Backgrounder

Published by The Heritage Foundation

No. 2248
March 13, 2009

Time for a Real Change: Repeal the Corporate Income Tax

Karen A. Campbell, Ph.D.

Entrepreneurs are among America's greatest resources. These individuals try to change the status quo because they expect to use resources to create higher value than those resources are currently producing. This takes investments, and investments are risky. The return to these investments is the economic growth that they create, which is profit. Yet the government often taxes these profits twice, once at the business level and then again when the profits are distributed to individuals.

This double taxation not only dampens the incentive to invest, but also obscures who actually bears the burden of these taxes. Corporations are often personified and demonized, but a corporation is a legal entity, not an actual person. Because a corporation is made up of a group of individuals but is not actually an individual, corporate taxes are really taxes on the stakeholders in the corporation. In a U.S. Treasury report, William Gentry points out that empirical studies show that employees and consumers really bear the cost of corporate and investment taxes.[1]

Simulation results show that repealing the corporate income tax alone, which would cost approximately $300 billion in annual tax revenue,[2] would produce by 2012:

- 2 million more jobs than the baseline scenario;
- $280 billion more in real (inflation-adjusted) gross domestic product (GDP);
- $4,000 more in real disposable income for a family of four; and

Talking Points

- The corporate income tax rate is higher in the United States than in almost any other country.
- The government often taxes corporate profits twice, once at the business level and then again when the profits are distributed to individuals.
- In reality, corporate income taxes are assessed against the stakeholders, not the actual corporation itself, which is a legal entity, not an actual person. Real people—employees, consumers, and shareholders—pay corporate income taxes.
- Corporate taxes impose indirect costs in the form of reduced investment, lower wages, lower productivity, higher consumer prices, and less demand for workers.
- Repealing the corporate income tax would help to create wealth efficiently by increasing employment, wages, and equity values, which all help to increase household net wealth.
- Repealing the U.S. corporate income tax would attract global companies to invest and create jobs in the U.S.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Taxes/bg2248.cfm

Produced by the Center for Data Analysis

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

- $707 billion more in household net wealth—the base of economic strength and stability.

Losing Our Competitive Edge

In a global economy, investments will flow to the areas where they can earn the highest returns. Many factors—such as labor supply, resource availability, and legal structure—influence the return on investments. In particular, taxing returns on investment discourages investment, holding all else constant.

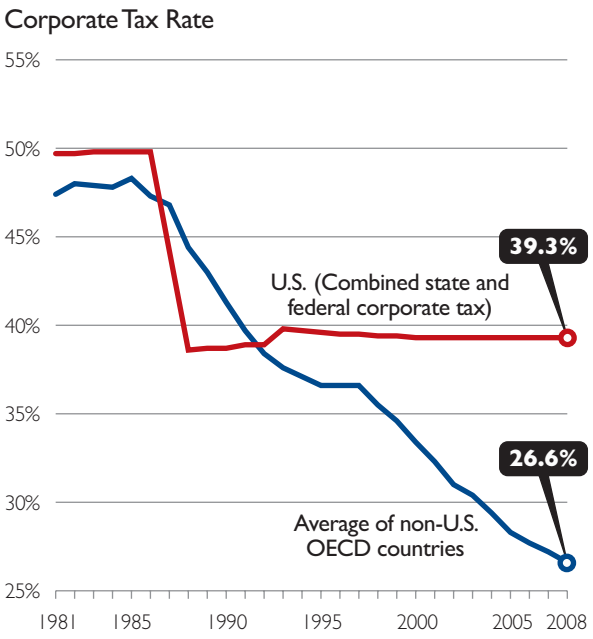
According to a recent Organisation for Economic Co-operation and Development (OECD) working paper, of the three taxes (income, corporate, and consumption), corporate taxes are most harmful to economic growth.[3] Other countries are aware of this and have steadily reduced their corporate tax rates. The U.S. has been the exception. Chart 1 shows how most other countries in the global economy have undercut U.S. competitiveness in corporate tax rates.[4]

If Congress repealed the corporate income tax, investments would flow into the country. Multinational and international companies would be encouraged to operate in the United States, bringing jobs and new technology to meet today's economic challenges. Owners of corporations—those who earn the profits—would have more resources to invest in things that create value for others.

