Who Benefits and Who Pays

HOW CORPORATE TAX BREAKS DRIVE INEQUALITY

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LIBERATION IN A GENERATION

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ITEP
INSTITUTE ON TAXATION AND ECONOMIC POLICY

The Institute on Taxation and Economic Policy (ITEP) is a nonprofit, nonpartisan, research organization that provides timely, in-depth analyses on the effects of federal, state, and local tax policies. ITEP's mission is to ensure the nation has a fair and sustainable tax system that raises enough revenue to fund our common priorities, including education, health care, infrastructure, and public safety.

LIBERATION IN A GENERATION

Liberation in a Generation (LibGen) is a national movement-support organization building the power of people of color to totally transform the economy—who controls it, how it works, and most importantly, for whom. LibGen brings together advocates, community organizers, economists, and other proven and emerging leaders of color across the country to build a Liberation Economy, within one generation.

Executive Summary

Policies that provide corporate tax breaks[i] and allow corporate tax avoidance exacerbate racial and income disparities in our economy. These policies limit revenue raised that could finance public investments that benefit everyone. They also shift the distribution of income in favor of the owners of corporate assets, who are disproportionately wealthy and white. Finally, corporate tax policies funnel resources to foreign investors who own a large portion of shares in U.S. corporations.

Expanding on recent wealth and income data from the Board of Governors of the Federal Reserve System and methods used by the U.S. Congress's official revenue estimators to estimate the distribution of corporate tax breaks, this paper explores who benefits from corporate tax breaks and corporate tax avoidance—by income and, for the first time, by race and ethnicity. The analyses reveal that corporate tax breaks and corporate tax avoidance significantly contribute to income and racial inequality and largely benefit foreign investors. The key findings of this report include the following:

- **Corporate tax cuts and corporate tax avoidance worsen racial economic inequality.** In the first year that a corporate tax break goes into effect, the 67 percent of U.S. households that are White receive a disproportionate 88 percent of the benefits that remain in the U.S. In contrast, Black and Hispanic households, comprising 12 percent and 9 percent of U.S households, respectively, each receive only 1 percent of the benefits that remain in the U.S.
- **The ratio of white wealth to Black wealth and the ratio of white wealth to Hispanic wealth, which are both exceedingly high, would be a fourth lower today if not for disparities in ownership of corporate stocks.**
- **Corporate tax cuts and corporate tax avoidance worsen income inequality and provide very little benefit to low- and middle-income households.** During the first year when a new corporate tax break is in effect, 58 percent of the benefits that remain in the U.S. go to the richest 5 percent of households who disproportionately own corporate stocks.
- **Corporate tax cuts and corporate tax avoidance hurt all U.S. households.** Because foreign investors own 40 percent of American stocks, U.S. households receive only 60 cents of every dollar in corporate tax reductions during the first year when a new corporate tax break is in effect.

Ultimately, even if we adopt the assumption held by proponents of corporate tax cuts that some benefits eventually go to workers, our conclusions do not change. Reforming the corporate tax code is crucial for reducing racial and economic disparities.

i The terms "corporate tax breaks" and "corporate tax cuts" are used interchangeably throughout this report.

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SECTION 1

Introduction

The United States is a country of huge contradictions, where despite unprecedented abundance, marked in part by a low unemployment rate,[1] record stock market gains,[2] and the world's largest economy,[3] we perpetuate vast economic disparities. Nearly 40 million people live in poverty nationwide.[4] Black communities continue to face persistently high rates of unemployment,[5] and rising economic inequality ranks the U.S. fifth globally in income disparity.[6] Though there are many reasons for these contradictions, this paper explores a source of some of these problems: a corporate income tax that fails to tax the profits of the largest companies adequately.

Broadly speaking, corporations can pay lower taxes in two different ways. One way is for lawmakers to reduce the statutory corporate tax rate, which Congress did by lowering it from 35 percent to 21 percent in the 2017 tax law—this reduced corporate tax revenue by around $130 billion a year.[7] The second method is by using corporate tax expenditures, which are exceptions to, or special breaks from, the regular tax rules. These provisions, including exclusions, exemptions, deductions, and credits, allow a company to effectively pay less than the full 21 percent tax rate on its profits. Often called tax "expenditures," these tax breaks are the equivalent of direct spending by the government, except that they are provided through the tax code. In 2023, the Congressional Research Service (CRS) estimated that corporate tax expenditures reduced federal revenue by over $162 billion.[8]

Overwhelmingly, the massive resources that flow from these corporate tax expenditures go to individuals or entities that hold corporate stock, worsening income and racial disparities since these stockholders are disproportionately wealthy and white. Additionally, these breaks fuel runaway corporate power and drive corporations to further prioritize shareholders' interests over those of workers, consumers, and communities of color.[ii] As a result, corporate tax cuts and corporate tax avoidance uphold what Liberation in a Generation calls the Oppression Economy, where theft, exclusion, and exploitation of people of color have made racism profitable and left millions of people of color in a cycle of economic oppression.

For a corporation to fully live up to its responsibility to our society, it must contribute more than currently mandated to the people, workers, communities, and economy that its success is built on. Unfortunately, thanks to choices made by several Congresses, our corporate tax rules fail to ensure this.

ii Throughout this document, we use the terms "people of color," "communities of color," "workers of color," and other similar phrases to refer to Black, Indigenous, Latine, Arab, Middle Eastern, Asian, and Pacific Islander people. We use these terms not to erase the experience of any group but to demonstrate the shared impact that systemic racism and white supremacy have had on us.

> **Broadly... corporations can pay lower taxes in two different ways. One way is for lawmakers to reduce the statutory corporate tax rate... The second method is by using corporate tax expenditures, which are exceptions to, or special breaks...to effectively pay less than the full 21 percent tax rate on its profits.**

For example, in the five years after the 2017 Trump tax law—which slashed corporate taxes by 40 percent, providing corporations with at least $1.3 trillion in tax breaks[9]—109 of the largest corporations in the U.S. paid no federal income taxes in at least one of those years,[10] including during a global pandemic that disproportionately impacted people of color. More than one-fifth of these companies (23 of 109) paid no taxes over the entire five years.[11]

As we face the possibility of more corporate tax cuts if former President Trump is reelected,[12] this paper seeks to answer a simple question: Who really wins and loses under our current corporate tax system? We ask this question with a specific eye toward gaining a more sophisticated understanding of how people benefit from corporate tax breaks and corporate tax avoidance—both by income and, for the first time, by race and ethnicity.[iii] The answer is that nearly all the benefits of policies that provide corporate tax breaks and allow corporate tax avoidance go to white shareholders, foreign investors, and America's economic elite, and almost none of these benefits go to America's Black and Hispanic households. Regardless of who does and does not benefit when corporations do not pay taxes, we all collectively lose through systemic disinvestment in the nation's overall well-being.

iii For a brief explanation of the data and assumptions underlying our analysis, please see our methodology at the end of this report.

