TAX FAIRNESS: MAIN STREET ISSUE, MAIN STREET VALUES

A BRIEFING FROM MAIN STREET

the MAIN STREET alliance

RECOMMENDATIONS

Steps Toward a Fair Federal Tax System for Small Businesses and Their Communities

Across the country, small business owners of all ethnic backgrounds and in all economic sectors are harmed by rising economic inequality and the unchecked growth in size and power of large corporations. The vast majority of small business owners want a fair federal tax system that sustains Main Street businesses and requires large corporations and the wealthy to make shared contributions to important public investments.

As lawmakers in Washington, D.C., discuss a series of historic infrastructure investments to support our economy and promote racial equity, they also have an opportunity to take critical steps toward fixing federal tax rules. Main Street Alliance recommends that lawmakers:

- ***Set the corporate tax rate at 28 percent,*** returning corporate tax revenue to around its 21st Century average from before the 2017 tax law.
- ***Return the top tax rate on the richest one percent of Americans to 39.6 percent,*** where it was before the 2017 tax bill.
- ***Ensure that corporations pay their taxes*** by improving bank reporting requirements, and by investing $80 billion over the next decade in the IRS' enforcement capacity and technology modernization efforts to support audits of large corporations and very wealthy individuals.
- ***Equalize tax rates between the ultra-rich and the rest of Americans*** by protecting family businesses and ending preferences for capital gains income, giveaways for rich heirs, and other loopholes for the very top.
- ***Discourage offshoring*** by raising the offshore tax rate for U.S. multinational corporations to an effective 21 percent and eliminating loopholes that incentivize and ultimately reward multinational corporations for shifting profits and jobs overseas.

In addition to these priority measures, Main Street Alliance also recommends the following improvements to our federal tax system:

- ***Prevent U.S. corporations from claiming overseas tax havens as their residence***, using foreign mergers and acquisitions to avoid taxes while maintaining management and operations in the U.S.
- ***Replace incentives for offshoring jobs and assets*** with incentives for onshoring jobs and for research and development.
- ***Require large, highly profitable corporations to pay a 15 percent minimum tax*** on the income they use to report their profits to investors ("book income").
- ***Eliminate tax preferences for fossil fuels*** and make polluting industries pay for cleaning up the harm they cause our communities.
- ***Close the carried interest loophole*** to ensure hedge fund partners pay ordinary income rates on their income.

Large Corporations and the Wealthiest Americans Have Skewed the Tax System in Their Favor

Main Street business owners know how important it is for all people and businesses to make a shared contribution toward the schools, hospitals, buses, roads, and other programs and services that support prosperous local economies. The COVID-19 pandemic, in particular, underscored the importance of investing in small businesses in communities of color and other communities ravaged by the pandemic. This change requires a fair tax system that enables circulation of money and resources, prevents large corporations and the very rich from hoarding wealth, and sustains local businesses and good jobs for people of all races and walks of life.

Our current federal tax system does the opposite. For decades, lobbyists for large corporations and the very wealthy have been securing changes in federal tax rules to favor their clients.[1] In 2017, these efforts, led by the Trump administration, reached a catastrophic low. That year, President Trump signed legislation that tilted the tax system even further to benefit a few big corporations and wealthy Americans. This legislation reduced the top corporate tax rate by 40 percent[2] and cut the average rate paid by U.S. multinational corporations by more than half.[3] In 2018, 91 Fortune 500 companies paid $0 in federal income taxes on U.S. income.[4]

A recent ProPublica report found that Jeff Bezos, founder of Amazon, paid nothing in federal income taxes in 2007 or 2011. Bezos was a multibillionaire at the time and is now estimated to be the world's richest man. Other billionaires who avoided paying federal income taxes in recent years include Elon Musk, Carl Icahn, Michael Bloomberg, and George Soros. Between 2014 and 2018, Warren Buffet's actual federal tax rate amounted to 0.1 percent.[5]

"COVID-19 has driven home how essential it is to fund our communities and provide relief to the Black-owned businesses, the Latino-owned businesses, and the mom-and-pops hit hardest by the pandemic. Now, with all of us already pitching in -- small business owners, their employees, people of all races and walks of life -- it's now time for big corporations to pitch in as well."

Natasha McKeller Crosby, Natasha Crosby Realty, Richmond, VA

"If we keep pretending that tax breaks are a substitute for true demand, my customers will have less flexibility with their spending, which will lower demand for our services. Tax breaks do not create jobs. Demand creates jobs."

Ian Levitt, Studio Americana
Minneapolis, MN

The collection of data obtained by ProPublica "demolishes the cornerstone myth of the American tax system: that everyone pays their fair share and the richest Americans pay the most," write reporters Jesse Eisinger, Jeff Ernsthausen and Paul Kiel. "The IRS records show that the wealthiest can — perfectly legally — pay income taxes that are only a tiny fraction of the hundreds of millions, if not billions, their fortunes grow each year."[6]

Meanwhile, over the past year -- as people tried to stay healthy amid a deadly pandemic, small businesses shuttered, and workers lost jobs -- billionaire wealth continued to rise exponentially:

- Between March 18, 2020 and July 9, 2021, American billionaires' collective wealth leapt by $1.76 trillion, or 60 percent.[7]

- On April 12, 2021, America's billionaires had four times more money ($4.56 trillion) than 165 million least wealthy Americans ($1.01 trillion).[8]

