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RSC Policy Brief: The U.S. Corporate Income Tax Rate in Perspective

“With most of the world, Japan included, cutting corporate tax rates and employing territorial tax systems to remain competitive, the U.S. must surely know that its hesitancy to do these things is handing the advantage to its international competitors.”

-[Mieko Nakabayashi](#), Member of Japan’s House of Representatives

“The corporate income tax is an extraordinarily clumsy vehicle for the social purposes it is supposed to serve--it doesn't raise that much revenue, and it doesn't necessarily fall most heavily on the rich.”

-[Megan McArdle](#), special correspondent for Newsweek

Background: The corporate income tax was created in 1909 with a top rate of 1.0%. Since it was enacted prior to the 16th Amendment, it was originally justified as an excise tax on, according to [CRS](#), “the privilege of doing business in the corporate form (i.e., limited liability and access to capital markets).” The top tax rate peaked at 52.8% in 1968-69. Revenue collections from the tax peaked in 1952 at 6.1% of GDP and 32.1% of all federal revenue.

Today, the United States has the highest corporate tax rate—39.2% including state taxes—among industrialized countries. To put this figure in perspective, the Organization for Economic Cooperation and Development (OECD) average is [26%](#). The OECD average is a useful measurement because it consists of advanced economies. According to [CRS](#), in 2009, U.S. corporate income tax collections were 1.9% of GDP while the OECD average was 2.8% of GDP. Many economists argue that having the highest corporate income tax rate puts America at a competitive disadvantage.

The Corporate Income Tax and the Federal Budget:

- **Amount of Revenue:** Corporate tax collections were \$181 billion in FY 2011. According to [CBO](#), that figure is projected to increase to \$489 billion by FY 2022.
- **Percentage of GDP:** Corporate tax revenue was 1.2% of GDP in 2011. It is projected to be 2.0% of GDP by 2022. Corporate tax revenues peaked at 6.1% of GDP in 1952. It has never exceeded 3.0% GDP since the 1960s. See a chart from the Tax Policy Center [here](#).

- **Percentage of Total Tax Revenue:** Corporate tax revenue was 7.9% of total federal revenue in FY 2011. It is projected to be 9.2% of federal revenue in FY 2022. Corporate tax revenues peaked at 32.1% of all federal revenues in 1952.

States and the Corporate Income Tax: Many states also impose a corporate income tax rate. See the list of rates by state from the Tax Foundation [here](#). According to the [Tax Foundation](#), the combined state-federal corporate tax rate in the United States is 39.2%.

U.S. Corporate Income Tax Rate Highest: Earlier this year, Japan, which previously had the highest tax corporate rate in the industrialized world, lowered its corporate income tax rate to 38.0%. This makes the U.S. rate (when the state tax is included) the [highest](#) in the industrialized world.

Even though the U.S. has the highest top corporate rate, its resulting tax revenues are below countries with lower rates. According to [CRS](#), in 2009, U.S. corporate income tax collections were 1.9% of GDP while the OECD average was 2.8% of GDP.

Corporate Tax Rates by Country: The following table, taken from data compiled by Scott Hodge of the Tax Foundation (to see the full analysis, go [here](#)), shows the top corporate tax rate by country.

Top Corporate Tax Rate by Country

Country	Top Rate (%)
United States	39.2
Japan	38.0
France	34.4
Belgium	34.0
Germany	30.2
Australia	30.0
Spain	30.0
Mexico	30.0
Luxembourg	28.8
New Zealand	28.0
Norway	28.0
Italy	27.5
Portugal	26.5
Sweden	26.3
Canada	26.1
Finland	26.0
Austria	25.0
Netherlands	25.0
Denmark	25.0
United Kingdom	25.0
Korea	24.2

Israel	24.0
Switzerland	21.2
Estonia	21.0
Chile	20.0
Greece	20.0
Iceland	20.0
Slovenia	20.0
Turkey	20.0
Czech Republic	19.0
Hungary	19.0
Poland	19.0
Slovak Republic	19.0
Ireland	12.5

Source: [Tax Foundation](#)

Recent Corporate Tax Reductions Around the World: The federal corporate income tax rate was last changed in 1993. As part of the 1993 Omnibus Budget Reconciliation Act, legislation that also increased various other taxes, the rate was increased from 34% to 35% (it is 39.2% federal-state combined). According to Curtis Dubay of the [Heritage Foundation](#), since 2000, the average OECD top rate has been lowered from 32.9% to 26.0%.

In September of this year, Sweden announced plans to lower its corporate tax rate from [26.3% to 22%](#). The Swedish Minister for Enterprise said of the proposal: “the significant reduction of the corporate tax is expected to strengthen the investment climate and growth in Sweden.” This follows other recent corporate income tax rate cuts. In 2009, Sweden cut its corporate tax rate from [28% to 26.3%](#). In 1993, it cut its rate from 30% to 28%.

This year, Japan cut its rate from 39.8% to 38.0%. And the United Kingdom is in the process of lowering its rate from 25% to [23%](#).

The [RSC’s Jobs Through Growth Act](#) would, among other things, lower the top federal corporate tax rate to 25%.

Compliance Cost of the Corporate Tax: In 2009, the [National Taxpayers Union](#) (NTU) estimated that the cost for federal tax compliance by corporations was \$159.4 billion.

Who Pays The Corporate Tax?: Corporate taxes are necessarily paid by some combination of shareholders (lower retirement savings/pensions), workers (lower salary or benefits), and consumers (higher prices). Economists have different views on how much of the corporate tax rate falls on capital, and how much falls on labor. The Congressional Budget Office (CBO) currently estimates that 75% falls on capital and [25% on labor](#).

Additional Resources:

- [Tax Foundation](#) analysis, authored by Scott Hodge, on how the U.S. corporate tax rate compares to each of the other OECD countries.
- [Tax Policy Center](#) chart on corporate income taxes as a percentage of GDP, 1946-2009.
- [“No Fooling: U.S. Now Has Highest Corporate Tax Rate in the World,”](#) Curtis Dubay of the Heritage Foundation, The Foundry.
- [CRS: The Corporate Income Tax System: Overview and Options for Reform.](#)
- [Megan McArdle](#) analysis arguing in favor of eliminating the corporate income tax.

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