SECTION 2

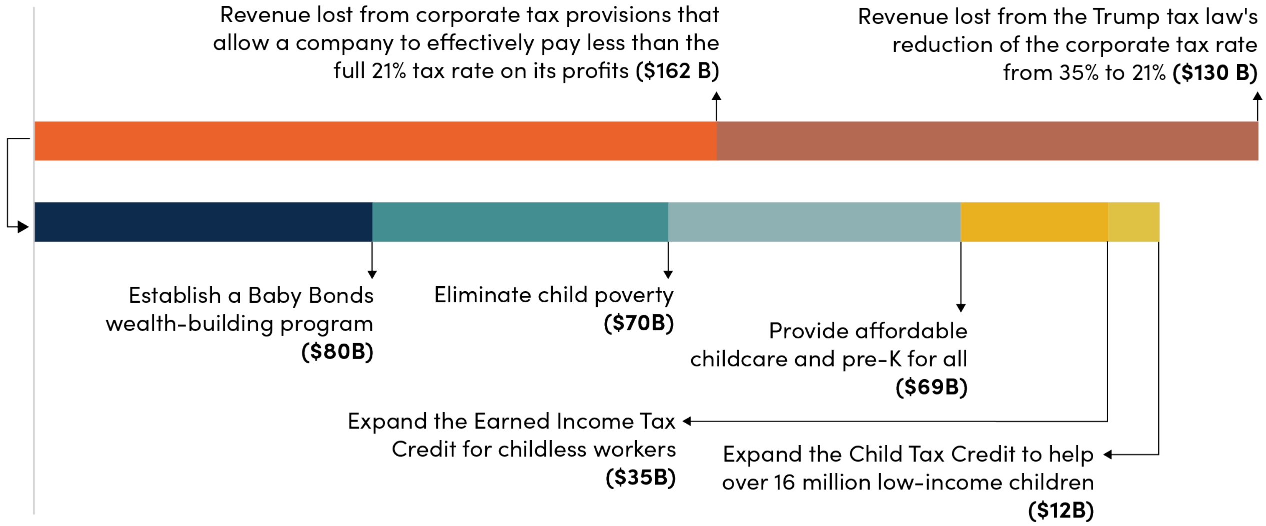
Why Corporate Tax Reforms Matter

Americans have long believed corporations should pay more in taxes.[13] While this may be an intuitive response for many, the reality is that ensuring corporations pay a fair share in taxes can play a powerful role in promoting economic opportunity and racial justice in several ways.

First, limiting corporate tax breaks and tax avoidance would raise revenue for public investments that benefit everyone, helping to reduce economic and racial inequality. The revenue lost to the corporate tax rate cut in the Trump tax law, along with the many corporate tax expenditures the Trump tax law maintained, could instead be used to fund a Baby Bonds wealth-building program,[14] eliminate child poverty,[15] provide affordable childcare and pre-K for all,[16] and expand the Earned Income Tax Credit for childless workers and the Child Tax Credit to help over 16 million low-income children,[17] with about $26 billion a year to spare.

FIGURE 1

What We Could Do Instead with the Resources Lost to Corporate Tax Breaks and Corporate Tax Avoidance



Source: Estimates for reallocating funds lost annually to corporate tax breaks are derived from Naomi Zewde's research article "Universal Baby Bonds Reduce Black-White Wealth Inequality"; Galen Hendricks' and Daniella Zessoules' Center for American Progress brief, "What We Could Have Had for $1.9 Trillion"; and Kris Cox, et al.'s Center for Budget and Policy Priorities brief, "Children in Low-Income Families Would Gain in First Year of Bipartisan Child Tax Credit Expansion."

Second, taking such steps to reallocate funds would reduce economic and racial disparities since corporate tax breaks and corporate tax avoidance primarily benefit those who hold corporate investment assets, such as stocks or bonds (whether held directly or indirectly through vehicles like 401Ks). According to the latest data on wealth and income from the Federal Reserve Board's 2022 Survey of Consumer Finances, these corporate investment assets are disproportionately held by white households[18] and the richest 10 percent of households,[19] who have benefited immensely from public investments that helped build their wealth.

Finally, regardless of how the resulting revenue is used, such reforms would benefit all U.S. households. Corporate tax reform would keep resources in the country instead of funneling them to foreign investors, who hold a large portion of shares in U.S. corporations, and would help curb rising corporate concentration and power that impacts everyone.

SECTION 3

Who Pays Corporate Income Taxes

Even though the corporate income tax is technically paid directly by each company on its annual profits, most corporate taxes[iv] are ultimately borne by corporate shareholders and, to a lesser extent, corporate bondholders. This is the mainstream, common-sense view held by Congress's official revenue estimator, the Joint Committee on Taxation (JCT), as well as the Congressional Budget Office (CBO).

Most analysts agree that, in the short term, the corporate income tax mostly affects investors holding corporate assets. For example, the JCT and CBO generally assume that corporate investors indirectly pay all of the corporate income tax in the short term. Over the long term, some analysts believe that workers end up paying some of these taxes. The JCT and CBO both assume that over the course of 10 years, the share of the corporate income tax that falls on investors declines from 100 percent to 75 percent, while the share that falls on workers rises from zero to 25 percent.[20]

In addition to stock ownership being concentrated among the wealthy, a huge portion of American corporations' stock is owned by foreign investors, meaning that a large share of the corporate income tax falls on this group. For example, in 2013 when the JCT last publicly estimated the share of corporate income taxes borne by foreign investors, it found that 10.8 percent was borne by foreign investors because they owned about 10.8 percent of the shares in U.S. corporations at the time.[21] The foreign-owned fraction is now estimated to be much higher. The Tax Policy Center's Steven Rosenthal and Theo Burke estimated that in 2019 foreign investors owned 40 percent of the shares in American corporations,[22] meaning that 40 percent of the capital share of the corporate income tax is borne by foreign investors. (This figure has recently been updated to 42 percent, but this report uses the 40 percent estimate for simplicity and because the difference between these figures is small.)[23]

There are reasons to doubt that any benefits from a corporate tax cut flow to workers. But even if we adopt the standard assumptions used by the JCT that workers do reap some benefits from these tax breaks, most of the benefits flow to wealthy households in the U.S. who disproportionately own corporate assets.

