percent of GDP. In the United States, corporate taxes have generally been between and 1.5 percent and 2.5 percent of GDP over the last two decades, according to the Congressional Budget Office (Table F-4).

Posted by Mark Thoma on Tuesday, August 19, 2008 at 12:42 PM in Economics, Taxes | Permalink
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» Lets Not Get Hysterical About the Tax Increase in the Health-Care Plan from **Daily Intel**

> The tax rate in New York may be going up to 60 percent. But STAY CALM. [Read More]

Tracked on Thursday, July 16, 2009 at 12:37 PM

Comments

You can follow this conversation by subscribing to the comment feed for this post.

save_the_rustbelt said...

I would suggest the following trade-off.

Cut the rate to 25%.

Insure that corporations actually pay taxes by blocking offshoring of income, Caymen Island shelters, dumping the crazy maze of tax credits, etc.

Collections should go up.

Reply Tuesday, August 19, 2008 at 12:47 PM

ilsm on Links for 12-15-17
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ilsm on Links for 12-15-17
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Gibbon1 on Paul Krugman: Republicans Despise the Working Class
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Brad DeLong

Note to Self: This is
Some Fairly-Recent Must- and Should-Reads...
Should-Read: The end of the
Should-Read: JEC: The Taxonomy of
An Appeal to the Republican-Supporting Plutocrats of America
Weekend Reading: Richard Thaler: Behavioral Economics
Should-Read: Thomas Robert Malthus: PPrinciples

Paul Krugman

The Blog Moves On
Leprechauns of Eastern Europe
La Trahison des Clercs, Economics Edition
Incidence and Welfare Effects of Corporate Tax Cuts (Extremely Wonkish)
Choice and the Insurance Mandate
Voodoo Too: The GOP Addiction to Financial Deregulation
Schroedinger’s Tax Hike

Marginal Revolution

Political Incorrect Paper of the Day: Food Deserts
The rate of return on everything
Why Sex? And why only in

Taxes and Turnout -- by Felix Bierbrauer, Aleh Tsyvinski, Nicolas D. Werquin
One Markup to Rule Them All: Taxation by Liquor Pricing Regulation -- by Eugenio J. Miravete, Katja Seim, Jeff Thurk
Scale versus Scope in the Diffusion of New Technology: Evidence from the Farm Tractor -- by Daniel P. Gross
A Macroeconomic Model with Financial Panics -- by Mark Gertler, Nobuhiro Kiyotaki, Andrea Prestipino
The Mortality Effects of Retirement: Evidence from Social Security Eligibility at Age 62 -- by Maria D. Fitzpatrick, Timothy J. Moore
Persistent Effects of Teacher-Student Gender Matches -- by Jaegeum Lim, Jonathan Meer
The Effect of the Risk Corridors Program on Marketplace Premiums and Participation -- by Daniel W. Sacks, Khoa Vu, Tsan-Yao Huang, Pinar Karaca-Mandic
Inferring the Ideological Affiliations of Political Committees via Financial Contributions Networks -- by Yiran Chen, Hanming Fang
Evolution of the Infant Health Production Function -- by Hope Corman, Dhaval M. Dave, Nancy E. Reichman
Does Size Matter? Bailouts with Large and Small Banks -- by Eduardo Davila, Ansgar Walther
Incentivizing Better Quality of Care: The Role of Medicaid and Competition in the Nursing Home Industry -- by Martin B. Hackmann
The Value of Pharmacogenomic Information -- by John A. Graves, Shawn Garbett, Zilu Zhou, Josh Peterson

Blogs

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Cafe Hayek
Calculated Risk
Capital Ebbs and Flows
Captain Capitalism
Carola Binder
Cecchetti and Schoenholtz
Cheap Talk
Chris Blattman
City Economist
Conglomerate Blog
Coordination Problem

Jon said...

Eliminate corporate tax and increase dividend and capital gains tax

Reply Tuesday, August 19, 2008 at 12:57 PM

Jon said...

Why do we tax corporate entities at all? That seems like a recipe for unintended consequences.

Let's just tax individuals. All money that goes through a corporation ends up in the hands of individuals anyway. This way we don't have to worry about incidence.

Reply Tuesday, August 19, 2008 at 01:24 PM

anarchist syndicalist said in reply to Jon...

Because corps benefit from an infrastructure created by the government and borders protected by that same government. Many of these corporate entities also exploit impoverished workers by paying less than a livable wage alll the while increasing officer pay.

Reply Monday, December 06, 2010 at 07:53 PM

dilbert dogbert said in reply to Jon...

How does one keep the corps from owning themselves. Sounds like a great way to funnel money to the officers of the corp. They will then borrow their pay from the corp and pay no tax either. I am sure it won't go to the employees. Needs to be some hard thinking about how this could be done to prevent scams and frauds.

Reply Friday, May 13, 2011 at 10:48 AM

Julio said...

What? NOW they want to start imitating the Europeans?
The same Europeans who according to them are standing in line to get health care, are totally unproductive, etc. etc.?

The nerve of these people never ceases to amaze me...

Reply Tuesday, August 19, 2008 at 01:37 PM

btg said...

Why do we tax corporate entities at all? That seems like a recipe for unintended consequences?

1. Foreign owners who don't pay personal taxes in the US - and who would not pay taxes on it in their home countries either.
2. Companies can go bankrupt with massive tax losses that go unused.
3. There is a time lag between when a company eanrs money and when it pays out dividends - if it ever pays out dividends. Even if dividends are paid out, there is a time lag.
4. Changing over to a system with no taxes would mean that there would be a gap in revenue, because of the lag noted above.
5. Corporatioons are artificial persons - unlike partnerships or trusts, so why shouldn't they pay tax. And even if there is double taxation, that is still a small price to pay for "limited liability" that leaves creditors or injured parties left holding the bag.

Reply Tuesday, August 19, 2008 at 02:04 PM

gc said...

Is Jon willing to have all corps treated as S corps, i.e with profit distributed annually to shareholders for reporting on personal income returns? If not, then the suggestion is just a big dodge.

Reply Tuesday, August 19, 2008 at 02:06 PM

save_the_rustbelt said...

