Maintaining the 21% Corporate Tax of the TCJA

Among other provisions, the Tax Cuts and Jobs Act of 2017 (TCJA) reduced tax rates for businesses and individuals. The corporate tax rate was changed from a tiered tax rate ranging as high as 35% depending on taxable income to a flat 21%. The TCJA also changed the U.S. from a global to a semi- or partial-territorial tax system with respect to corporate income tax. At 35% prior to the TCJA, the U.S. corporate tax rate had been the highest among the OECD nations, harming the competitiveness of U.S. companies. Add to this state (and local) corporate income taxes which for most part average about 6%. The average for the OECD was 24% in 2017. The TCJA made the United States corporate tax regime competitive again.

Economic theory and empirical evidence demonstrate that a lower corporate tax rate fosters an improved after-tax return on capital and stronger economic growth. A lower tax rate reduces the cost of capital and results in a higher net present value (NPV) on prospective projects. A higher return leads to more investment in productivity-enhancing technologies and a growing capital stock. A larger capital stock (and more capital available per worker) boosts productivity, leading to stronger economic growth, job creation, and higher wages. These favorable long-term effects on the economy operate primarily through increased incentives to work, save and invest.

Although economic growth spurred by tax reform takes years to manifest, a number of important studies by the CBO, IMF, Moody's, Penn-Wharton Budget Model, Tax Foundation, Tax Policy Center, and Harvard found that the TCJA would boost the U.S. economy by as much as 0.2% to 2.9%, with an average 0.7% boost to U.S. GDP. The Tax Foundation analysis showed the long-run impact on GDP would be 1.7% and is driven by lower corporate income tax rate. The change in long-run wages was 1.7% and long-run full time jobs would gain by 339,000.

In wake of the TCJA, employment gained in 2018 and 2019 and workers saw large wage increases (largest in decades). When taxes on capital are reduced, labor gains. The reverse is true when corporate taxes are hiked. Capital adjusts over time in response to tax hikes, labor is left bearing the brunt of the reduction in productivity.

The average OECD corporate income tax rate is 24%. Some policymakers have proposed raising the corporate income tax rate from 21% to 28%. Moreover, state and local corporate income taxes add another 6 percentage points and, as a result, the Administration proposal could push the corporate income tax rate up towards 34% and make the United States one of the highest in the OECD. This increased tax rate would have the effect of reversing the favorable economic effects of the TCJA and,

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reduce incentives to work, save and invest. A higher corporate tax rate reduces after-tax return on capital thereby increases the cost of capital. The lessened return yields a lower NPV on prospective projects. Uneconomic projects will not be pursued thereby leading to lower business investment in productivity-enhancing technologies and a slower growing capital stock. A smaller capital stock (and less capital available per worker) hinders productivity, leading to slower economic growth, job creation, and lower wages. Analysis of the assumptions and results in the previously mentioned studies suggest that U.S. GDP after 10 years could be 0.1% to 0.8% lower than under current law if the proposed increase in the corporate income tax rate is pursued. Raising the corporate income tax rate from 21% to 28% would cost U.S. chemical companies (and their shareholders) $1.51 billion per year.

A recent Tax Foundation analysis of the plan concludes that the economic result would be a 1.6% reduction in the size of the economy. The analysis indicated that, with a shrinking capital stock, overall wages would be reduced by 1.2% resulting in 542,000 fewer jobs.

Plentiful and affordable natural gas supplies have transformed America's chemical industry from the world's high-cost producer a decade ago to among the lowest-cost producers today. The United States now enjoys a decisive competitive advantage in the making of basic petrochemicals. The natural gas advantage has fostered over 345 new chemical plant projects, with a combined value of $207 billion, resulting in a near 40% expansion of the capacity to produce ethylene, a basic building block for a wide variety of products used in producing PPE and other products that improve safety, health, sustainability, convenience, and quality of life. Companies from around the world are investing in new U.S. production capacity, leading to industry revival and new jobs. Indeed, fully 69% of these projects are foreign direct investment. These projects have created over 415,000 jobs in our economy. A higher corporate income tax rate would end new investment. With the economy still suffering from the COVID-induced recession, it is an imprudent time to consider raising the corporate income tax rate.