

Opportunity Wisconsin: Average corporate tax rate plunged by more than half after GOP overhaul

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The average tax rate on U.S. corporations fell by more than half, to 7.8 percent, in the wake of Republicans' 2017 tax overhaul, [according to a new government analysis](#).

In a report sure to inflame the debate over corporate taxation, the official Joint Committee on Taxation also said businesses continue to make extensive use of offshore tax havens such as the Cayman Islands and Bermuda to reduce their tax bills.

At the same time, the nonpartisan office said, a tax created by Republicans to target that money stowed in low-tax jurisdictions, known as "GILTI," is succeeding at dunning at least some of that money.

Companies paid an average total tax rate of 16 percent on that GILTI income, with 5.5 percent going to the IRS and the remainder paid to foreign governments.

The study also found that business investments in things like plants and equipment, as well as employment in the U.S., increased following enactment of the law.

The report comes as Democrats, searching for budget savings to finance their big-ticket spending initiatives, are eyeing multinational corporations. Senate Finance Chair Ron Wyden (D-Ore.) is preparing to release a new framework on international taxes that is expected to call for making provisions like GILTI much more stringent. His committee is planning a hearing Thursday on international tax rules.

Democrats, who've long argued corporations are not paying nearly enough, are likely to seize on the reported tax rates as much too low. Republicans, meanwhile, will likely be cheered by the increases JCT found in U.S. investment and employment.

The report is a rare look inside the tax lives of multinational corporations in the aftermath of the 2017 tax law. Unlike outside researchers, JCT has access to companies' private tax returns, giving them an unusually clear view into what they are doing.

The agency was only able to look at tax year 2018, though, because there is a yearslong lag in what companies report paying. Because the Tax Cuts and Jobs Act was signed into law in December 2017, it is unlikely many companies were able to make substantial moves in response to the law by 2018.

Still, the analysis provides some insight into the early effects of the legislation, which slashed the corporate rate, gave companies big deductions for investments and rewrote much of the U.S. tax system dealing with companies operating across borders.

The average tax rate actually paid by companies fell 51 percent — to 7.8 percent, from 16 percent the previous year, the report says.

The rate was higher when deferred taxes that will be paid in the future are taken into account — which is an estimate of what companies believe their long-run tax rate will be. By that measure, the average rate fell to 13.1 percent from 19.7 percent in 2017.

Rates were higher in transactions with major trading partners. Companies paid an average rate of 8.7 percent on earnings in Europe, and 18.1 percent on income from the U.S.'s top 10 trading partners.

The report shows companies make widespread use of offshore tax havens, with about 10 percent of their foreign-sourced profits booked in Bermuda, where they paid a 0.4 percent tax rate to the government there. Another 9 percent was parked in the Netherlands, where they paid 3.9 percent; and 8.3 percent in the United Kingdom (with a 10.6 percent tax rate paid there).

That came even as companies reported far more investments in tangible assets and

many more employees — though fewer profits — in major markets like China, Canada, Germany and Mexico that have much higher tax rates.

For example, 10 percent of the foreign workers were in India, where companies paid an average 40 percent tax rate to the Indian government, the report said.

The report indicates GILTI is successfully taxing money squirreled away in other low-tax countries. Before the TCJA, companies could avoid taxes on that money indefinitely so long as they did not bring it back to the U.S.

But Democrats are likely to complain that the 5.5 percent GILTI rate is too much of a discount compared with the domestic 21 percent tax rate, even when taxes paid to foreign governments are taken into consideration.

The report also shows that business investments in tangible assets in the U.S. increased in 2018 by 6.4 percent. The number of employees here also grew, by 3 percent, while also growing by almost 14 percent at U.S. companies operating in other countries.