"But because corporate tax rules allow all kinds of deductions"

Pairs?
The great Ken Regan on AlphaZero
Abolish the penny?
Monday assorted links
Star Wars and net neutrality

Calculated Risk

Tuesday: Housing Starts
Update from Lawler: Early Read on Existing Home Sales in November
A few comments: Housing and Policy
NAHB: Builder Confidence increased to 74 in December
Sunday Night Futures
Existing Home Sales: Lawler vs. the Consensus
Schedule for Week of December 17th

Noahpinion

Sheepskin effects - signals without signaling
The "cackling cartoon villain" defense of DSGE
Defending Thaler from the guerrilla resistance
Handwaving on health care
Speech on campus: A reply to Brad DeLong
What we didn't get
The margin of stupid

Mainly Macro

The political consequences of Brexit Transition
The politicisation of immigration
The advantage of a central bank not being ‘ahead of the curve’
Immigration and Real Wages: Reality and Perceptions
First Stage Reality and Brexiters
Has Ireland scuppered Brexit?
Government debt phobias, and possible cures

Econbrowser

WSJ Econ Blog

5 Things to Watch on the Economic Calendar
Video: The Married Millennial Parents Are Coming
Lower Electronics-Store Spending May Not Be What You Think

Core Economics
Coyote Blog
Credit Writedowns
Croaking Cassandra
Crooked Timber
Dan Ariely
Dangerous Economist
Dani Rodrik
Dash of Insight
Data Points
Data Points
Dave Giles
Dean Baker
Demography Matters
Department of Labor
Digitopoly
Diminishing Returns
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Econ and Develop
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Lane Kenworthy
Liberty Street
Losing Interest
Macro Musings
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Magic, maths, money
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Marginal Revolution
Miles Corak
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The Glittering Eye
The Incidental Economist
The Interpreter
The Irish Economy
The Money Illusion
Theory Class
Thomas Palley
Thoughts On Economics
Transfer Pricing Econ
Treasury Blog
Triple Crisis
Twenty-Cent Paradigms

Unless we are going to institute a revenues tax I think we will need to keep deductions.

It is an INCOME tax, as in revenue - deductions (expenses).

Reply Tuesday, August 19, 2008 at 02:07 PM

anne said...

http://www.epi.org/printer.cfm?id=2947&content_type=1&nice_name=webfeatures_snapshots_20080409

April 9, 2008

Corporate Tax Declines and U.S. Inequality
By John Irons

Over the last 60 years, the U.S. tax code has dramatically shifted away from corporate taxes and toward taxes on individuals, especially through the payroll tax, the financing backbone of Social Security and Medicare. In the 1950s, the corporate income tax brought in, on average, one of every four dollars in federal tax revenues. By the 2000s, however, it raised just one of every 10 tax dollars.

The shrinking share of corporate taxes was made up by an increase in payroll taxes to fund social insurance and retirement programs. Excise and other taxes—such as fuel taxes, phone taxes, etc.—shrank as well over the last 60 years, while the individual federal income tax rose slightly, from an average of 43% of total federal revenue in the 1950s to 46% in the 2000s.

This shift is important because of who pays these different taxes. The corporate income tax is significantly more progressive than other taxes. Those with incomes in the top 20% of the income distribution (those making more than about $86,000 a year in 2007) pay four times the average tax rate on corporate income than the middle 20% (those making between $27,000 and $48,000); while, for the payroll tax, those in the top 20% actually pay less than those in the middle as a share of their income.

This shift has been one of the factors leading to the drop in average federal tax rates for the very highest earners. Between 1960 and 2004, the average tax rate has fallen by about 14 percentage points (from 44.4% to 30.4%) for the top 1% of earners (those making more than $435,000 in 2007), while it has increased slightly (from 15.9% to 16.1%) for those in the middle 20%.

Without offsets, further erosion of corporate tax revenues—either through lower statutory tax rates or through special preferences—would expand the already wide and growing income inequality in the United States....

Reply Tuesday, August 19, 2008 at 02:41 PM

anne said...

By the way, through last year corporate revenues were conti8nually at or near record levels going back to the recovery from the short and shallow recession in November 2001. Corporate taxes, then, were the revenues the Administration could point to in pretending lowering individual taxes had increased general revenues.

Reply Tuesday, August 19, 2008 at 02:46 PM

JeffF said...

There is at least one good reason for the corporate income tax to work generally the way it does (as a profit tax rather than a gross revenue tax): gross revenue business taxes encourage vertical integration and that is not a policy goal.

Reply Tuesday, August 19, 2008 at 02:48 PM

Scott Hodge said...

Certainly the convention wisdom is that METR matters. But the new literature is showing that statutory rates matter too, especially for new economy firms that have nothing to depreciate, are service oriented (banking), or rely on intellectual property as their product. Here are just two studies on this:

Renters Spent a Record-High Share of Income on Rent This Spring

As Home Prices Rise, the Foreclosure Crisis Continues to Recede

WSJ Survey: Oil and Inflation Are Stubborn Disappointments

China Fires the First Shot in a Currency War

Wonkblog

To deter criminals, expand DNA databases instead of prisons

For roughly half of Americans, the stock market's record highs don't help at all

The simple reason bitcoin will never be a currency

Of bitcoin, body snatchers and Buffett

The one thing the self-employed want more than a tax cut

This old drug was free. Now it's $109,500 a year.

Why the U.S. could slap import duties on a plane made in Alabama

Free exchange

Republicans grouse about tax models they once supported

Why scan-reading artificial intelligence is bad news for radiologists

Richard Thaler's work demonstrates why economics is hard

The Nobel in economics rewards a pioneer of "nudges"

Bitcoin is fiat money, too

The case against shrinking the Fed's balance-sheet

Is there a wage growth puzzle in America?