Eliminating the corporate tax would also encourage owners to hire and train people and to invest in their workforces because a more competitive tax structure would give corporations a greater incentive to domicile in the U.S. Further, higher levels of investment would require new skills of employees. As these investments paid off, economic growth would occur.[5]

U.S. Keeps High Corporate Tax Rates

The U.S. has maintained a combined state and federal corporate tax rate of 39.3% for the past nine years, while other countries have been steadily reducing their corporate rates since 1985.



Source: Data provided by The Tax Foundation.

Chart 1 • B 2248 heritage.org

1. For example, studies show that employees pay about 60 percent of the corporate income tax in lower wages. Some of this occurs through less investment and higher business costs. Less capital and fewer technology investments cause worker productivity to be lower, and this lowers wages. Higher consumer prices caused by higher business costs lead to less demand for a business's product and therefore less demand for workers in that business. William M. Gentry, "A Review of the Evidence on the Incidence of the Corporate Income Tax," U.S. Department of the Treasury, *Office of Tax Analysis Paper* No. 101, December 2007, at *http://www.treas.gov/offices/tax-policy/library/ota101.pdf* (September 11, 2008).
2. Internal Revenue Service, *Statistics of Income: 2005 Corporation Income Tax Returns*, pp. 147–158, Table 17, at *http://www.irs.gov/pub/irs-soi/05co17ccr.xls* (January 23, 2009).
3. Åsa Johansson, Christopher Heady, Jens Arnold, Bert Brys, and Laura Vartia, "Tax and Economic Growth," Organisation for Economic Co-operation and Development, Economics Department *Working Paper* No. 620, July 11, 2008, at *http://www.olis.oecd.org/olis/2008doc.nsf/LinkTo/NT00003502/$FILE/JT03248896.PDF* (September 5, 2008).
4. Cf. Robert Carroll, "Comparing International Corporate Tax Rates: U.S. Corporate Tax Rate Increasingly out of Line by Various Measures," Tax Foundation *Fiscal Fact* No. 143, August 28, 2008, at *http://www.taxfoundation.org/publications/show/23561.html* (September 10, 2008).

Implementing the President's Stated Goals

Repealing the corporate income tax would accomplish President Barack Obama's stated goals of increasing investment and ushering in an era of responsibility and economic growth,[6] all at a lower cost than the recently passed stimulus bill.

First, the President's call for investment seems to demonstrate that he knows that investment drives economic growth.[7] Finding solutions to economic challenges requires investment, and in the United States, that is precisely what businesses do. Businesses throughout the country have an "on the ground" view of these challenges and knowledge of the available resources. Businesses have already mobilized individuals that specialize in providing these solutions to consumers, and businesses are making investments. Removing a barrier to business would be a quicker and more effective way to foster economic growth than spending billions to assess "worthy" investment projects and wasting time trying to bid resources away from private citizens.

Second, the President has said that he believes in personal responsibility.[8] Individuals who make investments are personally responsible for the outcome. In fact, their viability depends on it. On the other hand, a politician's viability is not directly tied to an investment outcome. When the government makes an investment decision, no one has ownership of any specific project. Instead, taxpayers are the owners and must spend more of their valuable time and resources monitoring their agents, the politicians. Having the government make investment decisions weakens individual responsibility. Removing a barrier to encourage more individuals to take ownership of their investments would be more stimulative than creating an additional layer of bureaucracy.

Third, the President has said that economic growth depends not only on individuals doing their part, but also on government doing its part.[9] Numerous studies, notably at the International Monetary Fund and World Bank, have found that sound fiscal policy based on low taxes, transparent collections, manageable debt-to-GDP ratios, and consistent justice systems are significant factors in economic development and growth.[10] Focusing the government on governing and providing a fiscally stable environment while allowing individual entrepreneurs to invest in valuable new ideas is the best recipe for sustained economic growth.

The bottom line is that the stimulus bill and the President's proposed federal budget borrow billions of dollars, raising the nation's debt-to-GDP ratio to precariously high levels. We have little experiential understanding of how much risk these levels of debt will inject into the U.S. economy, which was built by a nation of entrepreneurs over the past few centuries.

