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Lessons From the 2017 Tax Law for the Future of U.S. Corporate Taxation

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The 2017 Tax Cuts and Jobs Act (TCJA) made the looming 2025 tax policy reckoning nearly inevitable. While the legislation made its less popular provisions — corporate tax cuts — permanent, many others, including almost all of its individual provisions, pass-through business provisions, and estate tax provisions, are scheduled to expire at the end of 2025. A permanent extension of these provisions, plus reversing business tax increases that were included in TCJA, would cost approximately $5 trillion over ten years, or $6 trillion including interest costs on the new debt.[2] Rather than incurring such enormous costs to extend all of these tax cuts, policymakers should use the opportunity offered by the 2025 TCJA expirations to build a corporate tax system that both encourages competition and better meets the nation's needs.

Policymakers on both sides of the aisle have expressed enthusiasm for extending at least parts of TCJA. President Biden, for example, has proposed extending provisions affecting households with earnings below $400,000, which would be paid for by raising revenue through progressive tax increases. The Republican House Budget Committee's budget resolution, on the other hand, proposes a permanent extension of all the expiring provisions.[3] Candidate Trump has also suggested

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[2] Committee for a Responsible Federal Budget, "TCJA Extension Could Add $4 to $5 Trillion to Deficits," June 13, 2024, https://www.crfb.org/blogs/tcja-extension-could-add-4-5-trillion-deficits. TCJA has made some corporate tax provisions less generous over time. These include provisions affecting limits on interest deductibility, investment expensing, research and development expensing/amortization, and tax rates affecting low-taxed foreign income of U.S. multinational corporations (GILTI) and certain export income (FDII). An attempt to undo some of these business tax raisers (alongside an expansion of the Child Tax Credit) failed to advance in the Senate in August 2024, after passing the House in January 2024.

[3] The House Budget Committee does not include the cost of extending the tax cuts in its budget resolution numbers, instead relying on language in the resolution allowing for consideration of these and other tax cuts regardless of cost.

The individual rate cuts alone cost more than $3 trillion, yet generate only very modest changes in most households' after-tax pay. For an example of a TCJA extension package that does not lose revenue, see Kimberly A. Clausing and Natasha Sarin, "The coming fiscal cliff: A blueprint for tax reform in 2025," the Hamilton Project, September 2023, https://www.hamiltonproject.org/wp-content/uploads/2023/09/20230927_THP_SarinClausing_FullPaper_Tax.pdf.

new tax cuts, including cutting the corporate rate to 15 percent from the current 21 percent,[4] and Project 2025 suggests a corporate rate of 18 percent, alongside a more generous treatment of the foreign income of U.S. multinational companies.[5]

Continuing these large tax cuts poses risks to the economy and fiscal policy. Deficits and debt are high and rising. The Congressional Budget Office's (CBO) latest projections (from June 2024) show deficits averaging 6.3 percent of GDP for the coming decade, with debt-to-GDP ratios climbing from 99 percent in 2024 to 122 percent in 2034. These projections assume current law, which means they assume that the TCJA provisions will expire as scheduled. In today's environment of higher interest rates, net interest expenditures on servicing the debt (currently about 3 percent of GDP) are approximately the same size as total defense spending, and far higher than in recent years when interest rates and debt levels were lower, putting additional pressure on the budget.

Corporate and international tax provisions should be a key part of shoring up the U.S. fiscal system to address the nation's fiscal priorities, including addressing debt sustainability, financing Social Security and Medicare, and a host of other investment needs. Raising the corporate tax rate, alongside international tax reforms, would raise significant revenue in an efficient and progressive manner.

The Case for a Higher Corporate Tax Rate

The case for a higher corporate tax rate is simple. The corporate tax is capable of raising large amounts of revenue in an efficient and progressive manner. Moreover, a higher corporate tax rate, together with international tax reforms, can be part of a tax code that encourages robust competition, by reducing the current economic tilt that favors large companies with market power relative to smaller firms. Early evidence from the TCJA's corporate tax cuts supports this assessment.