FT Alphaville

Markets Live: Tuesday, 19th December, 2017

Further reading

Markets Live: Monday, 18th December, 2017

Further reading

Alpha Agenda, week before Christmas edition

Thought for the weekend

FTAV Person of Interest 2017: The Longlist

The Upshot

The New Health Care: Why New Blood Pressure Guidelines Could Lead to Harm

U.S. Economic Snapshot
Unsettling Economics
Updated Priors
Upshot
Urbanomics
Wine Economist
Winterspeak
Worthwhile Canad Init
Zambian Economist

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Fiscal Times
Graphs
Health Care
History of Thought
Housing
Immigration
Income Distribution
India
Inflation
Infrastructure
International Finance
International Trade
Iraq
Iraq and Afghanistan
Kenya
Links
Macroeconomics
Market Failure
Media
Methodology
Microeconomics
Miscellaneous
Monetary Policy
MoneyWatch
Oil
Oregon
Policy
Politics
Press
Productivity
Reading
Regulation
Religion
Saving
Science
Social Insurance
Social Security
Sports
Taxes
Technology
Television
Terrorism
Travel
Unemployment
Unions
Universities
University of Oregon
Video
Web/Tech

2008, Organization for Economic Cooperation and Development, "Tax and Economic Growth," Economics Department Working Paper No. 620, July 11, 2008.
“Evidence in this study suggests that lowering statutory corporate tax rates can lead to particularly large productivity gains in firms that are dynamic and profitable, i.e. those that can make the largest contribution to GDP growth.”

2004, Lee and Gordon, Tax Structure and Economic Growth
Young Lee and Roger Gordon
“We find that statutory corporate tax rates are significantly negatively correlated with cross-sectional differences in average economic growth rates, controlling for various other determinants of economic growth, and other standard tax variables. In fixed-effect regressions, we again find that increases in corporate tax rates lead to lower future growth rates within countries. The coefficient estimates suggest that a cut in the corporate tax rate by ten percentage points will raise the annual growth rate by one to two percentage points.”

Reply Tuesday, August 19, 2008 at 02:49 PM

James Parsons said...

Linda Beale was being dishonest when she claimed that some "Big Oil" companies don't pay taxes. I checked the financial statements for all three American supermajors, and they all pay quite hefty taxes every year.

Reply Tuesday, August 19, 2008 at 03:34 PM

ken melvin said...

Define hefty. What part of $billions is hefty?

Reply Tuesday, August 19, 2008 at 04:01 PM

said...

Why this push and why now?

Reply Tuesday, August 19, 2008 at 04:13 PM

don said...

Econ 101 plus a bit -
With capital mobility, corporate taxes are paid by non-mobile factors, primarily labor. It's better to tax labor directly, because it doesn't discourage investment and thereby reduce labor productivity. The U.S. states have long known this, from experience. The electorate refuses to accept the notion that big companies should not pay taxes, though, so tax authorities try to fool them with statutory tax rates accompanied by deductions and exemptions to reduce the effective tax rates. Krugman knows this, too.
The corporate tax is no longer a tax on limited liability - innovations in state incorporation rules have rendered it a tax on being publicly traded.
Corporate taxes as a percent of GDP are only slightly more informative than statutory tax rates and much less informative than effective corporate tax rates. For example, a low share of corporate taxes in GDP and a small share of corporate profits in GDP are consistent with high effective taxes on corporate profits.

Reply Tuesday, August 19, 2008 at 04:22 PM

me said...

"Remember the latest GAO report (reported elsewhere on ataxingmatter) that shows that two-thirds of US corporations pay no federal income tax. That's not just the ones that are losing money, but also many corporations that have record high profits (including some Big Oil companies) that end up paying next to nothing in taxes."

Linda said it all.

Reply Tuesday, August 19, 2008 at 04:25 PM

James said...

Most Companies in US Avoid Federal Income Tax

Once Unthinkable, Now Possible: Senate Looks Like a Tossup in 2018
Why Turnout Shifts in Alabama Bode Well for Democrats
Why No One Knows What Will Happen in Alabama
Sexual Harassment Training Doesn’t Work. But Some Things Do.
The New Health Care: People Don’t Take Their Pills. Only One Thing Seems to Help.
The Times in Person: Readers in Michigan: We Need More Skills, Not More Jobs

Bank Underground

The Bank Underground Christmas Quiz 2017
Our top 10 posts of 2017
Sterling weakness: FX mismatch risks in the UK corporate sector
Looking inside the ledgers: the Bank of England as a Lender of Last Resort
A prince not a pauper: the truth behind the UK’s current account deficit
Optimal quantitative easing
Is the economy suffering from the crisis of attention?

macroblog

Labor Supply Constraints and Health Problems in Rural America
Building a Better Model: Introducing Changes to GDPNow
How Ill a Wind? Hurricanes' Impacts on Employment and Earnings
When Health Insurance and Its Financial Cushion Disappear

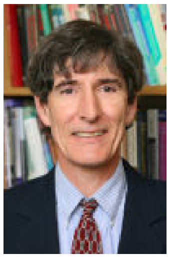
Liberty Street

Political Polarization in Consumer Expectations
How Much Is Priced In? Market Expectations for FOMC Rate Hikes from Different Angles
Did Investor Sentiment Affect Credit Risk around the 2016 Election?
The New York Fed DSGE Model Forecast–November 2017
What Makes a Safe Asset Safe?
Are Student Loan Defaults Cyclical? It Depends
Who Is More Likely to Default on Student Loans?

Weblogs

Disclaimer

The views expressed on this site are my own and do not necessarily represent the views of the Department of Economics or the University of Oregon.



Mark Thoma
Department of Economics
University of Oregon

Blog Established March 6, 2005

http://tiny.cc/bXSQf

Reply Tuesday, August 19, 2008 at 07:23 PM

Patricia Shannon said...

I wish I had kept a reference to the comment on an earlier post in the blog. The commenter explained how he was able to avoid paying income taxes on a large income because it was classified as a business expense or business income or something. Surely one of the economists reading this can explain it.

Reply Tuesday, August 19, 2008 at 07:26 PM

James Parsons said...

ken melvin says...
"Define hefty. What part of $billions is hefty?"

Here's an example from the biggest of big oil, ExxonMobil:

Earnings before taxes (TTM): $78,880
Income taxes (TTM): $35,240
Tax rate (TTM): 44.7%

Source:
http://quicktake.morningstar.com/StockNet/Income10.aspx?Country=USA&Symbol=XOM

Reply Tuesday, August 19, 2008 at 07:44 PM

James Parsons said...