Simulation Shows Effectiveness of the Policy

Analysts at The Heritage Foundation simulated the effect of repealing the corporate income tax using the Global Insight (GI) short-term macroeconomic model[11] of the U.S. economy and the Tax Policy Advisers (TPA) overlapping-generations dynamic general equilibrium model.[12] The GI structural model gives quantitative results on many

5. An OECD working paper found that total factor productivity (TFP) is 0.4 percentage point higher after 10 years from only a 5 percent reduction in the corporate income tax rate. Jens Arnold and Cyrille Schwellnus, "Do Corporate Taxes Reduce Productivity and Investment at the Firm Level? Cross-Country Evidence from the Amadeus Dataset," Centre d'Etudes Prospectives et d'Informations Internationales *Working Paper* No. 2008–19, September 2008, at *http://www.cepii.fr/anglaisgraph/workpap/pdf/2008/wp2008-19.pdf* (March 4, 2009).
6. U.S. Office of Management and Budget, *A New Era of Responsibility: Renewing America's Promise* (Washington, D.C.: U.S. Government Printing Office, 2009).
7. *Ibid.*
8. *Ibid.*
9. *Ibid.*
10. For example, see Luiz R. De Mello, Jr., "Can Fiscal Decentralization Strengthen Social Capital?" *Public Finance Review,* Vol. 32, No. 1 (January 2004), pp. 4–35, and Anwar Shah and Jeffrey Huther, "Applying a Simple Measure of Good Governance to the Debate on Fiscal Decentralization," World Bank *Policy Research Working Paper* No. 1894, November 1999, at *http://papers.ssrn.com/sol3/papers.cfm?abstract_id=620584* (February 9, 2009).

detailed macroeconomic variables, while the TPA model gives direction on the underlying behavioral effects in the economy.

The GI model indicates that annual GDP growth would average 0.6 percentage point higher over the next four years. This is not as high as the average 10 percent increase in investment because the higher productivity from the investments allows individuals to enjoy an improved quality of life from the labor–leisure trade-off.[13] That is, people can sustain their standard of living with less labor time. This quality-of-life benefit is not captured in the GDP measure.

Both models show that housing investment and the housing capital stock would decrease. The distortionary effect of housing deductions in the tax code along with double taxes on profits has led to a higher-than-efficient investment in housing relative to investments in output-producing capital. The economic efficiency gained from this reallocation away from housing and toward productive new capital can be seen in higher GDP. If this reallocation had been less efficient, GDP would have fallen relative to the baseline. Eliminating the distortions of the corporate income tax allows the economy to recapture this deadweight loss, thereby increasing GDP.

The higher stock of productive capital makes labor more productive and wages increase. Wages and salaries in the private sector are 3 percent ($177 billion) higher in 2012 than the baseline. This corresponds to about $4,000 more in disposable income for a family of four in 2012. Higher disposable income allows families to spend more and to save and invest more. The net worth of households (assets minus liabilities) is $717 billion higher in 2012. This result further strengthens the economic fundamentals that lead to a higher living standard for those in the economy.

Over the next four years, net foreign investment (U.S. investment abroad minus foreign investment in the U.S.) decreases by an average nominal amount of $61 billion indicating greater foreign investment in the U.S. A meta-analysis of elasticity estimates finds that a 1 percent decrease in the average effective corporate tax rate increases foreign direct investment by 3.3 percent.[14] Consistent with the meta-analysis, the simulation using the GI structural model shows that both exports and imports

11. For information about the details and operation of the Global Insight U.S. macroeconomic model, see The Heritage Foundation, "Description of the Global Insight Short-Term US Macroeconomic Model," at *http://www.heritage.org/cda/upload/globalinsightmodel.pdf* (March 4, 2009). The methodologies, assumptions, conclusions, and opinions in this report are entirely the work of Heritage Foundation analysts. They have not been endorsed by and do not necessarily reflect the views of the owners of the GI model. The GI model is used by leading government agencies and *Fortune* 500 companies to provide indications to policymakers of the probable effects of economic events and public policy changes on hundreds of major economic indicators.
12. For a description of the TPA model, see John W. Diamond and George R. Zodrow, "Description of the Tax Policy Advisers' Model," The Heritage Foundation, March 15, 2005, at *http://www.heritage.org/cda/upload/TPA_Model_No_TDA_03_15_05.pdf* (March 4, 2009). The methodologies, assumptions, conclusions, and opinions in this paper are entirely the work of Heritage Foundation analysts. They have not been endorsed by and do not necessarily reflect the views of TPA. The TPA model is used by leading government agencies to indicate the probable effects of economic events and public policy changes.
13. Standard economic theory shows how individuals value leisure and consumption. Since individuals must use their labor to earn income for consumption, they must trade off some of their valuable leisure time. The more that individuals can consume with a given amount of labor, the better off they are. In fact, as consumption possibilities increase, empirical evidence shows that individuals will often forgo additional consumption (work less) and spend more time on their other valuable non-work priorities. This arguably improves one's quality of life because one can consume the same amount of goods and services and have more time to enjoy personal activities. In this case, there may be somewhat less measured employment, all else equal, but this is due to the decision not to supply employment rather than a lack of demand for employment. Furthermore, measured gross domestic output may be somewhat less because the national income and product accounts do not capture the value of having additional leisure time.
14. Ruud A. De Mooij and Sjef Ederveen, "Taxation and Foreign Direct Investment: A Synthesis of Empirical Research," *International Tax and Public Finance*, Vol. 10, No. 6 (November 2003), pp. 673–693. Increases in foreign direct investment would increase the capital account of the U.S. as more dollars are purchased to buy U.S. investments. A capital account surplus implies a current account deficit, which is the balance of trade.