Further, the U.S. government does not tax the majority of individuals' capital income from corporate stock ownership,[6] which is highly concentrated at the top of the income distribution,[7] so

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[4] Andrew Duehren and Michael Gold, "To Win Votes, Trump Floats an Array of Expensive Tax Cuts," New York Times, September 18, 2024, https://www.nytimes.com/2024/09/18/us/politics/trump-tax-cuts.html.

[5] Center on Budget and Policy Priorities, "House Republican Agendas and Project 2025 Would Increase Poverty and Hardship, Drive Up the Uninsured Rate, and Disinvest from People, Communities, and the Economy," September 3, 2024, https://www.cbpp.org/research/federal-budget/house-republican-agendas-and-project-2025-would-increase-poverty-and#doubling-down-on-skewed-expensive-cbpp-anchor.

[6] In general, capital income refers to income (such as capital gains, dividends, interest, and rental income) that flows from ownership of assets. Capital income that flows from the ownership of corporate stock can include, for example, capital gains (realized or unrealized) or dividends. More than 70 percent of U.S. corporate stock is held by untaxable entities or in untaxed accounts, and the associated income generally goes untaxed by the U.S. government. See Steven M. Rosenthal, "Who Owns U.S. Stock? Foreigners and Rich Americans," Tax Policy Center, October 20, 2020, https://www.taxpolicycenter.org/taxvox/who-owns-us-stock-foreigners-and-rich-americans. Further, even for taxable capital income accounts, relying on realization (typically when an asset is sold) to tax capital gains limits the reach of regular capital income taxation (and allows the owner to avoid being taxed entirely if they hold the asset until death or charitable donation).

[7] Board of Governors of the Federal Reserve, "Survey of Consumer Finances, 1989-2022," November 2, 2023, https://www.federalreserve.gov/econres/scf/dataviz/scf/table/#series:Stock_Holdings;demographic:inccat;population:all;units:mean. People with incomes in the top 1 percent of the U.S. income distribution receive 12 percent of all labor

the corporate tax is often the only way the federal government can reach much of this capital income at all.

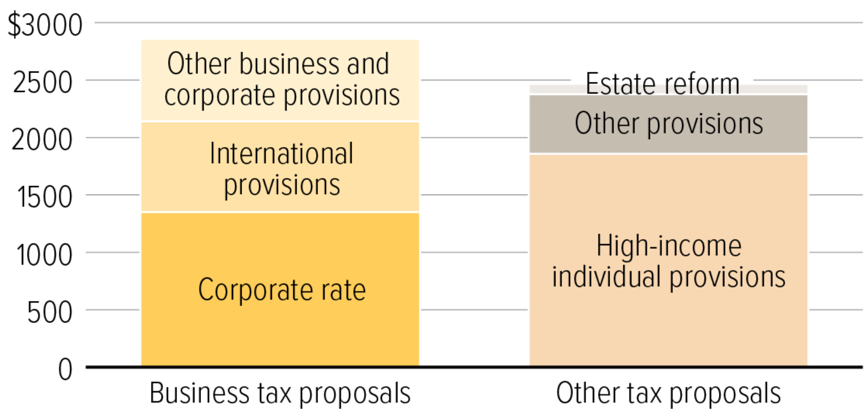
First, consider revenue. Evidence indicates that the TCJA's corporate tax cuts, including a steep cut in the statutory corporate tax rate from 35 to 21 percent, caused large reductions in U.S. corporate tax revenues; corporate tax revenues fell from around 1.8 percent of GDP prior to the TCJA to around 1 percent after TCJA.[8]

Likewise, corporate tax increases would generate significant revenue. Corporate and business tax provisions account for the majority of the proposed revenue raisers in the Biden Administration's 2025 budget (see Figure 1). An increase in the corporate rate to 28 percent, the largest single revenue raiser proposed, would raise an estimated $1.3 trillion over ten years, according to Treasury Department estimates. International provisions that would shore up the corporate tax base would also provide large streams of revenue.