I should point out that those numbers were in millions of dollars.

Reply Tuesday, August 19, 2008 at 08:02 PM

Robinia said...

The high-statutory, low-effecctive corporate tax is not simply a means of fooling the electorate that wants to see corporations taxed, as per Don's comment. It is also a very useful way for the political system to implement an industrial policy (aka "economic development") that favors the industries..... which favor the politicians back. Many, many favors going around. Only the "less favored" pay taxes.

This is a massive distortion of the free market. But, for some reason, these distortions bother economists less than protectionism. Lower overall rates, but fewer loopholes by which to not pay them, would lead to:

--more government revenue,
--a fairer playing field for businesses,
--and a more predictable and less corrupt business environment, in which both investors and consumers could plan for the future with more confidence.

Reply Tuesday, August 19, 2008 at 08:11 PM

outsider said...

Corporations:

Ah...taxes are written into corporate ledgers as "cost of production" and are added to the cost of the final product.

The consumer pays anyway.

Reply Tuesday, August 19, 2008 at 08:22 PM

Noni Mausa said...

Jon asked: Why do we tax corporate entities at all? That seems like a recipe for unintended consequences.

They exist because we exist. When a corporation comes into being it has in place a multitude of supports which enable it to function, most of which it could not possibly put in place from scratch.

On the Economy

Tim Duy's Fed Watch

- Is The Fed Finishing 2017 On A Dovish Note?
- Expect the Fed to Stand By Its 2018 Outlook
- November Employment Preview
- Will Growth Slow In 2018? And Why?
- Fed Frets About Inflation While Preparing Another Rate Hike
- All Systems Go For A December Rate Hike
- The Unintended Consequences of a Flatter Yield Curve

Macro Musings

- Yes, Occupational Licensing is Making the U.S. Economy Less of an OCA
- Why You Should Care about Divisia Monetary Aggregates
- Clashing Over Commerce
- Hypothermia, Inflation, and the Fed's Epistemological Jam
- Abenomics Update
- Monetary Regime Change Update
- The Financial Regulatory Laffer Curve

Macro Musings Podcast

- 88 – Ricardo Caballero on the Safe Asset Conundrum
- 87 - Stephen Williamson on New Monetarism and Neo-Fisherism
- 86 - William A. Barnett on Divisia Aggregates and Measuring Money in the Economy
- 85 – Caroline Baum on Treasury Yield Curves and the Debt Ceiling
- 84 - Nick Bloom on Economic Uncertainty and the Productivity Slowdown
- 83 - Jeffrey Rogers Hummel on Myths about the Fed and Interest Rates
- 82 - Doug Irwin on the History of US Trade Policy

Worthwhile Canadian Initiative

- The Long Restructuring of Ontario's Health Spending
- The Sustainable Bond-

What supports? The rule of law. Roads. An awful lot of people, to act as customers, workers, suppliers. History. Language. 5000 years of technology and science. Oh, and a planet that supports life.

A new corporation is like a baby. It doesn't matter how fine and healthy a baby is, it will die without the generosity of the people and culture into which it is born -- a generosity so freely offered that we don't even notice it.

When babies grow up and become teens, they often see themselves as independent and self sufficient, and see demands upon them as burdens. They accept the support of their families as a given, but complain if their support is required in return. Most grow out of this. Some do not, and they are not admired. Yet because they are people, some level of support is generally made available, despite their cluelessness, with the hope they may learn better. If they are ill or disabled and cannot pay their way, again they are supported because they are human.

But a corporation is not a person. If it is allowed to get away with the teen model of "what's mine is mine, and what's yours is mine" *, it isn't a person needing guidance, it's a parasite.

Either a corporation serves a purpose within the larger society at a modest price, or else it makes a ton of money and damn well pays taxes on it. If it does neither, it is a parasite.

Noni

(*) a small percentage of teens -- my apologies to the others.

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Reply Tuesday, August 19, 2008 at 08:42 PM

John V said...

The Tax Foundation's willful glibness on this matter deserves a mention and clarification. Well Done.

But I just can't help but smile...not with joy...but rather with awkward bemusement at the intent of the authors and Beale in particular.

Beale:

"the Tax Foundation does put out a figure for the amount of corporate taxes collected--a little more than $300 billion. But it doesn't provide the historical context--the share of federal revenues paid by corporate taxes has decreased substantially, while the share of overall revenues provided by everybody else (including the little guys through payroll taxes, among other means) has increased."

What Beale doesn't care to do is mention that much of the income that was formerly filed as corporate income is now passing through and simply showing up on individual tax returns because tax rates on top brackets dropped.

Beale also seems to show a contempt for business write-offs and deductions. Meanwhile, I'm sure she takes every deduction she can or is aware of when she does her taxes...as well she should. Should we contemptuously say that she's cheating the system with loopholes? Of course. And the people she's criticizing most certainly wouldn't either. More power to her. But that's the difference in the POV's and the problem with poisonous tone of politics when it comes to taxes and money. People like Beale are stuck in the uncomfortable position of criticizing others for doing what she would instinctively do herself were she in their shoes...as well as what she does in her way when she and others file their own taxes.

So when she bemoans "corporate favoritism" for the myriad of deductions they get to write off, she should reconsider all the deductions that individuals write off as well as another form of favoritism. On my end, I have no problem with either.

As a business owner, I take every deduction I can get. As well I should. Nothing fancy, nothing dishonest. It's not cheating and it's not wrong. I'll bet a large majority of those

Finance Laffer Curve

Seeing through Sovereign Wealth Funds?

Negative Average Cost but Positive Marginal Cost of Debt-Finance

Monetary tightening can lower real interest rates

The Bank of Canada's "Hot Hand" experiment and Price-level Targeting

So What Happens in the Next Recession?

Roger Farmer

A UK Sovereign Wealth Fund

How much debt do we need? My answer: 70% of GDP

Is Unemployment Too Low?

Making Sense of Chaos with the Windy-Boat

Tax Reform: A Proposal for the Chancellor

Macroeconomics: Religion or Science?