increase over the next four years, but imports increase much more. The relative higher change in imports versus exports implies a higher trade deficit and thus a higher capital account surplus. The increased demand for U.S. dollars increases the value of the U.S. dollar further, demonstrating this policy's contribution to strengthening the fundamentals of the U.S. economy.

The increased investment both domestically and from abroad creates more jobs, while reducing the unemployment rate. By 2012, this policy produces approximately 2 million more jobs than the baseline scenario, and the unemployment rate averages 0.6 percentage point lower over the next four years. (For detailed results from the GI model, see Appendix C.)

Economic Trade-offs and Considerations

The short-term potential losers from the repeal of the corporate income tax would involve industries built on providing corporate income tax services, businesses that have made decisions based partly on a tax benefit, and politicians who use business tax credits as bargaining chips. These groups may be more vocal and cohesive than the silent majority that does not "see" all the investment that is being forgone due to this double taxation. Thus, this policy change requires effective leadership that seeks ways to compensate temporary losers as the economy transitions to greater efficiencies in which investment decisions are based on fundamental resource considerations rather than on avoiding taxes.

Some might think that eliminating the corporate income tax would encourage en-masse conversions to the C-corporation designation from other types of corporate structures. In fact, repealing the corporate income tax would just remove a layer of tax on individuals, thus leveling the tax playing field among different designations. The owners of any type of organizational form would still be taxed through dividends, capital gains, or higher salary, depending on how closely the ownership is held. Therefore, legal structures would be based on considerations of liability exposure and efficient financing needs.[15]

Another concern is that owners would have more of an incentive to earn profits than to pay higher salaries to their workers. With a corporate income tax, salaries and wages reduce profit and therefore reduce the tax liability. However, this fear is misplaced. As mentioned above, employees bear much of the tax burden through lower wages. Taxing something will reduce the supply of that item or activity. Taxing businesses reduces business operations, which means that businesses pay less in wages to employees or hire fewer employees. Conversely, eliminating the corporate income tax would encourage more businesses to form, which would increase competition for labor and apply upward pressure on wages, as the simulation results show.

A final issue is that owner-operated corporations could pay the owner the profits in the form of dividends instead of as a salary if the tax on dividends is less than the tax on wages. For example, if a business incorporated as a C corporation earns a profit of $100,000 before paying the manager's salary and the owner is also the manager and the only shareholder, then the owner could pay himself a salary of $100,000 and earn zero profit or take no salary and pay himself the profit as a $100,000 dividend. Assuming that the tax on dividends is 20 percent and the average effective tax on the $100,000 salary is 28 percent, the business owner would be wise to forego the salary and instead take a dividend of $100,000.[16] Ideally, this possibility would be addressed by bringing marginal labor and capital taxes more in line at a low rate.

15. A C corporation is a legal entity that limits the liability of the owners of the corporation. This allows many individuals to participate in the ownership of a corporation through stocks without exposing other personal assets, beyond those invested in the shares, to lawsuits or creditors. This allows corporations to raise large amounts of equity finance that can be invested to take advantage of economies of scale. Since the owners are an investing class, rather than involved in day-to-day operations, public C corporations have more stringent financial reporting requirements and therefore may not make sense for smaller entities. Privately held C corporations may make sense from a liability standpoint for smaller entities.
16. This is an over-simplified example to illustrate a potential consideration for policymakers implementing this reform. Many other factors, particularly social insurance contributions, would affect the dividend versus salary decision.

