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Evaluating the Harris and Trump Corporate Tax Proposals

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Juan Antonio Montecino, Ignacio González, and Mary Hansen worked on this brief.
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Key Takeaways

- Vice President Harris proposes raising the corporate tax rate to 28% from its current 21%, while former President Trump proposes lowering it to 15%.
- IMPA's evaluation shows that raising the corporate tax rate to 28% would have a modestly positive effect on GDP and other aggregate indicators, driven by an expansion in private investment.
- In contrast, IMPA's evaluation shows that lowering the corporate tax rate to 15%, as proposed by former President Trump, would have a modestly contractionary effect on GDP and other indicators.
- Raising the corporate tax rate to 28% is estimated to increase total federal tax revenue by 2.4% annually after 10 years, while lowering the tax rate to 15% would decrease revenue by around 2.1% annually.
- Since the policy proposals primarily affect corporate profits, which are disproportionately distributed to wealthier households, the proposals have sharply contrasting distributional implications. Raising the corporate tax rate to 28% would decrease income inequality, increasing the share of national income that goes to the bottom 50% of the income distribution by 4.7%. Lowering the tax rate to 15% would worsen income inequality, decreasing the income share of the bottom 50% by around 5%.

As the 2024 presidential race enters its final stretch, the two major party candidates have advanced contrasting policy proposals on the taxation of corporations. Vice President Kamala Harris has endorsed the Biden administration's proposal to raise the statutory corporate tax rate from the current 21% to 28%, while former President Donald Trump has proposed lowering it to 15%.

This brief evaluates the macroeconomic and distributional consequences of the competing corporate tax proposals using the IMPA macroeconomic model.

Macroeconomic Impacts

IMPA's assessment of the corporate tax rate proposals is reported in Table 1. The table shows the annual difference (percent change) in key macroeconomic indicators if each candidate's proposal were to be implemented compared to maintaining current policy. We calculate effects 10 years after the proposals have been implemented, as well as the long-run effects. Long-run effects capture the effects after all parts of the economy have adjusted to the new policy, representing roughly a 30-year time period.

Changing the corporate tax rate has modest macroeconomic effects. The Harris proposal to raise the corporate tax to 28% is mildly expansionary, raising GDP by 0.08% after 10 years and 0.19% in the long run. This reflects increased private investment, with a 0.45% increase in the capital stock after 10 years and a 1.12% increase in the long-run. The aggregate effects on wages and employment, though positive, are negligible.

In contrast, the Trump proposal to lower the corporate tax to 15% would modestly reduce GDP. The effect on GDP after 10 years is -0.05% compared to current policy and -0.13% in the long run. This is driven by a contraction in private investment, with a 0.30% reduction in the capital stock after 10 years and a 0.75% reduction in the long run. In the aggregate, wages and employment would fall under the Trump proposal, though these effects are close to zero, as in the Harris proposal.

While both proposals would have modest effects on GDP and other aggregate quantities, the Harris and Trump proposals have dramatically different implications for total government revenues. Raising the corporate tax rate to 28% would increase total annual government revenues by 2.4% after 10 years and around 2.8% in the long run.[1] Lowering the corporate tax rate to 15% would decrease annual revenues by 2.1% after 10 years and around 2.4% in the long-run relative to current policy.

What Drives the Macroeconomic Results?

IMPA's model reflects a growing body of academic research finding that market power is pervasive in the modern economy.[2] In the IMPA model, the corporate tax primarily affects corporate profits. An increasingly large share of these profits represents returns on market power, not a return on productive

[1] Given the relatively small macroeconomic effects associated with the Harris proposal, these revenue figures are very close to the static effect of raising the statutory rate, holding constant the tax base. For reference, the Office of Management and Budget predicts revenue effects that are modestly below the static effects.

[2] De Loecker et al. (2020).

Table 1: IMPA model-predicted effects of corporate tax proposals on key macroeconomic indicators *(annual percentage change in indicator relative to baseline)*

	GDP	Capital Stock	Employment	Wages	Revenue
(a) 10-year effects					
Harris Proposal (28%)	0.08	0.45	0.01	0.04	2.40
Trump Proposal (15%)	-0.05	-0.30	-0.01	-0.03	-2.07
(b) Long-run effects					
Harris Proposal (28%)	0.19	1.12	0.03	0.10	2.84
Trump Proposal (15%)	-0.13	-0.75	-0.02	-0.07	-2.45

Notes: 10-year effects are calculated assuming a 5% annual convergence rate, as in Barro and Furman (2018). Revenue refers to total federal government revenues.

investment.[3] To the extent that the tax code allows businesses to deduct significant portions of the cost of investment from their tax liability, the corporate tax is best understood as a tax on pure profits or economic "rents."[4] When the excess profits are large and left untaxed, large firms with significant market power are able to offer higher returns to shareholders than more economically productive firms with less market power and lower rents. This drives up the cost of capital for productive investment, decreasing investment economy wide.[5]

The Harris proposal to raise the corporate tax to 28% thus reduces the market value of corporate profits and encourages private investment by freeing up savings that would otherwise be tied up chasing market power rents.[6] In other words, since the corporate tax is primarily a tax on excess profits, not investment, raising the statutory rate helps eliminate inefficiencies associated with market power. In contrast, by lowering the corporate tax to 15%, the Trump proposal would increase the return on excess profits, accentuating market power distortions and discouraging productive private investment.

It is worth noting that IMPA's evaluation suggests that the corporate tax rate could likely go higher than the 28% rate proposed by Vice President Harris without compromising economic growth. This is evidenced by the positive effects of raising the corporate tax rate on private investment and GDP. Exactly how much higher the rate can go without hurting growth, and what the appropriate "optimal" rate might be, requires further research.

[3] Fox and Liscow (2020) provide an overview of trends pertaining to market power in the U.S. and their implications for the corporate tax code. Power and Frerick (2016) estimate that between 2003-2013 excess profits accounted for around 85 percent of total corporate profits.
[4] See Stiglitz (1973) and Stiglitz (1976) for the theoretical background.
[5] Brun et al. (2023).
[6] For an overview of these arguments, see Gonzalez et al. (2024).

Table 2: IMPA model-predicted effect of proposals on income inequality in the long run *(shares of total income)*

	Current Policy	Harris		Trump	
			% change		% change
Share of income earned by:					
Top 5%	35.08	34.56	-1.47	35.65	1.63
Top 10%	47.62	47.13	-1.04	48.17	1.16
Bottom 90%	52.38	54.61	4.26	49.89	-4.75
Bottom 50%	9.25	9.68	4.66	8.80	-4.82

Notes: Income refers to total (labor + capital) after-tax income. The income shares are calibrated to match Piketty et al. (2017).

Distributional Impacts

The candidates' proposals would have sharply contrasting effects on the distribution of income. This is, again, because the corporate tax rate mostly affects corporate profits. Corporate profits are largely distributed to wealthier households, which are the primary owners of corporate stocks.

Table 2 summarizes the estimated effects of the two proposals on the after-tax distribution of income. It shows the shares of national income that go to different parts of the income distribution under each proposal. The Harris proposal to raise the corporate tax rate would decrease income inequality, reducing the share of income earned by the top 5% of the distribution by about 1.5%, and increasing the share of income earned by the bottom 50% of the distribution by about 4.7%, compared to current policy.

The Trump proposal to decrease the corporate tax would significantly increase income inequality. The share of national income going to the top 5% would increase by around 1.6%, while the share of the bottom 50% would fall by roughly 4.8%.

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