Why the MPC will and should raise interest rates

Digitopoly

Ted Chiang gets a ton of economics wrong

Ending the Bitcoin energy drain

The Hush Hush Norm

The Bitcoin Bubble Post Mortem

Insider Privileges

Two key assumptions in the DOJ challenge to AT&T and Time Warner

The Pokemon GO Death Count

Chris Blattman

Carola Binder

Consumer Inflation Uncertainty Holding Steady

Is Taylor a Hawk or Not?

Cowen and Sumner on Voters' Hatred of Inflation

Rethinking Macroeconomic Policy

An Inflation Expectations Experiment

Consumer Forecast Revisions: Is Information Really so Sticky?

New Argument for a Higher Inflation Target

Environmental

2/3 of corps that file no income tax are small businesses...like mine. Though there were only a few years of my seven in business where I paid no tax. Not enough to write off I suppose. But write offs from losses on a second business whose sale last year did not recoup my initial investment will give me losses to keep me from paying corporate tax for a few years. Oh the horror! Terrible loophole: losses carry over. Am I cheating? not at all.

Of course, Beale could simply advocate a simple and predictable tax code with super low rates and no deductions and eliminate all the hard work to pay as little tax as possible that every person who pays taxes in this country goes through...including people like Beale. Then she could stop criticizing a universal impulse.

Reply Tuesday, August 19, 2008 at 08:51 PM

bullbust said...

James Parsons says...

ken melvin says...
"Define hefty. What part of $billions is hefty?"

Here's an example from the biggest of big oil, ExxonMobil:

Earnings before taxes (TTM): $78,880
Income taxes (TTM): $35,240
Tax rate (TTM): 44.7%

In 2007
Exxon Mobil’s net income before taxes = $70,474,000

The company’s consolidated statement reported taxes of $29,864,000. But only $4,490,000 was actually US Federal Income Taxes. That represents 6.4%. of its total income.

The non-US income taxes paid (which are deduction from its net income) amounted $24,744,000 or almost 6 times the US amount.

Deductions were also made for sales and other operating sales-based taxes of $31,728,000 for 2007, of which $7,154,000 was the US portion. Still more foreign tax deductions were taken for tariffs and duties amounted to $39, 945,000.

If you don’t believe this, then I suggest you research the companies 2007 SEC report which provides lots more detail than what you’re normally fed by the industry and James Parsons' of the world.

Reply Tuesday, August 19, 2008 at 09:37 PM

Little Yang said...

I'm very glad to read stuff like this. I would never in a million years have known about the Tax Foundations methodology. Instead, I would've just accepted it as true, because, seriously, how much does the average person no about weighted averages and inclusion of small economies inappropriately into big sectors? Perhaps Krugman and all are off on their analysis, but it's at least nice to see something other than some constant "just lower taxes" mumbo jumbo taken as gospel.

Reply Tuesday, August 19, 2008 at 09:44 PM

german_reader said...

Perhaps a few words on the very low number (1.0%) of taxes on corporate income as a share of GDP for Germany in 2002 in the CBO study.

In 2002 Germany was in a recession (0.0% growth) and after the corporate tax reform of the (nominal) left red-green Schroeder government tax revenues from corporate income experienced a dramatic decline. The situation in 2001/2002 marks the absolute low point of tax revenues from corporate income taxes in Germany. In 2000 the share of GDP of corporate taxes was 2.5% and in 2006 2.7% of GDP. During the same period corporate profits rose from 14.8% of GDP in 2000 to 19.7% in 2006. Germany has seen in these years a dramatic shift from wages and salaries to profits

Economics

EnvEcon 101: Understanding Marginal Tax Rates (and other unnecessarily complicated stuff)
When you're dealing with the current EPA administration, the humor writes itself
NCEE is hiring
Who knew? Revenue-neutral corporate tax cuts!
Daily demand and supply: gas prices
Picture of the Day: "The charitable giving value of people's best friend"
Sierra Club quote of the day

Tim Taylor

Migration from a Global Perspective
Occupational Licensing Under Fire
Ricardo's Comparative Advantage After Two Centuries
Adding Monetary Costs of Lost Lives to the Opioid Crisis
Snapshots of the US Housing Market: Ten Years Later
Do You Rejoice for China?
Natural Fisheries Overtaken by Aquaculture

The Big Picture

10 Tuesday AM Reads
The Prayer of Saint Active
Macroeconomic implications of financial imperfections: a survey
Shopmas Gifts for Your Favorite Wall Streeter 2017
Millennial Home Ownership in Large Cities
10 Monday AM Reads
A Timeline of Uber’s Unfolding

Beat the Press

Contrary to What You Read in the NYT, China's Economy Is 20 Percent Larger than the U.S. Economy
David Brooks and the Problem of Men
Trump Works to Make Federal Government Employment Less Attractive
Swamping the Drain with Senator Bob Corker and the Republican Tax Bill
Washington Post Columnist

and capital income and the combined losses in corporate taxes during the same time amount to 100-150 billion euros. Corporate investments were for a few years on a record low and have now recovered to the historical average, nothing more, no investment boom.

As so often in history tax cuts don't pay for themselves. And low taxes on coporate income are not necessarily an incentive for more productive investments. On contrary they seem to lead - at least here in Germany - to an unproductive allocation of capital, shortsighted transactions in the financial market, capital destroying "mergers" or higher (tax privileged) dividends and stock market gains for share holders, which means a further upwards distribution of income, because most shares are owned by the top 1 or 5% of the population.

Reply Tuesday, August 19, 2008 at 10:28 PM

Ryan said...

I'm not entirely sure why the Tax Foundation is comparing American tax rates to Europe in the first place. If their whole argument is essentially the US can't compete because of taxes, suggesting investment is going out of the country as apposed to in. In that case, wouldn't it make more sense for them to compare rates to countries that comprise the biggest percent of US Owned Foreign Assets/FDI Abroad? My google-fu is weak, so I couldn't find a link providing these numbers.

Reply Wednesday, August 20, 2008 at 04:28 AM

Ryan said...