Conclusion

Reducing taxes for businesses would convert those tax savings into growth-creating savings and investment in the economy. Businesses have already mobilized individuals and other resources that are working together for productive purposes. These savings would provide the capital that entrepreneurs need to invest in their ideas for growth-creating projects.

Regrettably, because these benefits are broad and corporate tax repeal opens many direct and indirect positive feedback channels, the effects are difficult to trace directly and are dismissed as having no effect on the "average" household. It is easy to be lulled into the rhetoric that our system privatizes gains but socializes losses. In fact, the gains are also socialized, but they are too often taken for granted.

The modern conveniences of the American standard of living required business investments in the past. The jobs that people hold today were created through past successful investments by entrepreneurs. Conversely, most people do not realize that they perhaps lost job opportunities because the U.S. corporate tax is higher than the corporate tax rates of almost all other developed countries.[17]

Repealing the corporate income tax is a relatively low-cost way to implement the President's stated goals. At a time when U.S. employees are seeing jobs leave the country, a tax plan that increases the competitiveness of the U.S. business environment and encourages saving and investment by individuals would allow entrepreneurs to implement their ideas for dealing with the challenges of the 21st century. It would also encourage job-creating businesses to locate in the U.S. It is important that this country's leaders signal that the United States is still the land of opportunity.

—Karen A. Campbell, Ph.D., is Policy Analyst in Macroeconomics in the Center for Data Analysis at The Heritage Foundation.

17. Carroll, "Comparing International Corporate Tax Rates."

APPENDIX A
METHODOLOGY

Analysts at The Heritage Foundation used the Global Insight short-term macroeconomic model to simulate the effects of a repeal of the corporate income tax. The simulation was implemented as follows:

1. The statutory rate on corporate profits was reduced from 35 percent to zero percent.
2. Recent OECD research estimated that reducing the corporate tax rate by 5 percentage points would increase productivity growth by 0.4 percentage point. This implies an elasticity of total factor productivity to the corporate tax rate of 0.08.
   a. Using this elasticity, repealing the U.S. corporate income tax (a 100 percent reduction) would increase productivity growth by 8 percent per year or 2 percent per quarter.
   b. The quarterly change in the TFPTREND variable is thus increased by 2 percent starting in the first quarter of 2009.
3. Since the corporate tax really taxes individual stakeholders, employees, shareholders, and consumers, repealing the tax rate causes micro-level behavior adjustments for the individuals who bear the tax. Evidence suggests that the employees bear most of the burden.
   a. A simulation of the macroeconomy using the Tax Policy Advisers overlapping-generations model reveals the direction of the micro-level adjustments. This model predicts a decrease in labor supply as individuals, now with higher wages, choose relatively more leisure. The TPA model is a general equilibrium model; therefore, the implied labor supply is the full employment or potential of the economy, which implies a higher natural rate of unemployment.
   b. For this reason, the natural rate of unemployment variable was increased in the structural model. This variable was adjusted by the natural rate of unemployment-to-TFP-trend ratio. Applying this baseline ratio to the higher TFP trend increased the natural rate of unemployment, ranging from 0.0002 percentage point to 0.01 percentage point as increased productivity growth accelerates the wealth effect, allowing individuals to choose more leisure and less labor.[18]
4. Although increased productivity should lower prices and expected inflation, the structural model interprets price reductions as decreases in demand, which lowers investment and production. For this reason, the price and expected inflation variables as well as the consumer confidence variable are held constant. If the model had correctly incorporated the lower prices resulting from increased supply, the increased consumption would cause reported real GDP to be higher. Thus, the results in this paper can be interpreted as a conservative, lower bound on the effects of the corporate tax repeal.

18. Although the behavioral change in the model is driven by this substitution effect, the natural rate of unemployment could also increase for another reason that is not captured in current models. Repealing the corporate income tax would increase the competitiveness of U.S. businesses. This would create more job opportunities and greater investment in new technology. More job opportunities would increase frictional unemployment (individuals changing jobs more often as new opportunities become available), while greater investment would increase structural unemployment (new technology requiring new skills, displacing individuals as demand for new skills increases).

