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The Corporate Income Tax In the Post-War Era

By Adam Carasso

The corporate income tax has been in steady decline since World War II, reaching record lows during the recessions of the early 1980s and approaching those lows again in 2002. The first figure below shows corporate tax revenue as a share of federal revenue and compares it with several other revenue sources. The second figure shows the corporate tax as a percentage of Gross Domestic Product (GDP).

The secular decline in corporate income tax revenues as a share of the total is due largely to the lowering of corporate tax rates every few years since the 1970s[1] and the concurrent increase in social insurance and (to a lesser extent) individual income tax revenues. (However, individual tax rates have generally fallen since the 1970s.) Corporate tax revenues are also quite cyclical. During recessions, corporate tax revenues tend to plummet (see second figure). They rise again, albeit more gradually, during subsequent economic expansions.

Corporate taxes, both as a share of total revenue and as a percentage of GDP, hit all-time lows in the early 1980s, reflecting the recessions of 1980-81 and 1982, as well as President Ronald Reagan's corporate tax cuts. Corporate taxes rebounded somewhat after the Tax Reform Act of 1986, which eliminated a host of corporate income tax breaks while lowering rates by a less than commensurate amount. But they declined again in the early 1990s when the economy experienced a recession. Increases in corporate tax rates in 1993 and robust economic growth later raised the corporate levy above 2 percent of GDP by the mid-1990s. But by 2001-2002, corporate taxes had again dipped to less than 1.5 percent of GDP — less than 8 percent of all federal revenues and the lowest share since the 1983 post-war low of 6.3 percent. Today, an economic downturn has again reduced corporate tax revenue; some suspect that the proliferation of corporate tax shelters has also played a role in reaching current lows. Government forecasts predict an increase in the corporate tax share of federal revenues in the next few years as the economy rebounds.

The Corporate Income Tax as a Share of Federal Revenues and GDP, 1946-2002

Figure 1. Corporate Income Tax as a Share of Federal Revenues

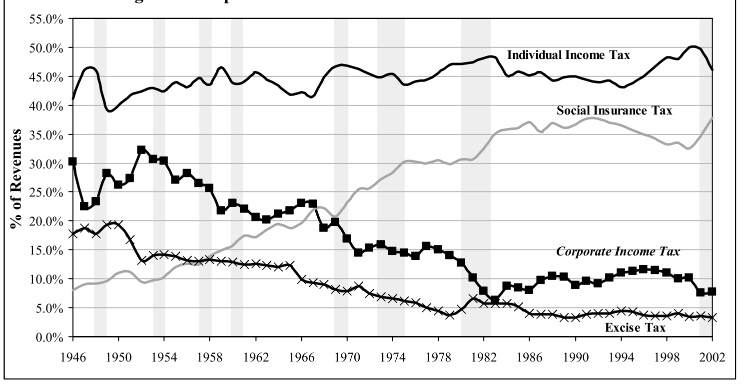
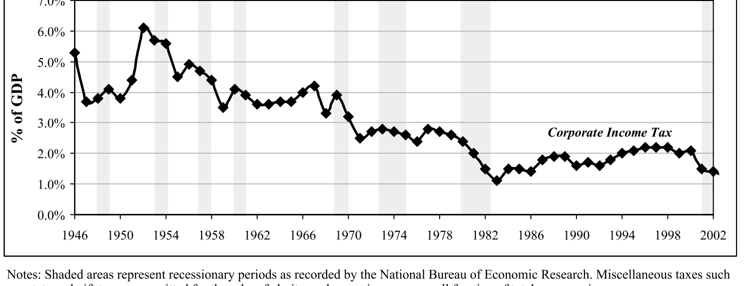


Figure 2. Corporate Income Tax as a Share of GDP



Notes: Shaded areas represent recessionary periods as recorded by the National Bureau of Economic Research. Miscellaneous taxes such as estate and gift taxes are omitted for the sake of clarity, and comprise a very small fraction of total revenues in any case.
Source: Author's calculations based on data from the Budget and the United States Government, FY 2004.

[1]The only exception to this trend was a rate hike, effective since 1993, on businesses with income exceeding $10 million. Please visit http://www.taxpolicycenter.org/TaxFacts/corporate/main.cfm to see tables showing changes in the corporate tax rate structure over time.

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