Never mind, I found the info I was looking for at BEA, and made a little graph of the major recipients of US foreign investments.

http://www.bea.gov/international/ii_web/timeseries_chart-6.cfm?
tableid=211&yearid=38&indtypeid=1%2C2&fkrowid=3%2C10%2C15%2C19%2C20%2C78%2C31
Cost%20Basis%3CBR%3EBy%20Country%20Only%20(All%20Countries)%20for%20(2007)&chart

http://www.bea.gov/international/ii_web/timeseries7-2.cfm

Looks like if we were to do a weighted average, as Krugman suggests, the countries with the biggest weights would be the UK and Netherlands, which both have sub 30% tax rates, followed by Canada, which is around 35%. So, while I agree with Krugman about the necessity of weighing averages, I'm not sure that the weighted average would be much more than the 27% cited, if we consider the magnitude of US investments.

Of course, Beale questions whether statutory rates are relevant. As I'm not a corporate accountant, nor a business owner, I really couldn't say.

The last point, which Baker makes, is that GDP to Tax ratios are lower in the US. That could mean a whole lot of different things, including budget deficits being relatively higher and labor paying proportionally more in taxes. I hold out on an opinion, as all three of these (four if you include tax heritage) seem rather cursory.

Reply Wednesday, August 20, 2008 at 05:11 AM

Real Person from the Real World said...

"BEST OF ABOVE:

Julio says...

What? NOW they want to start imitating the Europeans?
The same Europeans who according to them are standing in line to get health care, are totally unproductive, etc. etc.?

The nerve of these people never ceases to amaze me..."

The hypocracy of the conservatives and libertarians in this country is always twisting information.

Reply Wednesday, August 20, 2008 at 06:13 AM

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a different chris said...

Gets the Story Wrong In Saying the Fed's Model is Wrong

Ending the Health Insurance Mandate Matters Because it Makes the Pool Less Healthy, Not Older

NYT Is Confused on Mortgage Interest Deduction in Tax Bill

Jared Bernstein

Catching up on links

Jobs report: Another strong month as payrolls settle into solid trend, but wage growth still underwhelms

What’s up with productivity growth and what does it mean?

The return of the musical interlude

A quick note on CHIP, block grants, and the tax cut

Yet more on the terrible tax plan…

If you disapprove of this mess of a tax plan, you’re a) not alone, and b) not a House/Senate Republican

Robert Reich

The Triumph of the Oligarchs

A Guide to Why the Trump-Republican Tax Plan is a Disgrace (for When you Confront Your Republican Uncle Bob During the Holidays)

The Meaning of Doug Jones’s Upset Victory

TELL THE FCC NOT TO END NET NEUTRALITY!The FCC is voting...

SLAPP LAWSUITS: THE BIGGEST THREAT TO THE RESISTANCE YOU NEVER...

Why Making American Corporations More Competitive Doesn’t Help Most Americans

The True Path to Prosperity

Rortybomb

Why Banking Leverage Requirements Are Not Enough

The Right Wants Glass-Steagall for the Wrong Reasons

New Paper: Demand-Side Business Dynamism

Trump’s Tax Plan Isn’t Tough on Wall Street or Carried Interest After All

New Report on Taming Corporate and Financial

>and are added to the cost of the final product.The consumer pays anyway.

Bull. The consumer pays what he thinks the thing is worth to him. He couldn't care less what it cost you to bring it to the marketplace.

If corporations don't want to pay taxes then they should do their best to spend the money. How did those "new economy" (aka dot-bombs or, nowadays, real-estate developers and the fake value industry built around them) manage to become more productive with a tax break? Did they spend it on printers, computers, a better quality of foosball tables?

Well, no, because that money was by definition a cost, therefore it was subtracted from income, and the tax was on what was left.

So what was the magic? I suspect that little story will not hold up well to closer examination.

Now, I know this (hitting zero every year) is far from a trivial exercise since - despite the starry-eyed worshippers of the market - in real life we generally have no idea what we are actually going to spend on something, and what anybody is going to pay if by some miracle we actually get it into production, and finally how many "anybodys" there are actually out there. So we tend to rattle between big losses and big gains, and we need to be able to income-average.

But any corporation that is really, really interested in what it is doing (as opposed to pleasing Business Week) is going to re-invest in itself, and not squirrel away profits in the bank.

In fact we are doing them a favor with the tax code, as this spurs them to really think about what to do with all the moola.

Reply Wednesday, August 20, 2008 at 12:40 PM

Ex-Worker said...

Anne's article about taxes moving from corporations to individuals is oft-repeated in the left, but flat wrong.

Linda Beale's quote "Reagan-style corporate favoritism" shows her to be a political hack spewing nonsense. Reagan and the tax reform act of 1986 simplified the corporate tax code, eliminating deductions. Congress has since undone this effort in its bi-partisan rent-seeking fashion.

And Anne,

The reason that more taxes are reported as "individual" instead of corporate is that in the past top individual rates of 70% or even 90% caused wealthy individuals to divert and shelter income in corporate entities facing lower tax rates. So few people paid the high individual rates until the 1980's when the individual rate was lower than the corporate rate. Now the corporate rate is higher, fewer wealthy individuals pay the corporate rate.

And yes, the US corporate rate is higher than the rest of the world.

Think for a second as someone who has money and wants to keep it, and you'll soon figure this out (with the help of elementary school math).

Reply Wednesday, August 20, 2008 at 01:25 PM

Ex-Worker said...

And of course Dean Baker is not considering the large share of US corporate income that is paid for through the S Corp structure at the top marginal income rate of 35%, so his claim is equally useless.

Reply Wednesday, August 20, 2008 at 01:28 PM

Power

What Jeb Hensarling Gets Wrong About Capital Requirements

Metlife, Living Wills, and the Necessity of Technocratic Regulators

interfluidity

Quick thoughts about airline economics

A tao of politics

You tell me it’s the institution

Persuade

Party polarization is endogenous

The economic geography of a universal basic income

Election angst

Modeled Behavior

Is Bitcoin Just For Fun?

Why I Would Bet Against Bitcoin

The Subscription Service Bubble Is Part Of The Tech Bubble

When Everyone Stops Worrying About Debt, I Start Worrying About Debt

Steal This Political Platform

Will Corporate Tax Cuts Really Help Much In Today’s Economy?