APPENDIX B
TECHNICAL DISCUSSION

Using two models helps to validate the results and provides greater insight into the likely effects, both in the long term and along the transition path. The TPA model found that non-housing investment would be higher, and the structural model quantifies this as an average of 5 percent higher. This leads to a higher level of capital stock. The TPA model predicts a higher interest rate as the unleashing of investment demand outweighs the increased supply of savings.

A check of the Global Insight structural model's quantitative results against the qualitative results predicted by the TPA model, which is based on micro-level foundations, validates the reported effects.

1. The TPA model predicts a decrease in residential investment and an increase in non-residential investment as the bias is removed from these two types of capital investment. The structural model also produced these results.
2. The TPA model predicts an increase in wages due to the increased productivity and tightening of the labor market as individuals are happy to choose more leisure. The structural model quantifies an increase in wages as well.
3. The TPA model predicts a long-term increase in the equilibrium interest rate as the increased demand for investment outweighs the increased supply of savings. The structural model predicts an initial decrease in interest rates as the cost of capital is lower due to reducing the tax liability. However, as this lower cost of capital encourages greater investment and shifts the demand for investment outward as new businesses are incorporated, interest rates in this model also increase.

This movement in the rental cost of capital demonstrates the positive feedback effects that this policy unleashes. First, the tax repeal lowers the cost of capital. This leads to increased investment, which increases labor productivity. Higher productivity increases the wages paid to labor and increases the relative cost of labor so that more capital is demanded, which bids up the rents paid to capital. This process continues as new capital again increases the productivity of workers.

Academic literature has found inconclusive results with respect to the effects of the corporate tax rate on stock market returns. David Cutler[19] finds that there are winners and losers depending on a firm's degree of leverage. Corporations that have a high level of debt earn lower before-tax profits, but their after-tax profits are similar to those earned by firms that are less leveraged because of the former's ability to reduce their tax liability by the amount of interest paid on the debt. Thus, repealing the corporate income tax would cause highly leveraged firms to have lower profits relative to their less leveraged peers. This would reduce the relative value of their stock or, conversely, increase the relative value of their peers' stock.

The structural model shows these mixed results. The S&P 500 initially increases but then decreases. However, the yield on the S&P 500 is consistently higher over the entire forecast horizon due to the higher earnings of corporations in general because of reduced tax expenses.

19. David Cutler, "Tax Reform and the Stock Market: An Asset Price Approach," *American Economic Review*, Vol. 78, No. 5 (December 1988), pp. 1107–1117.