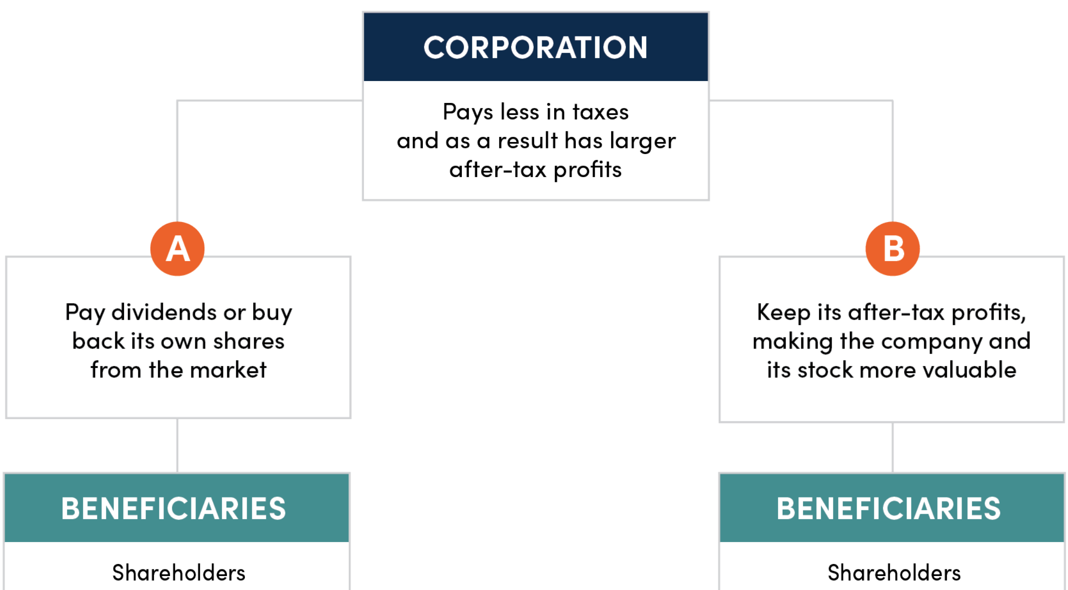
iv The corporate income tax only affects a specific type of company—what are known as "C corporations." Other companies structured as "pass-through" businesses do not pay the corporate income tax because their profits are included as taxable income on the personal income tax returns of their owners.

SECTION 4

Who Benefits When Corporations Do Not Pay Taxes

Because shareholders pay the corporate income tax, they also generally benefit the most whenever corporate taxes are cut or when a corporation avoids paying its fair share. For example, considering the previously detailed assumptions from a different angle, in the first year of a corporate tax cut, shareholders reap 100 percent of the benefits, with 60 percent going to U.S. shareholders and 40 percent to foreign shareholders. Even adopting the JCT's assumptions, after 10 years, shareholders still receive the bulk of the benefits (75 percent), while workers receive just 25 percent.

For investors, these benefits materialize in two primary ways. One way is that when a corporation pays less in taxes, it has larger after-tax profits to hand over to shareholders. A corporation can use these profits to pay dividends or purchase its own stock back from shareholders. The other way is for a company to simply keep its larger after-tax profits, making the company and its stock more valuable, resulting in larger profits for shareholders who sell their stock to other investors.[v]



v So long as corporate investors hold their corporate shares for one year before selling, they also massively benefit from our individual tax code through reduced tax rates of 0 percent, 15 percent, or 20 percent on their stock sale profits.

For workers, these benefits are believed to come in the form of increased compensation spurred by greater investment and productivity. However, corporate tax breaks historically have not consistently led to investments that enhance productivity, and, even when they do, they have not always resulted in higher wages.[24] Most recently, the Trump White House said that the corporate tax cut would boost worker compensation by $4,000 to $9,000 a year. Nothing like this happened. Instead, corporations bought back a record-breaking $1 trillion of their own shares the first year the law went into effect.[25]

So, who actually benefits when corporations do not pay taxes, and by how much? Using the same previously detailed assumptions to make our analysis comparable to Congress's official revenue estimates, along with 2022 household stockholding estimates from the Federal Reserve, we find that wealthy, white, and foreign shareholders reap the greatest rewards from corporate tax breaks and corporate tax avoidance, leaving lower income families, families of color, and workers with little, if any, benefits. Specifically, our analyses show that corporate tax breaks and corporate tax avoidance worsen racial economic and household income inequality and benefit foreign investors.

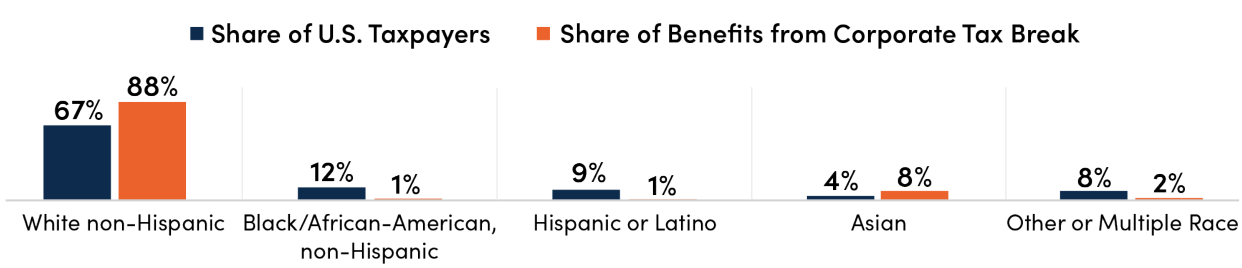
1 CORPORATE TAX BREAKS AND CORPORATE TAX AVOIDANCE PERPETUATE RACIAL ECONOMIC INEQUALITY

White households disproportionately benefit from corporate tax breaks

Because white households own an overwhelming share of corporate stocks, they disproportionately benefit from corporate tax cuts and corporate tax avoidance, worsening racial inequity. In the year that a corporate tax break goes into effect, white households receive 88 percent of the benefits that remain in the U.S. even though they make up only 67 percent of households. In contrast, Black households receive just 1 percent of the benefits despite making up 12 percent of households and Hispanic households get just 1 percent of the benefits although they make up 9 percent of households.

FIGURE 2

Distribution of Benefits from a Corporate Tax During Its First Year in Effect, Across U.S. Racial/Ethnic Groups (excluding portion to foreign investors), 2022



Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's 2022 Survey of Consumer Finances.