Humans Stealing Jobs From Machines

Angry Bear

UN Data on International Migration

Tipping Point

Fake news

Online Shopping

A path to voting yes on tax cut bill

New York Times tax calculator

The GOP Tax Bill Disses the Working Class

Dave Giles

Reading for the Holidays

Econometrics Reading List for November

Another Shout-Out for The Replication Network

Recommended Reading for October

How Good is That Random Number Generator?

Misclassification in Binary Choice Models

Monte Carlo Simulations &

Ryan said...

"
And of course Dean Baker is not considering the large share of US corporate income that is paid for through the S Corp structure at the top marginal income rate of 35%, so his claim is equally useless."

Baker definitely seemed to have the more trivial view of the three.

Reply Wednesday, August 20, 2008 at 01:47 PM

James Parsons said...

bullbust said...
"In 2007
Exxon Mobil's net income before taxes = $70,474,000

The company's consolidated statement reported taxes of $29,864,000. But only $4,490,000 was actually US Federal Income Taxes. That represents 6.4%. of its total income.

The non-US income taxes paid (which are deduction from its net income) amounted $24,744,000 or almost 6 times the US amount."

Bullbust is correct that I made an error, comparing ExxonMobil's total taxes to its total profits. However, Bullbust also makes an error, comparing ExxonMobil's U.S. taxes to its global profits, rather than to its U.S. profits.

ExxonMobil is a multinational company. 75% of its after-tax profits come from outside the U.S. (See page 43 of its 2007 annual report.)

ExxonMobil's tax rate on U.S. profits is 30.6% ($4490 / ($4490 + $10,170)), still far from Linda Beale's 6% claim. I'm not disputing Krugman or Baker, just Linda Beale.

ExxonMobil's annual report is here:
http://thomson.mobular.net/thomson/7/2675/3201/

Reply Wednesday, August 20, 2008 at 06:41 PM

Begonia Buzzkill said...

Lower the corporate tax rate? LOL ... since last week's news revealed that 75% of America's corporations pay no taxes whatsoever no matter what the tax rate is AND receive Federal subsidies in the billions while paying NO taxes (while they profit on their very own choreographed "wars" and homeland that made them rich)these "patriotic" corporations would up their profit margins if their tax rates were lowered because_______?

ROFLMAO!

Reply Thursday, August 21, 2008 at 09:29 AM

anne said...

"The reason that more taxes are reported as 'individual' instead of corporate is that in the past top individual rates of 70% or even 90% caused wealthy individuals to divert and shelter income in corporate entities facing lower tax rates...."

A proper explanation, with linking references:

http://www.cbpp.org/3-29-07tax.htm

March 29, 2007

"Dramatic" Progressivity Reduction Since 1960 in the Federal Tax System: Largest Reductions in Progressivity Occurred in 1980s and Since 2000.
By Aviva Aron-Dine

In a new study, Thomas Piketty and Emmanuel Saez, economists who have done groundbreaking work on the historical evolution of income inequality in the United States, examine how the progressivity of the federal tax system has changed over time.[1] Unlike previous analyses, theirs examines effective federal tax rates going

the "SimDesign" Package in R

Chris Dillow

Big Facts in economics
Saving capitalists from themselves
Inequalities that matter, & don't
On technological regress
In defence of the labour theory of value
Entrepreneurs vs bureaucrats
Save Democracy-Abolish Voting: A review

The Baseline Scenario

Tax Rates and Entrepreneurship
A New Economic Vision, in 27 Words
The Importance of Fairness: A New Economic Vision for the Democratic Party
Economism and Arbitration Clauses
How Markets Work
Fees Add Up
Soak the Poor, Feed the Rich

Greg Mankiw

Tax Cuts for the Rich?
I talk with NPR
A New, More Affordable Way to Read My Favorite Textbook
Paul Krugman...Sigh
What I've Been Watching
The Case Against the Harvard-Yale Game
Furman on Tax Reform

Economic Principals

One Thing We Learned from the Crisis
A Bold Instance of Political Imagination and Rule Breaking
Finding the Octopus
Towards the Next Generation
Then and Now

Arnold Kling

What I am writing
What I am reading
How I think about Bitcoin
I Told You So
Want to hear some dark views?

back to 1960, including income, payroll, corporate, and estate taxes, and provides data for income groups reaching up to the top one-hundredth of one percent (.01 percent) of the population.[2] Several crucial findings emerge from their study.

"The progressivity of the U.S. federal tax system at the top of the income distribution has declined dramatically since the 1960s." Since 1960, average federal tax rates for middle-income households have increased and then declined modestly. Over the same period, high-income households saw sharp drops in their federal tax rates.

Moreover, the drops were largest for the very highest-income households. The average tax rate declined by a larger amount for households in the top one hundredth of 1 percent of the income scale (where incomes in 2004 averaged about $15 million) than for households in the top tenth of 1 percent (where incomes averaged above $3.7 million) or for households in the top 1 percent (where incomes averaged about $850,000).

Over the same period in which the progressivity of the tax system declined, pre-tax income inequality grew significantly. In an earlier study that examined the distribution of income since 1913, Piketty and Saez showed that the concentration of pre-tax income has increased substantially since the 1970s, especially at the very top of the income spectrum.[3] According to their data, the share of the nation's pre-tax income flowing to the top 1 percent of households more than doubled between 1970 and 2000. Income inequality decreased in 2001 and 2002, following the decline in the stock market, but then started growing again in 2003. In 2004 and 2005 (the latest year for which data are available), income concentration increased markedly.

As a result, the share of the nation's total income going to the top 1 percent of households jumped from 8.4 percent in 1970 to 19.3 percent in 2005, an increase of 10.8 percentage points. In 2005 terms, that increase works out to about $550,000 more in income per household for those in the top 1 percent. In other words, households in this income group received an average of about $550,000 more in income in 2005 than they would have if the group's share of national had remained constant since 1970.

Over the same period in which high-income households benefited the most from changes in the distribution of pre-tax income, they also benefited the most from changes in effective federal tax rates. In 1970, the top 1 percent of households paid an average of 47 percent of their income in federal taxes; under 2004 law, Piketty and Saez estimate they faced an average tax rate of just 30 percent, a difference of 17 percentage points.[4] (2004 is the last year for which Piketty and Saez provide tax rate estimates.[5]) In 2004 terms, this difference works out to an average of more than $200,000 per household in additional after-tax income....