APPENDIX C

Benefits of Repealing the Corporate Tax: Key Economic Indicators

Indicator	Fiscal Year Average 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Average 2009–2018
Gross Domestic Product (In Billions of Inflation-Adjusted Dollars (Indexed to the 2000 Price Level)												
Forecast	11,676.6	11,494.1	11,729.0	12,189.2	12,609.1	12,950.3	13,288.9	13,676.4	14,090.4	14,507.5	14,948.8	**13,148.4**
Baseline	11,676.6	11,473.7	11,604.0	11,974.1	12,329.0	12,687.2	13,052.2	13,449.2	13,858.3	14,268.2	14,705.7	**12,940.2**
Difference	0.0	20.4	125.0	215.2	280.1	263.1	236.7	227.2	232.1	239.4	243.1	**208.2**
Real GDP Growth Rate (Percent Change from Year Ago)												
Forecast	1.9	–1.6	2.0	3.9	3.4	2.7	2.6	2.9	3.0	3.0	3.0	**2.5**
Baseline	1.9	–1.7	1.1	3.2	3.0	2.9	2.9	3.0	3.0	3.0	3.1	**2.3**
Difference	0.0	0.2	0.9	0.7	0.5	–0.2	–0.3	– 0.1	0.0	0.0	0.0	**0.2**
Total Employment (In Thousands of Jobs)												
Forecast	137,754.5	135,431.4	135,419.9	137,905.7	140,648.9	142,674.8	144,129.3	145,686.7	147,334.6	148,913.9	150,455.2	**142,860.1**
Baseline	137,754.5	135,339.6	134,611.6	136,361.2	138,609.3	140,831.0	142,775.4	144,658.4	146,443.5	148,087.3	149,719.2	**141,743.7**
Difference	0.0	91.8	808.3	1,544.5	2,039.6	1,843.9	1,353.9	1,028.3	891.1	826.6	736.0	**1,116.4**
Private Employment (In Thousands of Jobs)												
Forecast	115,358.3	112,965.5	112,987.5	115,481.1	118,067.6	119,871.3	121,199.4	122,648.7	124,206.1	125,683.6	127,097.3	**120,020.8**
Baseline	115,358.3	112,874.1	112,224.7	114,040.9	116,163.9	118,145.1	119,898.6	121,622.0	123,287.4	124,813.4	126,299.6	**118,937.0**
Difference	0.0	91.4	762.8	1,440.2	1,903.7	1,726.2	1,300.8	1,026.7	918.6	870.2	797.7	**1,083.8**
Unemployment Rate (Percent of Civilian Labor Force)												
Forecast	5.3	7.6	8.3	7.6	6.9	6.5	6.3	6.0	5.6	5.2	4.9	**6.5**
Baseline	5.3	7.7	8.7	8.2	7.7	7.2	6.8	6.4	5.9	5.5	5.1	**6.9**
Difference	0.0	0.0	–0.4	–0.6	–0.8	–0.7	–0.5	–0.4	–0.3	–0.3	–0.3	**–0.4**
Disposable Personal Income (In Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level)												
Forecast	8,730.4	9,040.0	9,287.3	9,477.8	9,731.8	10,004.0	10,413.7	10,888.5	11,337.1	11,758.1	12,210.0	**10,414.8**
Baseline	8,730.4	9,010.2	9,105.4	9,210.8	9,407.4	9,587.8	9,891.6	10,266.8	10,621.7	10,963.9	11,332.7	**9,939.8**
Difference	0.0	29.8	181.9	267.0	324.4	416.3	522.1	621.7	715.4	794.2	877.3	**475.0**
Disposable Income Per Capita (In Inflation-Adjusted Dollars Indexed to the 2000 Price Level)												
Forecast	28,659.7	29,388.5	29,899.2	30,220.4	30,733.6	31,290.8	32,260.3	33,408.9	34,454.0	35,394.2	36,407.1	**32,345.7**
Baseline	28,659.7	29,291.5	29,313.5	29,369.0	29,709.2	29,988.7	30,643.0	31,501.4	32,279.8	33,003.6	33,791.2	**30,889.1**
Difference Per Person	0.0	96.9	585.7	851.5	1,024.4	1,302.1	1,617.3	1,907.5	2,174.2	2,390.6	2,615.9	**1,456.6**
Difference for Family of Four	0.0	387.7	2,342.9	3,405.9	4,097.4	5,208.3	6,469.0	7,630.2	8,696.7	9,562.4	10,463.8	**5,826.4**
Personal Consumption Expenditures (In Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level)												
Forecast	8,304.4	8,202.0	8,453.6	8,719.2	8,988.8	9,228.8	9,488.1	9,785.9	10,090.9	10,393.0	10,713.2	**9,406.3**
Baseline	8,304.4	8,191.2	8,380.3	8,567.6	8,779.7	8,987.1	9,220.0	9,495.4	9,779.6	10,066.0	10,372.1	**9,183.9**
Difference	0.0	10.8	73.3	151.6	209.2	241.7	268.1	290.5	311.2	327.0	341.1	**222.4**
Personal Savings (In Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level)												
Forecast	91.4	497.9	488.1	423.6	395.6	391.5	486.1	589.0	654.8	701.1	758.0	**538.6**
Baseline	91.4	479.8	384.8	306.5	280.4	231.1	276.6	351.9	405.2	448.9	499.7	**366.5**
Difference	0.0	18.1	103.3	117.1	115.2	160.3	209.4	237.1	249.7	252.2	258.3	**172.1**

Source: Heritage Foundation calculations using the Global Insight U.S. Macroeconomic Model.