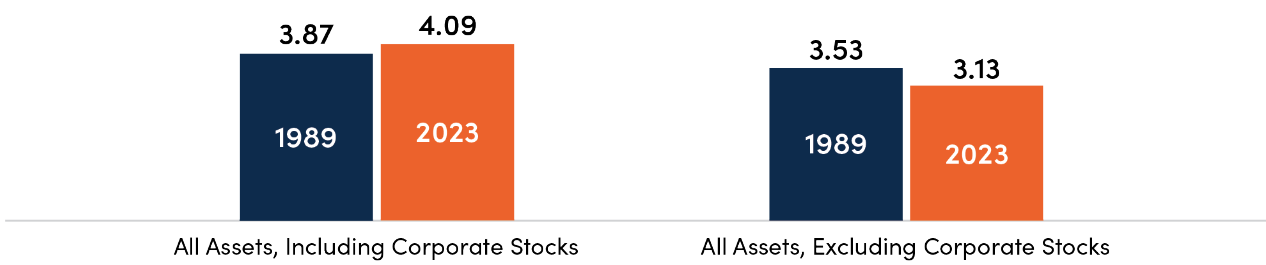
Corporate tax breaks play a significant role in the racial wealth gap

Policies that provide corporate tax breaks and allow corporate tax avoidance contribute to and perpetuate racial economic inequality because they reward the ownership of corporate stock—an asset that significantly contributes to the racial wealth gap. For example, in the middle of 1989, the average net worth of white households was 3.87 times that of Black households and this gap only grew over time. By the middle of 2023, the average net worth of white households was 4.09 times that of Black households. But as illustrated in the figures below, this racial wealth gap would have declined if not for the part of household net worth made up of corporate stocks. If we consider households' average net worth but exclude corporate stocks, we find that the white versus Black ratio actually falls over this time period, from 3.53 to 3.13.

A similar dynamic appears in comparing average net worth between white and Hispanic households. This ratio dropped from 4.52 in mid-1989 to 4.16 in mid-2023. But we find it drops even more, from 4.17 to 3.11, when we exclude corporate stocks, as illustrated below.

FIGURE 3A

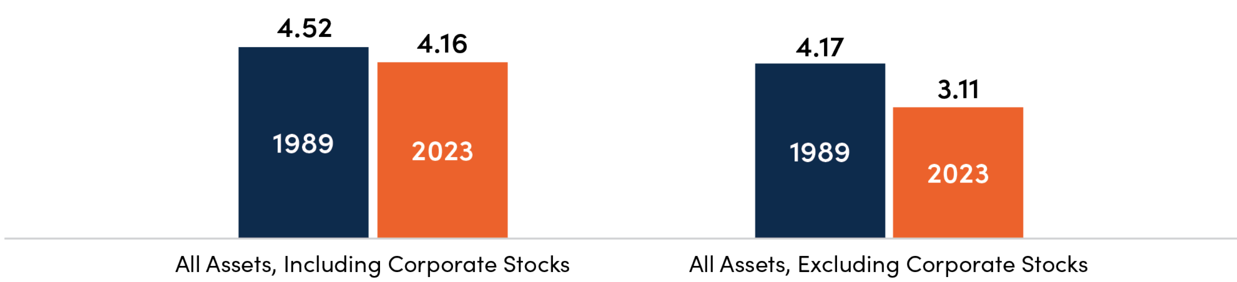
Ratio Of Average White Wealth To Average Black Wealth In Mid-1989 Vs. Mid-2023, With And Without Corporate Stock



Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's Distributional Financial Accounts.

FIGURE 3B

Ratio Of Average White Wealth To Average Hispanic Wealth In Mid-1989 Vs. Mid-2023, With And Without Corporate Stock

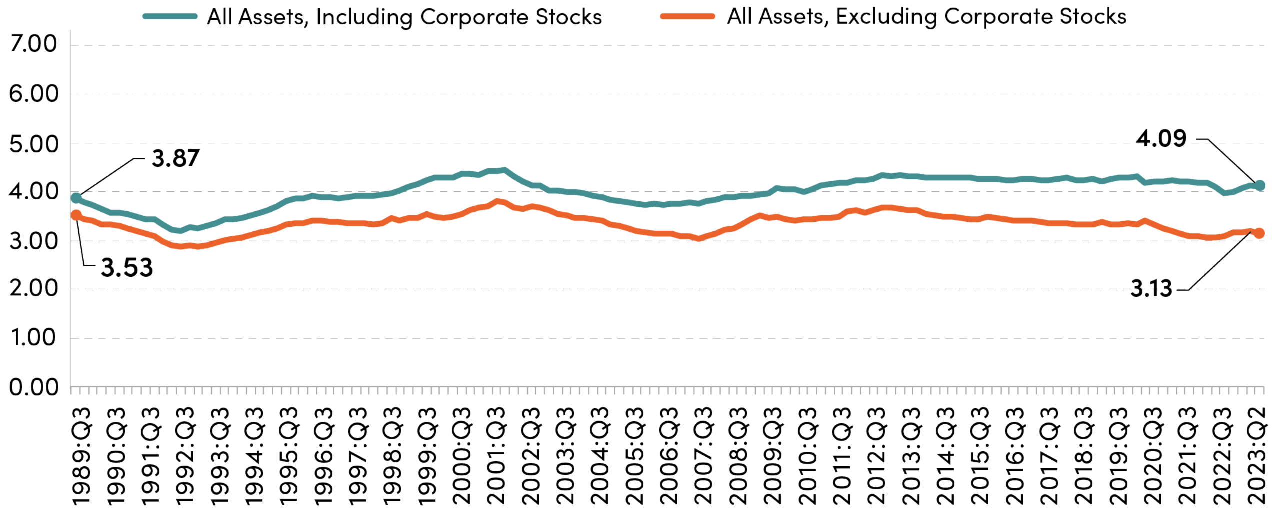


Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's Distributional Financial Accounts.

The white versus Black wealth ratio and the white versus Hispanic wealth ratio are high but in mid-2023, both ratios would have been about a fourth lower if not for corporate stocks.

