



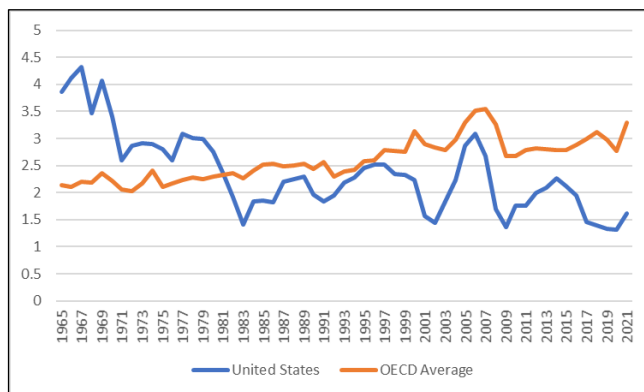
Updated May 8, 2024

Trends and Proposals for Corporate Tax Revenue

U.S. corporate tax revenues have declined, relative to the size of the economy, since the mid-1960s. Corporate tax revenue as a percentage of gross domestic product (GDP) fell from 3.9% in 1966 to approximately 1.6% in 2023. This decline in corporate tax revenue is due to several factors. Average tax rates have declined, primarily due to reductions in the statutory rate and changes in depreciation. The corporate tax base has also been reduced through declining profitability (return on assets), increased use of the pass-through organizational form for businesses, and international profit shifting.

Whereas U.S. corporate tax revenue has decreased, corporate tax revenue in other Organisation for Economic Co-operation and Development (OECD) member countries has, on average, increased. Average corporate tax revenue collected by OECD countries has increased from 2.1% of GDP in 1965 to 3.3% of GDP in 2021 (see **Figure 1**).

Figure 1. Corporate Tax Revenue, as a Percentage of GDP, 1965-2021



Source: OECD Tax on Corporate Profits, <https://data.oecd.org/tax/tax-on-corporate-profits.htm>, downloaded April 23, 2024.

Note: Tax on corporate profits includes taxes levied by all levels of government.

Figure 1 tracks the differing trends in U.S. and OECD corporate tax revenue over time. The United States collected 1.8 times as much corporate tax revenue as the OECD average in 1965 (as measured in shares of GDP). Since 1981, however, U.S. corporate tax revenue as a percentage of GDP has been less than the OECD average (which includes the United States). In 2021, OECD average corporate tax revenue as a percentage of GDP was about twice as large as the U.S. corporate tax revenue as a percentage of GDP.

Corporate Tax Proposals

President Biden’s budget proposes an increase in the amount of revenue raised by the corporate tax system by about \$2.6 trillion over the next 10 years. Several legislative proposals would increase corporate taxes, in

some cases by altering the international tax structure. The House-passed Build Back Better Act (BBBA; H.R. 5376) would have raised around \$800 billion in corporate taxes in FY2022-FY2031, but that legislation did not advance. The bill, renamed the Inflation Reduction Act (P.L. 117-169), as enacted, imposed a minimum tax of 15% on book income of large corporations and a 1% tax on stock buybacks.

Raising the Corporate Tax Rate and Revising the Minimum Tax and Stock Buyback Tax

The corporate tax rate is currently 21%, levied as a flat rate, reduced from a top marginal rate of 35% before 2018 by the 2017 tax law commonly known as the “Tax Cuts and Jobs Act” (TCJA; P.L. 115-97). President Biden has proposed an increase to 28% with a revenue gain of \$1.3 trillion for FY2025-FY2034. S. 4098 (Sanders) and H.R. 7933 (Schakowsky) propose a graduated corporate rate with most corporate income taxed at 35%. President Biden has also proposed to raise the minimum tax rate on book income to 21% and to increase the stock buyback tax rate to 4%. S. 413 (Brown) and S. 5953 (Sykes) would raise the stock buyback tax rate to 4%. S. 1559 (Barrasso) and H.R. 3210 (Arrington) would repeal the minimum tax and H.R. 515 (Kustoff) would repeal the stock buyback tax.

Increasing the Minimum Tax on Foreign Source Income (GILTI)

President Biden’s budget proposals and several bills in the 118th Congress would increase the minimum tax on foreign source income, known as the tax on Global Intangible Low Taxed Income or GILTI, enacted by TCJA 2017. (See CRS Report R45186, *Issues in International Corporate Taxation: The 2017 Revision (P.L. 115-97)*, by Jane G. Gravelle and Donald J. Marples for a discussion of international tax rules.) Under current law, GILTI targets intangible income by allowing a deemed deduction equal to 10% of tangible assets. Any remaining income is allowed a deduction of 50% (37.5% after 2025) and then taxed at 21%, leading to a tax rate of 10.5% (13.125% after 2025). Foreign oil extraction income is excluded and not subject to any U.S. tax.