FIGURE 1

Business Tax Proposals Raise Most Revenue in the Biden Administration 2025 Budget

Figures in billions of dollars over a ten-year budget window



Source: US Treasury, 2024. Ten-year budget window is 2025-2034.

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In addition to raising revenue, the corporate tax is typically an efficient source of government finance, since much of the corporate tax base is composed of "rents" (or above-normal profits representing returns on an investment beyond the level required to make the investment), rather than normal returns to capital. Rents result partly from declining competition and increasing concentration among firms, which give businesses "market power" that allows them to raise their

income and 52 percent of positive capital income. Treasury, "Distribution Table: 2023 002, Distribution Table by Source," March 14, 2022, https://home.treasury.gov/system/files/131/Distribution-of-Income-by-Source-2023.pdf.

[8] Owen Zidar and Eric Zwick, "The Next Business Tax Regime: What Comes After the TCJA?" Aspen Economic Strategy Group, in Building a More Resilient US Economy*,* November 8, 2023, https://www.economicstrategygroup.org/publication/the-next-business-tax-regime-what-comes-after-the-tcja/.

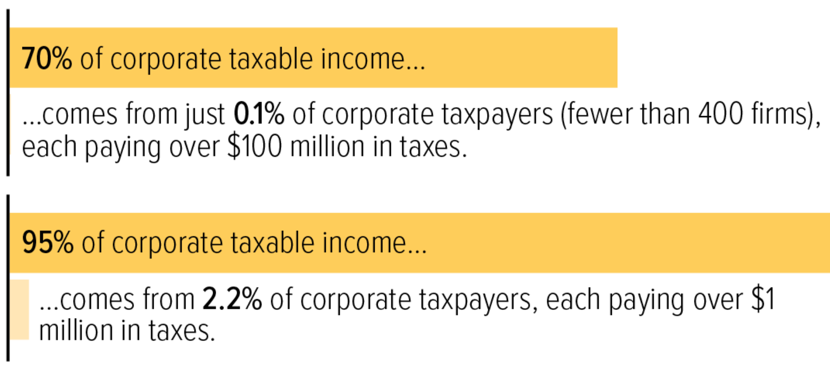
prices well above their costs. For example, many profits of pharmaceutical and technology companies have a large rent component, allowing companies to charge prices far exceeding their cost. Taxing rents generally does not deter the firm's investments since taxes on rents do not alter the profit-maximizing choice of investment.

The share of corporate income that is subject to tax — known as the corporate tax base — is very concentrated; the lion's share of corporate tax revenue comes from a very small handful of very large corporations. According to IRS data, only about 2 percent of corporations with positive tax liability account for 95 percent of corporate taxable income, and an astonishingly small sliver of corporations (about one-tenth of 1 percent of those paying, fewer than 400 firms) account for 70 percent of corporate taxable income. (See Figure 2.)

FIGURE 2

Corporate Tax Base Is Highly Concentrated

A few large corporations account for most corporate income and corporate income tax



Source: US Internal Revenue Service Statistics of Income, 2023. Data show the share of corporations with positive tax liability and corporate taxable income in 2020, and are the most recent published data. Data for 2019 show a very similar pattern.

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While the correlation between size and market power is imperfect, the evidence suggests that rents are a large part of the corporate tax base, and rents are also efficient to tax.[9] For instance, tax scholar Edward Fox estimated that as much as 96 percent of the corporate tax fell on rents from 1995 to 2013.[10] This could be one reason why there is little relationship between the corporate tax rate and subsequent economic growth; that is, if corporate taxes are primarily taxing rents, increasing

[9] Edward Fox, "Does Capital Bear the U.S. Corporate Tax After All? New Evidence from Corporate Tax Returns," