

INCREASE THE CORPORATE RATE TO 25%



Raising revenue while maintaining U.S. competitiveness

ESTIMATED REVENUE \$498 BILLION*

SUMMARY

The corporate tax rate is the percentage of profit that corporations must pay in taxes. These mainly “C” corporations are taxed at a separate rate from their employees and shareholders because they are considered separate legal entities.

Prior to the *Tax Cuts and Jobs Act* (TCJA), reducing the corporate tax rate from a top rate of 35%—the highest in the developed world—to 25% was widely considered a “longtime Republican goal” and featured prominently in Republican tax plans, including then-House Budget Chairman Paul Ryan’s FY2014 budget plan. TCJA went beyond that goal and reduced the corporate rate to 21%.

THE CASE FOR INCREASING THE CORPORATE RATE

Corporate status allows a firm to contract, borrow, sue, and purchase assets under its own name while those who operate and hold shares in the company enjoy limited liability for the corporation’s debts and lawsuits. In theory, this privilege is offered so that corporations can pursue public purposes beyond the capabilities of individuals and voluntary associations. The legal status and limited liability enjoyed by U.S. corporations provide wide societal benefits and encourage risk taking and investment, but they remain a privilege. So is offering a tax rate to corporations lower than that which individuals pay on their own income.

Lowering the corporate rate from the highest amongst OECD countries was sensible and benefitted American competitiveness, but continuing down from 25% to 21% had significantly less marginal benefit. While excessively high corporate tax rates are indeed a barrier to growth, a 25% corporate rate is reasonable and falls in line with the worldwide average weighted by GDP.

Rep. Chip Roy (R-TX) recently recommended increasing the corporate rate from 21% to 25% to help pay for individual and small business tax breaks. Policymakers should consider this change as they seek to pay for other tax cuts.

*2024–2034. This estimate is from American Compass’s “Budget Model: First Edition,” which is based on the Congressional Budget Office’s score of single percentage point increases in the corporate tax rate.

An online version of this brief with links to sources is available at americancompass.org