Current law allows credits for foreign taxes paid; the credits are limited to U.S. taxes due on foreign-source income, but are imposed on an overall basis across countries. This treatment allows for the use of credited taxes paid in high-tax countries to offset U.S. income tax due in low-tax countries. For GILTI, the credit is limited to 80% of foreign taxes paid.

The Biden Administration’s budget would increase the tax rate to 21%, and four bills in the 118th Congress—S. 357 (Whitehouse), S. 4098 (Sanders), H.R. 884 (Doggett), and H.R. 7938—would tax income at full rates. All of the proposals would eliminate the deemed deduction for

tangible assets and apply the foreign tax credit on a per country basis. These proposals appear to be motivated, in part, by concerns that the exemption for tangible income might encourage the movement of investment abroad. The budget proposal would include foreign oil extraction income in GILTI.

Repeal of Deduction for Foreign-Derived Intangible Income

In 2017, the TCJA created the foreign-derived intangible income (FDII) deduction, aimed at equalizing the treatment of intangibles located abroad and in the United States. FDII is based on a firm's share of exports and a deemed deduction for 10% of tangible income, with the remaining income allowed a deduction of 37.5% (21.875% after 2025), leading to a tax rate of 13.125% (16.4% after 2025).

S. 4098, H.R. 7938, and the budget proposal would eliminate FDII.

Limit Interest Expense Deduction for Multinationals

All four bills and the budget proposal would allocate interest deductions among countries based on their share of income. This provision is aimed at preventing firms from allocating interest deductions to the United States and out of low-taxed countries.

Modifying the Base Erosion and Anti-Abuse Tax

The base erosion and anti-abuse tax (BEAT), enacted in 2017, requires corporations to add certain payments between related foreign firms and then taxes them at a 10% rate (12.5% after 2025) if higher than the regular tax. BEAT does not allow tax credits except for some temporary domestic credits (no foreign tax credits). S. 4098 and H.R. 7938 would accelerate the tax rate increase and eliminate the temporary domestic credits. The budget proposal would replace BEAT with an undertaxed profits rule (UTPR) that would impose a top-up tax on firms to the extent that related subsidiaries do not pay a minimum tax on financial income, consistent with the OECD/G20 Pillar 2 rules.

Anti-Inversion and Treaty-Shopping Rules

Under current law, firms that invert (move their headquarters abroad) by merging with foreign firms are treated as U.S. firms for tax purposes if the U.S. shareholders own more than 80% of the shares. There are also penalties if shareholders own more than 60% of the shares. The budget proposal and all four bills would treat these new firms as U.S. firms if the U.S. shareholders have more than 50% ownership or if they are managed in the United States. S. 4098 and H.R. 7938 would also tighten the rules affecting treaty shopping (going through a country

that has a treaty with the United States). See CRS Report R40468, *Tax Treaty Legislation in the 111th Congress: Explanation and Economic Analysis*, by Donald J. Marples for an explanation of the treaty-shopping issue.

Dual-Capacity Shareholder

The budget proposal, S. 4098, and H.R. 7938 would restrict foreign tax credits for taxes paid where an income tax is paid in part to receive a benefit (i.e., the firm is paying a tax in a dual capacity) to the amount that would be paid if the taxpayer were not a dual-capacity taxpayer. This provision typically relates to taxes being substituted for royalties in oil-producing countries.

Other International Provisions

The budget proposal would limit the deduction for foreign dividends for U.S. shareholders with a 10% ownership to dividends from controlled foreign corporations (CFCs). S. 4098 and H.R. 7938 would eliminate check-the-box and look-through rules for CFCs, methods of avoiding U.S. tax on foreign source income.

Corporate Reorganizations

The budget proposal contains proposals imposing taxes in certain types of corporate reorganizations. S. 4011 (Whitehouse) would disallow tax-free benefits for large acquisitive reorganizations.

Temporary Reinstatement of Expensing and EBITDA Base for Interest Limitation

The TCJA allowed 100% expensing (allowing the acquisition cost to be deducted immediately rather than over a period of years) for equipment and software, but began phasing the provision out over five years, beginning in 2023. The act also substituted a five-year write-off period for 100% expensing for research and experimentation beginning in 2022. It also limited interest expensing to 30% of earnings before interest, taxes, depreciation, and amortization (EBITDA) but introduced a more restrictive measure based on earnings before interest and taxes (EBIT) in 2022.

H.R. 7074 (Jason Smith), which has passed the House, would reinstate full expensing and EBITDA for 2022 through 2025. These provisions apply to noncorporate businesses as well, but will affect corporate revenues.

Donald J. Marples, Specialist in Public Finance
Jane G. Gravelle, Senior Specialist in Economic Policy

IF11809

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.