- As of April 12, 2021, the U.S.'s six "centi-billionaires" had more wealth than the size of the economy in 13 of the states in our country.[9]

Large corporations, too, are paying less. For example, Amazon avoided $2.3 billion in federal income tax in 2020 despite record profits that year.[10] According to new research, whereas worldwide taxation for non-financial firms was progressive in the 1970s, by the mid-1980s "the system had turned sharply regressive."[11] From 2015 to 2018, the top 10 percent (by revenues) of U.S. non-financial corporations listed on the stock market effectively paid at a rate of 28 percent on profits. The other 90 percent of such firms paid 41 percent.[12]

These figures reflect a state and federal tax system that since the mid-1980s has been "persistently biased towards large corporations."[13] This bias, in turn, feeds increasing corporate concentration. As the researchers put it, "the global tax system rewards corporations for reaching a size that is actually bad for society."[14] Moreover, rather than use the windfall to increase productivity, these mega-firms are diverting it to shareholders and compounding economic inequality.[15]

Wealth-Hoarding by Big Corporations and Billionaires Hurts Small Businesses

When a limited set of big corporations and wealthy individuals hoard money and resources -- as encouraged by our skewed taxation system -- small businesses lose. Conversely, improved public sector services and greater customer purchasing power are all investments that can be better funded if the wealthy and large corporations are paying their fair share -- benefiting small businesses.

Moreover, fair tax policy is an integral part of building an equitable economy that sustains small businesses. New research provides insight into the harm caused by rising economic inequality. As the wealthiest one percent of the country has amassed a more significant share of income in recent decades, the rich have increasingly channeled that income into savings rather than into productive investments. This savings glut, in turn, has indirectly financed household debt for the rest of the country[16] (such as auto and home equity loans taken out by the less wealthy).[17]

While this household debt represents a financial asset for the richest Americans, it is a drag on demand, which harms small businesses. "A family repaying a home equity loan, for example, may have less money to spend on new clothes, vacations, or cable television," writes Rebecca Stropoli in the *Chicago Booth Review*, describing the research. "On a macro level, the decline in spending by people weighed down by debt will trim companies' revenues and profitability."[18]

Tax policy that helps close the gap between the wealthy and the rest is an important part of addressing this problem.[19] Creating an equitable federal tax system is thus necessary for achieving a more stable, vibrant economy -- one that supports small business owners of all races and all backgrounds, in all parts of the country.[20]

"I've run a logistics company, a retail shop, and have turned a single popcorn store into a franchise in five states. I've learned a lot as a business owner over the years, but across industries, there's one thing in common: strong consumer demand drives my business decisions and my business growth."

ReShonda Young
Bank of Jabez, Popcorn Heaven (Founder)
Waterloo, IA

"I don't mind paying taxes. I don't mind paying my fair share of taxes because I know where it goes. Local schools. Local hospitals. First responders. And more. All critical components to building healthy and strong communities. But if we want to build healthy, strong, and economically thriving communities, well, we've got to address the current taxation system."

Sara McDowell, The Media Squirrel Charleston, WV

Small Business Owners Join Voters of All Walks of Life in Supporting a Fair Tax System

Voters across the United States want lawmakers to require corporations and the wealthy to pay a fair share of taxes. In a recent poll conducted by ALG Research and Hart Research, fair taxation was identified as a top priority, second only to making health care more affordable., Sixty-seven percent of respondents to this poll favor raising taxes on those earning over $400,000 a year, and 62 percent favor increasing the corporate tax rate to 28 percent.[21]

Like these voters, small business owners want a fair taxation system that supports broadly shared prosperity. A recent poll by Small Business Majority found that small business owners support a range of measures intended to begin bringing some balance to our tax system. Sixty-nine percent of respondents support a 15 percent minimum tax on profits that the largest corporations report to investors ("book income"). Additionally, 66 percent favor a minimum tax of 21 percent on corporate offshore profits, 65 percent favor a higher tax rate for households with more than $400,000 annual income, and 62 percent favor increasing the IRS's tax enforcement budget for audits of big businesses and the wealthy.[22]

An equitable federal tax system is crucial for the health of the small business economy. Policymakers now have an opportunity to write new rules for our federal taxation system, in accordance with the desire of voters across political lines, including the small business owners who contribute so much to our communities and our economy.

***Further details on these and additional recommendations can be found in letters to policymakers signed by non-governmental organizations representing a range of community, business, and faith interests and are available here:*

https://americansfortaxfairness.org/issue/58-national-groups-support-immediate-enactment-bidens-plan-close-offshore-tax-loopholes/;
https://americansfortaxfairness.org/issue/national-organizations-support-president-bidens-tax-plan/;
https://americansfortaxfairness.org/issue/90-ngos-call-congress-end-corporate-tax-preference-shifting-jobs-profits-offshore/.

Endnotes

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14 Ibid.

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16 Atif Mian, Ludwig Straub, & Amir Sufi, “The Saving Glut of the Rich,” February 2021, https://scholar.harvard.edu/files/straub/files/mss_richsavingglut.pdf; Atif Mian, Ludwig Straub, & Amir Sufi, “Indebted Demand,” January 24, 2021, https://scholar.harvard.edu/files/straub/files/mss_indebteddemand.pdf.

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