FIGURE 4A

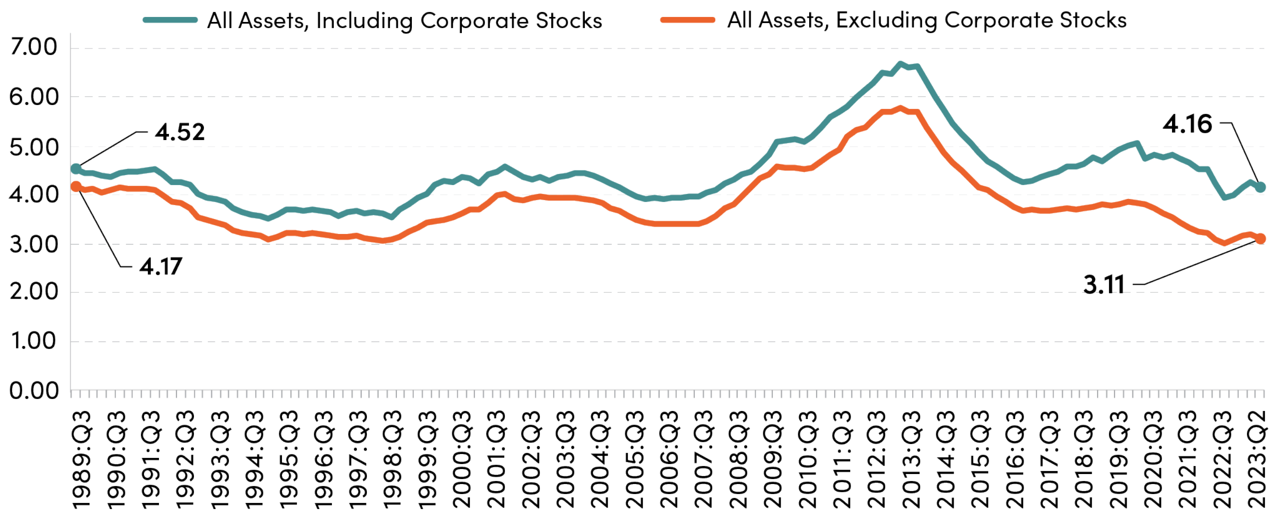
Ratio Of Average White Wealth To Average Black Wealth In Mid-1989 Vs. Mid-2023, With And Without Corporate Stock



Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's Distributional Financial Accounts.

FIGURE 4B

Ratio Of Average White Wealth To Average Hispanic Wealth In Mid-1989 Vs. Mid-2023, With And Without Corporate Stock



Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's Distributional Financial Accounts.

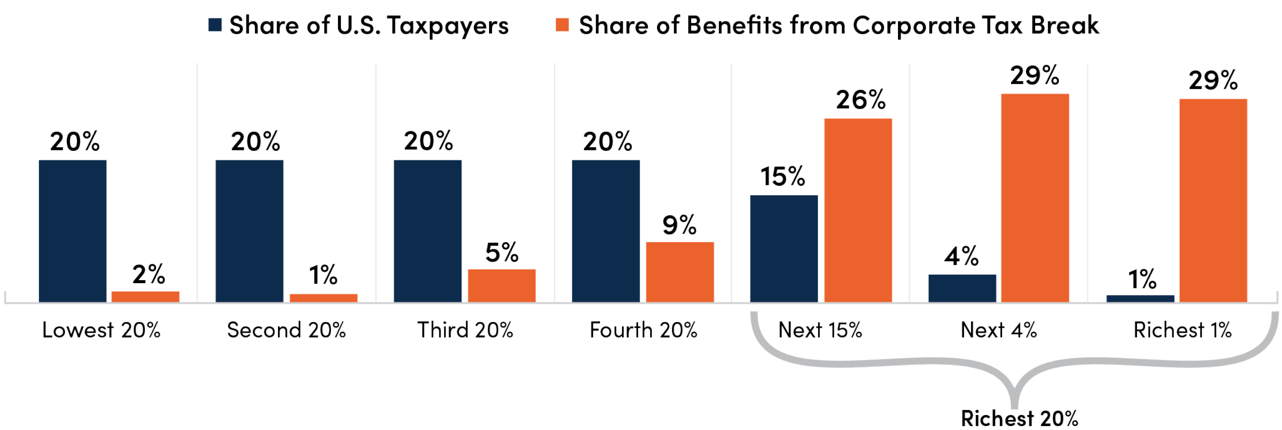
2 CORPORATE TAX BREAKS AND CORPORATE TAX AVOIDANCE WORSEN INCOME INEQUALITY

Benefits of lower corporate taxes go almost entirely to the richest households in the U.S.

Overall, corporate tax cuts and corporate tax avoidance worsen income inequality and provide very little benefit to low- and middle-income households. This is because when corporations are allowed to pay less in taxes, the ultimate beneficiaries are mainly the holders of corporate stocks, who are disproportionately high-income households. During the first year that a corporate tax break is in effect, we find that 29 percent of the benefits that remain in the U.S. flow to the richest 1 percent of U.S. households and another 29 percent flows to the next richest 4 percent.

FIGURE 5

Distribution of Benefits from a Corporate Tax Break During Its First Year in Effect, Across U.S. Income Groups (excluding foreign investors), 2022



Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's 2022 Survey of Consumer Finances.

As we note in the next section, the richest 5 percent of U.S. households significantly benefit from lower corporate taxes, even when taking into account the share that goes to foreign investors, and even when accepting the assumption that some benefits eventually go to workers.

TABLE 1

Household Income Ranges and Average Incomes, By Income Group and Race/Ethnic Group, 2022

INCOME GROUP		INCOME RANGE (WHEN APPLICABLE)	AVERAGE INCOME
Poorest 20%		$0 – $31,300	$19,100
Second 20%		$31,300 – $54,000	$42,000
Third 20%		$54,000 – $90,800	$70,100
Fourth 20%		$90,800 – $151,300	$116,900
Richest 20%	Next 15%	$151,300 – $390,200	$230,500
Richest 20%	Next 4%	$390,200 – $1,199,800	$628,300
Richest 20%	Richest 1%	$1,199,800+	$3,130,100
Foreign Investors		NA	NA
Total			**$141,400**

RACE/ETHNIC GROUP	INCOME RANGE (WHEN APPLICABLE)	AVERAGE INCOME
White non-Hispanic	NA	$164,500
Black/African-American, non-Hispanic	NA	$71,000
Hispanic or Latino	NA	$71,500
Asian	NA	$233,600
Other or Multiple Race	NA	$88,100
Foreign Investors	NA	NA
Total		**$141,400**

Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's 2022 Survey of Consumer Finances.

