

Tax Watch

What Do Corporate Income Taxes Cost American Families?

Ask a typical family about the taxes they pay, and they'll likely focus on America's biggest and most visible taxes: property taxes at home, sales taxes at the store, and income and payroll taxes deducted from their paychecks at work.

One tax they're likely to ignore is the corporate income tax. And the reason is simple: most who pay corporate income taxes aren't even aware that they exist. But although corporate taxes are invisible to the average taxpayer, they quietly tap family pocketbooks for nearly \$370 billion per year in the form of higher prices, lower wages and poorer returns on investments.

"Most people think corporate income taxes are paid by wealthy, anonymous companies," said Scott Hodge, President of the Tax Foundation. "But as economists have been teaching for centuries, people bear the burden of corporate taxes, not companies."

Family Burden Tops \$3,190

How much do corporate income taxes take from the average family? According to a recent Tax Foundation study, the federal corporate income tax alone collected \$370 billion in 2007. That's an average household burden of \$3,190 per year—more than the average household spends on restaurant food, gasoline or home electricity in a year.

"Typically, the argument for cutting the U.S. corporate tax rate centers on improving the ability of American companies to compete globally," said Tax Foundation economist Gerald Prante. "While true, those arguments overlook the fact that individual households bear the corporate tax burden, and their pocketbooks will benefit most from reform."

New research from the U.S. Congressional Budget Office shows that in a global economy where capital is highly mobile but workers can't easily move abroad—a good description of today's economy—workers end up bearing the brunt of corporate taxes. In a 2007 working paper, economist William Randolph found that 70 percent of corporate tax burdens fall on domestic workers, while the remaining 30 percent fall on company shareholders.

"Based on Randolph's findings we measured the burden of corporate income taxes on American households, first according to their incomes and then according to where they live," said Hodge. "The results help put a human face on the debate about whether the U.S. should lower its corporate income tax rate."

Your Corporate Tax Bill

American households pay \$3,190 on average in corporate income taxes per year. How does that compare to other family expenses?

- Down payment on a 2008 Ford Ranger: \$3,070
- **Average household corporate tax burden: \$3,190**
- Five-night Royal Caribbean cruise for six: \$2,394
- One-year supply of gasoline: \$2,013
- Four Apple iPhones: \$1,596
- 42-inch Panasonic flat screen television: \$1,560
- Three Nintendo Wii game systems: \$1,500



Only Payroll Taxes Hit Poor Harder

One of the most surprising findings from the Tax Foundation study is that the lowest-income households bear a large share of the corporate tax burden.

In total, the poorest 20 percent of households pay more in corporate income taxes each year than they pay in individual income taxes to the IRS each April. Households earning under \$23,700 in 2004 paid \$271 in corporate income taxes, compared to just \$171 in individual income taxes.

As a share of their total tax burden, corporate taxes were 6.3 percent of low-income households' tax bills compared to just 4 percent for individual income taxes. The only tax that hits low-income families harder than corporate taxes is the federal payroll tax, which is designed to pay for Social Security and Medicare.

"What this means is that cutting corporate tax rates is not about handing money to U.S. companies," said Hodge. "It is about providing tax relief to American families, much of which will provide enormous benefits to the nation's lowest-income wage earners."

Read the full study, "Personalizing the Corporate Income Tax," online at www.taxfoundation.org/publications/show/22694.html.