Table C-1 • B 2248 heritage.org

Benefits of Repealing the Corporate Tax: More Economic Indicators

Indicator	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Average 2009–2018
						Fiscal Year Average						
Personal Savings Rate (Percent of Disposable Personal Income)												
Forecast	1.0	5.6	5.4	4.5	4.1	4.0	4.7	5.5	5.9	6.2	6.4	**5.2**
Baseline	1.0	5.5	4.3	3.4	3.0	2.4	2.8	3.5	3.9	4.2	4.5	**3.7**
Difference	0.0	0.2	1.1	1.2	1.1	1.5	1.9	2.1	2.1	2.0	2.0	**1.5**
Gross Private Domestic Investment (In Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level)												
Forecast	1,735.5	1,466.2	1,549.6	1,841.2	2,052.3	2,143.5	2,214.7	2,311.5	2,408.6	2,494.7	2,589.2	**2,107.2**
Baseline	1,735.5	1,450.6	1,466.7	1,720.8	1,899.3	2,044.1	2,159.4	2,265.6	2,356.9	2,428.8	2,513.0	**2,030.5**
Difference	0.0	15.6	82.9	120.4	153.0	99.4	55.3	45.9	51.7	65.8	76.2	**76.6**
Non-Residential Investment (In Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level)												
Forecast	1,424.0	1,287.5	1,270.7	1,434.3	1,584.3	1,676.4	1,744.9	1,816.6	1,892.9	1,982.5	2,074.6	**1,676.5**
Baseline	1,424.0	1,273.3	1,202.7	1,336.8	1,464.8	1,571.3	1,661.5	1,745.1	1,822.7	1,901.5	1,981.2	**1,596.1**
Difference	0.0	14.2	68.0	97.4	119.5	105.1	83.4	71.6	70.2	81.0	93.4	**80.4**
												0.1
Residential Investment (In Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level)												
Forecast	379.1	300.3	310.7	403.7	461.4	477.6	483.7	502.1	524.2	531.7	538.2	**453.4**
Baseline	379.1	300.1	306.7	384.3	433.6	473.5	498.8	518.8	536.2	540.6	547.1	**454.0**
Difference	0.0	0.2	4.0	19.4	27.8	4.1	–15.1	–16.7	–12.0	–8.9	–8.9	**-0.6**
Change in the Stock of Business Inventories (In Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level)												
Forecast	–24.5	–75.1	14.7	48.1	53.6	41.1	42.6	51.9	52.8	48.9	53.1	**33.2**
Baseline	–24.5	–77.2	–0.4	40.8	43.8	43.7	46.4	52.7	52.4	47.9	52.8	**30.3**
Difference	0.0	2.1	15.2	7.3	9.9	–2.6	–3.9	-0.8	0.4	0.9	0.3	**2.9**
Full-Employment Capital Stock (In Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level)												
Forecast	13,871.2	14,154.1	14,311.6	14,658.4	15,143.3	15,634.0	16,090.7	16,567.7	17,077.8	17,623.5	18,200.2	**15,946.1**
Baseline	13,871.2	14,140.7	14,185.7	14,382.6	14,716.0	15,115.7	15,559.8	16,037.7	16,537.4	17,059.1	17,602.6	**15,533.7**
Difference	0.0	13.4	125.9	275.9	427.3	518.4	530.9	530.0	540.4	564.4	597.6	**412.4**
Consumer Price Index (Percent Change from Year Ago)												
Forecast	4.4	–1.1	1.6	3.0	2.6	2.5	2.6	2.3	2.4	2.6	2.6	**2.1**
Baseline	4.4	–1.1	1.6	3.1	2.5	2.4	2.4	2.0	2.0	2.1	2.1	**1.9**
Difference	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.3	0.4	0.4	0.5	**0.2**
Treasury Bill, 3-Month (Annualized Percent)												
Forecast	2.2	0.3	0.8	1.4	2.6	5.0	6.2	6.4	6.2	6.1	6.2	**4.1**
Baseline	2.2	0.3	1.4	3.5	4.6	4.6	4.6	4.6	4.6	4.6	4.6	**3.7**
Difference	0.0	0.0	–0.6	–2.2	–1.9	0.4	1.7	1.8	1.6	1.5	1.6	**0.4**
Treasury Bond, 10-Year (Annualized Percent)												
Forecast	3.9	3.2	3.6	3.9	5.0	6.5	7.0	6.9	6.8	6.7	6.8	**5.6**
Baseline	3.9	3.2	3.7	4.8	5.4	5.4	5.4	5.4	5.4	5.4	5.4	**5.0**
Difference	0.0	0.1	–0.1	–0.9	–0.5	1.0	1.5	1.5	1.3	1.3	1.3	**0.7**

Source: The Heritage Foundation calculations using the Global Insight U.S. Macroeconomic Model.

The Heritage Foundation
LEADERSHIP FOR AMERICA