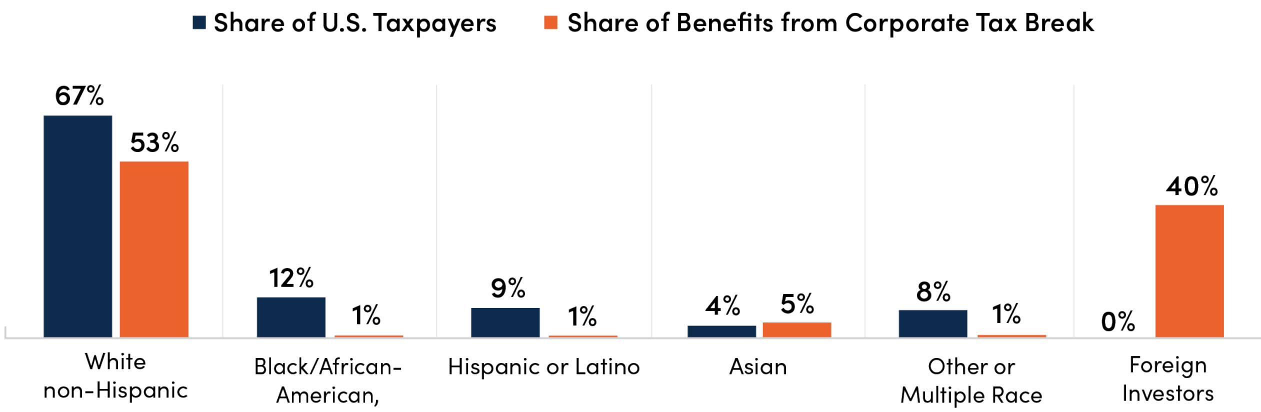
3 CORPORATE TAX BREAKS AND CORPORATE TAX AVOIDANCE BENEFIT FOREIGN INVESTORS

U.S. households overall are harmed by corporate tax cuts and corporate tax avoidance

Because foreign investors own about 40 percent of the stocks in American corporations and therefore reap a large fraction of the benefits from corporate tax breaks, U.S. households overall lose out. Every dollar of revenue lost to corporate tax breaks and corporate tax avoidance could have been used for public investments that entirely benefit people in the United States. The immediate effect is that with each corporate tax dollar given up in this way, U.S. households receive only 60 cents.

FIGURE 6

Distribution of Benefits from a Corporate Tax Break During Its First Year in Effect, Across U.S. Racial/Ethnic Groups and Foreign Investors, 2022



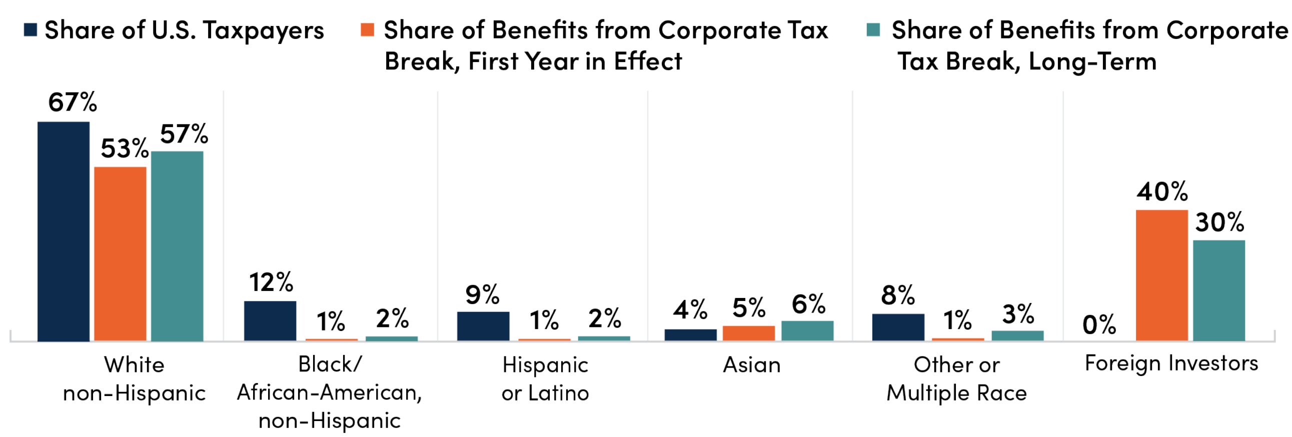
Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's 2022 Survey of Consumer Finances.

Corporate tax breaks significantly benefit foreign investors over the long term

Even if we adopt the assumption that a portion of the benefits from a corporate tax break eventually flows to workers, in the long run, the results are the same: foreign investors continue to receive a large share of the benefits (as do white households), leaving other U.S. households with little, if any, benefits from lower corporate taxes.

FIGURE 7

Distribution of Benefits from a Corporate Tax Break Across U.S. Racial/Ethnic Groups and Foreign Investors, First Year in Effect and Long-Term, 2022



Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's 2022 Survey of Consumer Finances.

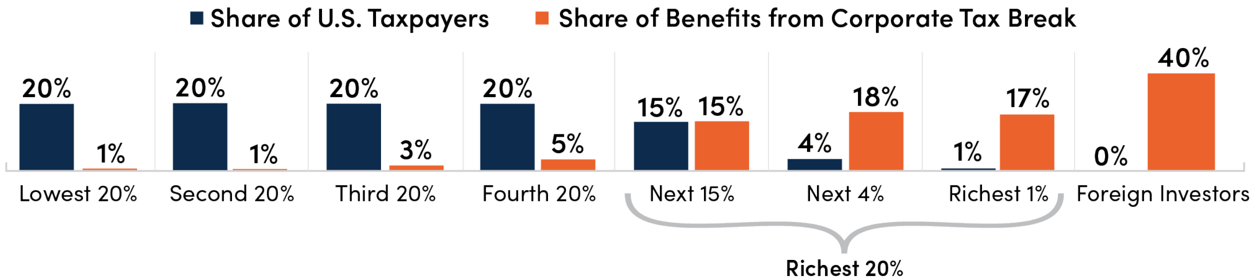
Note: The share of benefits from corporate tax breaks after ten years uses conservative assumptions that some corporate tax cuts eventually flow to workers.

Benefits of corporate tax breaks and corporate tax avoidance bypass most households

When we account for the benefits to foreign investors, corporate tax cuts and tax avoidance provide very meager benefits to low- and middle-income households in the U.S. The largest shares of benefits flow to foreign investors (40 percent), the richest 1 percent of households (17 percent), and the next richest 4 percent of households (18 percent).

