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If Companies Are People...

By JAMES LIVINGSTON

HERE'S an idea: why not tax corporations as if they were natural persons, in accordance with their newly discovered rights of free speech? That move would solve any impending fiscal crisis.

Indeed, we used to do just that. For most of the 1950s, corporate income at large companies was taxed at 52 percent, according to the nonpartisan Tax Policy Center. The federal government, meanwhile, collected about a third of its revenues from this source. Today, thanks largely to the "reforms" ushered in by President Ronald Reagan, the ostensible tax rate on corporate income is no higher than 35 percent — and the corporate-tax share of federal revenue has fallen to about 9 percent.

For a view as to how this happened, consider General Electric. Back in the 1950s and early '60s, when Reagan was a company pitchman, G.E. was a manufacturer of consumer appliances. It employed hundreds of thousands of people, and it paid millions of dollars in taxes every year. Now, it makes jet engines, wind turbines and other kinds of capital equipment, but its real profit center is financing the sale of these products overseas — because income generated here is tax exempt if it remains offshore.

In 2010 G.E. employed more than 130,000 people in the United States, and earned $14.2 billion, $5.1 billion of which was generated in the United States. And yet its American tax bill for that year, according to a report by The New York Times, was zero. (G.E. said in a news release last year that its "global tax rate" in 2010 was 7 percent, but did not disclose how much of that went to the I.R.S.)

Meanwhile, federal spending steadily increased, in line with the growth of the welfare state. As corporations lobbied and learned to avoid taxes, the government began to close the revenue gap with payroll taxes. These were negligible before the creation of Medicare in 1965, but they now account for more than a third of federal revenue — in effect, they replaced the income

taxes once paid by corporations.

Personal income taxes (which have stayed at about 45 percent of federal revenues since 1950) and payroll taxes now provide the federal government with almost 80 percent of its yearly revenue.

Unlike personal income taxes, Medicare and Social Security taxes — which are jointly known as FICA (for Federal Insurance Contributions Act), or payroll taxes — are plainly regressive. Because of the payroll cap on Social Security contributions, the bottom quintile of income recipients pays a 7.3 percent FICA rate, while the top quintile pays a 6.8 percent rate and the top 1 percent of earners pay a rate of just 0.9 percent.

So, by slashing corporate income taxes and forcing a new reliance on payroll taxes to finance government spending, we have redistributed income to the already wealthy and powerful. Our tax system has actually fostered inequality.

The fiscal problem we face is not, then, a lack of revenue sources. We can finance any amount of transfer payments and "entitlements" by taxing corporations' profits in the same way we tax personal income, using a progressive formula. If necessary, give them a mortgage deduction — they already get something like it in the form of accelerated depreciation allowances on their purchases of capital equipment — but make them pay higher taxes on their income. Do that, and the federal deficit goes away.

The now-familiar objection to a tax increase on corporate profits is that it will discourage private investment and thus dampen job creation. The retort is just as obvious: since when have tax cuts on corporate profits led to increased investment, faster job creation and higher per capita consumption out of rising real wages? It didn't happen after the Reagan Revolution, it didn't happen during the Clinton boom of the 1990s, and it sure didn't happen under George W. Bush.

Nor is it happening now, as corporate profits soar and full-time job creation languishes. American corporations are now sitting on $4.75 trillion in cash, according to the Federal Reserve Bank of St. Louis.

The other well-worn objection to an increase of corporate income taxes is that it would encourage companies to invest and hire overseas, where tax rates are presumably lower. Here, too, the retort is obvious: the tax code already works exactly this way by postponing taxes until profits from investment overseas are repatriated. American companies routinely avoid taxation by moving their idle cash offshore.

In view of these facts, there's no downside to replacing payroll taxes with increased taxes on corporate profits, wherever they're made or held. By doing so, we make the tax code more progressive, and mobilize capital that is otherwise inert. In other words, we can lay solid

foundations for economic growth simply by going back to the tax principles we used to have. What could be more conservative than that?

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