Reply Thursday, August 21, 2008 at 11:07 AM

Lafayette said...

Pervasive Greed

Irons article: Those with incomes in the top 20% of the income distribution (those making more than about $86,000 a year in 2007) pay four times the average tax rate on corporate income than the middle 20% (those making between $27,000 and $48,000); while, for the payroll tax, those in the top 20% actually pay less than those in the middle as a share of their income.

But, that is because, I think, the payroll tax is capped. Uncap it, institute a progressive tax rate and this anomaly (of lower payroll taxes of the rich) should disappear.

Frankly, the whole tax system should be junked, and changed to a Value Added Tax. Yes, it is regressive, but it is also easily collectible, since companies roll it forward, as a products/services evolves in transformation to end up finally as purchased by the consumer. It thus becomes a sales tax revenue to the government, that can be reimbursed to the states-of-origin.

The advantage of a VAT is that one does not need a large contingent of tax collectors snooping about for tax evaders. Meaning the Net Tax Revenue is higher.

Null Hypothesis watch

Measuring Occupational Satisfaction

Naked Capitalism

Kevin Drum

CEOs Are Already Spending Their Tax Cut on the Rich

Final Tax Analysis: Good for the Rich, Bad for the Middle Class

Lunchtime Photo

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Ezra Klein

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Duncan Black

Ugh

Morning Thread

Monday Evening

Or You Could Just Do Away With The Algorithm

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Somebody Really Screwed Up

Prediction

Steve Benen

Monday's Mini-Report, 12.18.17

Cornyn suggests it's Dems' fault the GOP tax plan isn't 'better'

Monday's Campaign Round-Up, 12.18.17

Why Republicans are ignoring public attitudes on the tax plan

Trump's EPA partners with Republican media researchers

By the GOP's own terms, the Republican tax plan is a failure

With lists of 'forbidden' words, Trump World goes Full Orwell

Felix Salmon

The May the Fox Be With You Edition

As we are learning, the Trickle Down idiocy of tweaking tax regimes with rebates does not have the intended fullest impact of bolstering economic activity. Rebates for the rich go back into the economy as investments (either through savings or private equity.) It is employed because it pleases a notion that the American government does not "interfere" with high tax and spend policies -- an idea near and dear to the Rightist policy wonks.

In fact, it is the higher "tax and spend" that is most effective in either reigning in a runaway economy or prompting one out of the doldrums. Also, a high marginal income tax has the added advantage of negating the Pervasive Greed that infected business mentalities since Reaganomics and has brought about America's inane Income Unfairness (as expressed in its Gini Coefficient.)

And has brought Uncle Sam to the financial mess within which he clearly finds himself deeply embedded.

Reply Saturday, August 23, 2008 at 10:55 PM

CJ said...

"...the actual tax rates paid by US corporations are extraordinarily low, around 6%..."

If I'm going to beat up my right-leaning friends with this figure (which I believe is relatively accurate), I'm going to need a source other than Linda Beale.

If anybody can help, please do.

Reply Sunday, August 24, 2008 at 04:17 PM

CJ said...

Following up on my previous post, it seems that, to determine effective corporate tax rates, we'd need to
limit the calculation to corporations that actually report a profit to owners/shareholders (irregardless of profits/losses reported on tax returns). A company that suffers a loss, as reported to owners/shareholders, it seems, shouldn't be included in any such calculation.

Again, I know that our effective corporate rate is relatively low, but unfortunately, I haven't been able to find anything online lately to back that up???

In addition, if somebody can prove me wrong...I'm happy to stand corrected.

Reply Sunday, August 24, 2008 at 04:29 PM

Sean said...

Guys & Gals, corporations may remit taxes, but they don't "pay" any taxes, and they never have, at least not in the sense of bearing the actual burden of them. Rather, The tax burden is borne by the corporation's owners (in the form of lower profits/dividends) and its clients/customers (in the form of higher prices).

So, don't kid yourself. Corporations don't pay taxes, PEOPLE do.

Reply Sunday, August 24, 2008 at 05:02 PM

Don said...

ex-worker wrote:
Anne's article about taxes moving from corporations to individuals is oft-repeated in the left, but flat wrong.

So do you have a source or just a talking point? It seems like "grade school math" to figure the percentage of tax revenues by source in a given year. Has Anne made a mathematical error or is there a basis for believing that the share of federal revenue coming from payroll taxes has not increased and the share coming from corporate taxes has? If it is "flat wrong" and not merely misinterpreted then I expect data.

I think it's too early to say definitively how regressive/progressive the Republican Tax Cut, Borrow, and Spend policies will turn out to be. Until the spending cuts and tax hikes that will be needed in the future to bring deficits in line* are realized it is unclear in the long run who will pay the most and the least. What is clear is we will

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pay a lot more than we would have otherwise.

*Bush has ensured we won't leave deficit any time soon

Reply Monday, August 25, 2008 at 04:39 AM

Daniel Reeves said...

"What? NOW they want to start imitating the Europeans? [Going on about 'hypocrisy' ...]"

Perhaps they think that the Europeans did something right for once? How is that hypocritical at all? That's completely ad hominem.

Anyway, I propose getting rid of corporate taxes in the first place. There are way too many loopholes and many corporations can get away without even paying any taxes. Tax the people who own the money, not those invisible, imaginary structures that the money runs through.

Reply Tuesday, August 26, 2008 at 05:01 PM

Stuart Eugene Thiel said...

2/3 of corporations paying zero tax seems high to me, unless they're including: Mom and Pop operations that eke along for a few years running up carry-forward deductions and then going bankrupt (or not; either way they won't be paying tax any time soon); or S-corporations. Anybody know?

Reply Wednesday, August 27, 2008 at 10:22 AM

Leaning Toward Right said...

I, for one, don't want to live like Europeans. Their welfare system sucks. Those who think the European systems are better than the US systems, should simply move their and enjoy the welfare for the next 20 years till those countries are all bankrupt.

Reply Monday, April 13, 2009 at 10:28 PM

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