FIGURE 8

Distribution of Benefits from a Corporate Tax Break During Its First Year in Effect, Across U.S. Income Groups and Foreign Investors, 2022



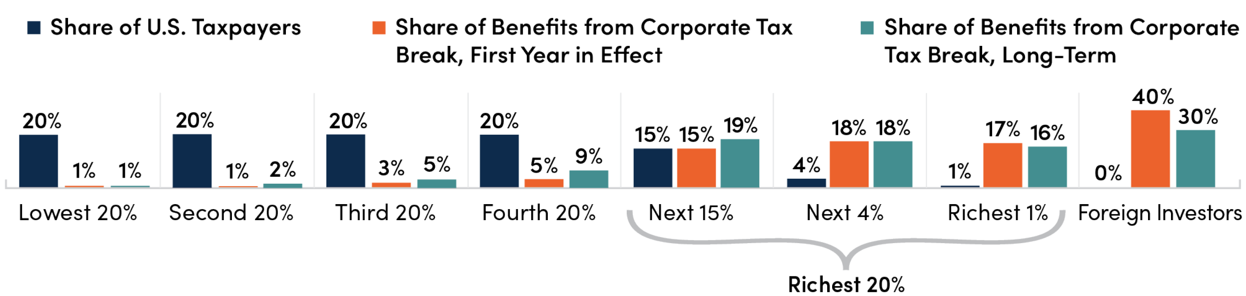
Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's 2022 Survey of Consumer Finances.

Corporate tax breaks largely benefit corporate investors and bypass workers

Even if we adopt Congress's official revenue-estimator assumption that in the long run, a fourth of the benefits of a corporate tax break will flow to workers in the form of increased compensation, our conclusions remain unchanged: the largest shares of benefits flow to foreign investors (30 percent), as well as to the richest 20 percent of households (53 percent).

FIGURE 9

Distribution of Benefits from a Corporate Tax Break Across U.S. Income Groups and Foreign Investors, First Year in Effect and Long-Term, 2022



Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's 2022 Survey of Consumer Finances.

Note: The share of benefits from corporate tax breaks after ten years uses conservative assumptions that some corporate tax cuts eventually flow to workers.

Ultimately, what does this all mean? In practical terms, if Congress cuts corporate taxes by $100 billion, in the first year the cuts are in effect, $40 billion would go out of the country straight into the pockets of foreign investors. The remaining $60 billion would go to U.S. investors and would be distributed the way corporate investment assets are, making wealthy elites and wealthy white households the main beneficiaries. Workers, on the other hand, would see no immediate benefits from this tax cut.

Ten years later, if these tax cuts continue to cost the government $100 billion annually in lost revenue (which is unlikely, as the cost of corporate tax cuts usually increases over time), $75 billion a year would go to corporate investors, with $30 billion of that going into the hands of foreign investors, and the remaining $45 billion going to U.S. investors. The $25 billion that would be left over would go to workers, spread across households the way labor income (wages, salaries, and other earned income) is distributed across income groups. Ultimately, regardless of how we look at it, foreign investors end up getting an enormous slice of the benefits from corporate tax breaks.

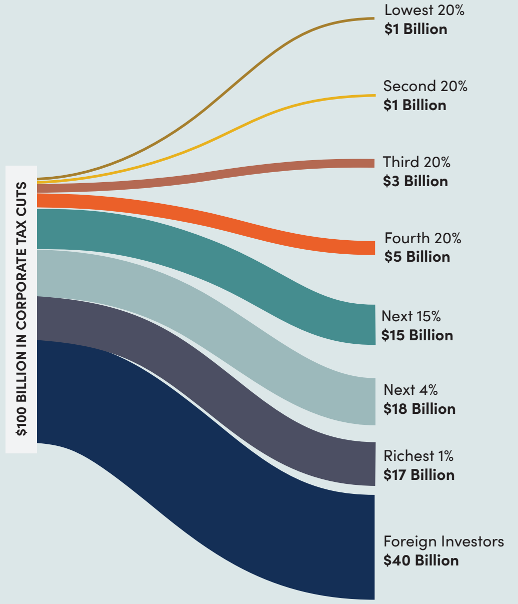
Where Do the Benefits of Corporate Tax Cuts Go?

If Congress cuts corporate taxes by $100 billion...

BY INCOME GROUPS & FOREIGN INVESTORS

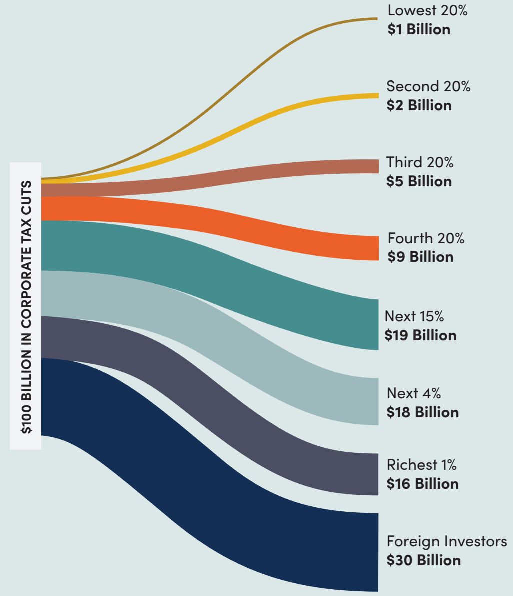
SHORT-TERM

first year tax cuts are in effect

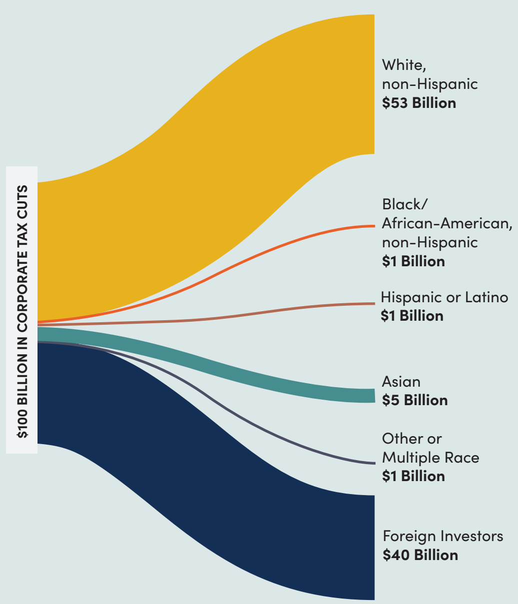


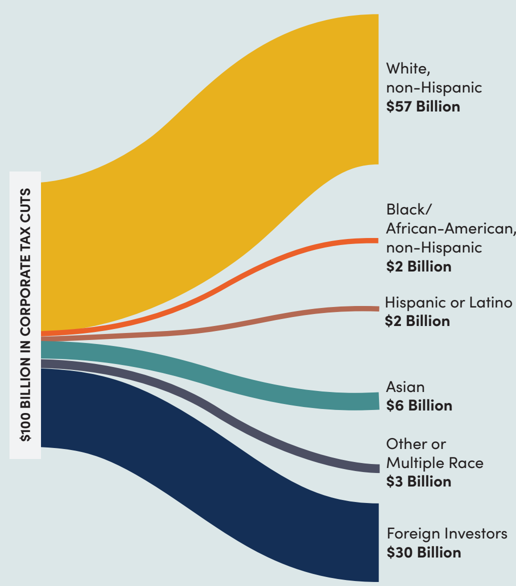
LONG-TERM

after 10 years tax cuts are in effect



BY RACE/ETHNIC GROUP & FOREIGN INVESTORS





Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's 2022 Survey of Consumer Finances.

