



Corporations Don't Pay Taxes—People Do

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Today, President Barack Obama unveiled a plan to further subject U.S. companies to double-taxation on their international profits. This will kill thousands of jobs back here at home.

It raises the question, "who pays the corporate income tax?" The answer is, "we do." Corporations don't pay taxes—people do. Corporations are legal entities which collect taxes from real live human beings. Here's how:

Wage Earners. If you earn a wage, chances are you pay the corporate income tax. You do so because your wages are thousands of dollars lower than they would be in the absence of the corporate income tax. According to the Census Bureau, 77 million Americans work for companies which employ 100 or more people. That's more than 6 out of every 10 Americans with a job. Most of these people work for corporations, who have to pay them a salary with money the government *doesn't* take with the corporate income tax.

There's an emerging consensus among economists that at least \$0.60 out of every \$1.00 the corporate income tax collects is paid in the form of lower wages (the other \$0.40 is paid in the form of lower returns for shareholders, which we will get to in a moment). So if your paycheck isn't as high as you would like it to be, blame the corporate income tax.

American Families. Corporations make money by selling things to people. If a corporation makes a profit of \$1.00, and \$0.40 of that must go to corporate income taxes, that "tax wedge" will be built into the price.

Let's say a corporation wants to make \$600 on a computer after taxes. It has to charge you \$1000 for that computer, knowing it will have to pay \$400 in taxes. You just paid the corporate income tax on that computer. All the corporation did was pass along the cost to you in the form of a more expensive computer. Families pay the corporate income tax.

Seniors and 401(k) Owners. It goes without saying that seniors and shareholders can also be wage earners and consumers, but they also have their own contribution to paying the corporate income tax. We mentioned above how \$0.60 on the dollar in corporate taxes comes out in the wash in the form of lower wages. The other \$0.40 shows up in the form of lower returns on investment.

Corporations are owned by the millions of 401(k) owners, IRA owners, pension plans, and individual shareholders who buy and hold corporate stock. A majority of adults in the United States are part of this "shareholder majority."

When corporations have an after-tax profit, they can do one of two things with it: they can return the profit directly to shareholders (a "dividend"). Or, they can retain the after-tax profit in the company, re-investing it to grow the business. When the business grows, the share price rises, and the investor gets to benefit later when he sells the shares (a "capital gain"). Either way, after-tax profits eventually make it back to the investor.

"After-tax" is the key term here. The corporate income tax results in after-tax profits being far lower than the pre-tax profits looked. Corporations also might engage in less-profitable activities in order to avoid paying the corporate income tax.

At the end of the day, \$0.40 out of every dollar collected by the corporate income tax ends up making your 401(k) smaller.

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