SECTION 5

Conclusion

Corporate tax breaks fuel economic inequality and the racial wealth divide by sending most of their benefits to the wealthiest households in the country, a disproportionate share of whom are white, and to foreign investors, bypassing large swaths of workers and households entirely. Low and inadequate corporate taxes also weaken our ability to constrain the growing influence of corporate power over our economy, democracy, and natural resources.

Next year presents a critical moment for addressing these issues, regardless of who wins the White House and controls Congress. The individual provisions of the 2017 Trump tax law are set to expire at the end of 2025, which will create an opportunity for Congress to reform our tax code.[26] Although Congress made the corporate tax breaks from the 2017 tax law permanent, the entire tax code should be on the table during this debate,[27] offering a vital opportunity to leverage our tax code to curb rising inequality and corporate power. A new global minimum corporate tax regime, agreed to by more than 140 countries and beginning this year,[28] will add pressure on Congress to act on corporate tax reform, as failure to implement this tax could allow other countries to increase taxes on U.S.-based multinational corporations.[29]

As we approach these critical inflection points, we should urge Congress to roll back the Trump corporate tax cuts and close loopholes that allow corporations to sidestep paying a fair share. Over the next several years, we should call on Congress to enact the following reforms:

- Increase taxes on corporate share repurchases.[30]
- Equalize U.S. tax rates on domestic and foreign profits of U.S.-based corporations.[31]
- End the full expensing of capital spending and other forms of permanent accelerated depreciation.[32]
- Eliminate breaks for stock options.[33]
- Enact legislation to implement a global corporate minimum tax of 15 percent.

Reforms to our tax system should be paired with investments in higher education,[34] family care,[35] health care,[36] housing,[37] income,[38] wealth,[39] and jobs,[40] among other areas. Acting now to foster tax fairness can set the stage to create an economy where all people in the country—especially communities of color—can thrive, now and in the future.

APPENDIX 1

Methodology

The analyses in this report use data from the Federal Reserve Board's 2022 Survey of Consumer Finances, which provides data on U.S. household balance sheets, pensions, income, and demographic characteristics, and the Federal Reserve Board's Distributional Financial Accounts, which provides quarterly estimates on the distribution of a range of measures of U.S. household wealth, from the third quarter of 1989 through the most recent quarter. Additionally, the analysis in this report also relies on data from the Institute on Taxation and Economic Policy (ITEP) Tax Microsimulation Model, which generates tax estimates for a sample of representative taxpayer records. For an overview of the Federal Reserve Board's Survey of Consumer Finances, see https://www.federalreserve.gov/econres/scfindex.htm, and the Distributional Financial Accounts, see here https://www.federalreserve.gov/releases/z1/dataviz/dfa/index.html. For an overview of the ITEP Tax Microsimulation Model, see https://itep.org/itep-tax-model/.

The presentation of data in this report follows the general process Congress uses to evaluate the short- and long-run effects of tax policy proposals by using the analytical structure of the Joint Committee on Taxation (JCT), which assumes the effects of a corporate tax change fall entirely on corporate investors (on the owners of corporate stocks and corporate bonds) in the first year that the change is in effect, while over time (by the tenth year that the change has been in effect), the share falling on corporate capital falls from 100 percent to 75 percent, and the share falling on labor rises from 0 percent in the first year to 25 percent in the tenth year.

Like the JCT, our analysis also assumes the share of a corporate tax change borne by corporate investors (whatever that share happens to be in a given year) is split into a part borne by U.S. investors and a part borne by foreign investors. While it is unclear exactly what the JCT is now assuming in this regard, our analysis assumes that 40 percent of the investor share of the corporate income tax is borne by foreign investors because they own 40 percent of the shares in U.S. corporations. This is in line with recent research produced by Steve Rosenthal and Theo Burke at the Tax Policy Center, which estimated that in 2019 foreign investors owned 40 percent of the shares in American corporations (subsequently updated slightly to 42 percent).[41]

APPENDIX 2

Data Table

Benefits of a Corporate Tax Break, Across U.S. Income Groups, Race and Ethnic Groups, and Foreign Investors, 2022

(Red indicates group receives less than its proportionate share, green indicates group receives more than its proportionate share.)

Income Group	Income Range (when applicable)	Average Income	Share of U.S. Population	Share of Corporate Assets within U.S.	Share of Benefits from Corporate Tax Break	
					First Year in Effect	Long-Term
Poorest 20%	$0 – $31,300	$19,100	20%	2%	1%	1%
Second 20%	$31,300 – $54,000	$42,000	20%	1%	1%	2%
Third 20%	$54,000 – $90,800	$70,100	20%	5%	3%	5%
Fourth 20%	$90,800 – $151,300	$116,900	20%	9%	5%	9%
Next 15%	$151,300 – $390,200	$230,500	15%	26%	15%	19%
Next 4%	$390,200 – $1,199,800	$628,300	4%	29%	18%	18%
Richest 1%	$1,199,800+	$3,130,100	1%	29%	17%	16%
Foreign Investors	NA	NA	0%	0%	40%	30%
Total		**$141,400**	**100%**	**100%**	**100%**	**100%**
White non-Hispanic	NA	$164,500	67%	88%	53%	57%
Black/African-American, non-Hispanic	NA	$71,000	12%	1%	1%	2%
Hispanic or Latino	NA	$71,500	9%	1%	1%	2%
Asian	NA	$233,600	4%	8%	5%	6%
Other or Multiple Race	NA	$88,100	8%	2%	1%	3%
Foreign Investors	NA	NA	0%	0%	40%	30%
Total		**$141,400**	**100%**	**100%**	**100%**	**100%**

Source: ITEP and LibGen's calculations based on data from the Federal Reserve Board's 2022 Survey of Consumer Finances.

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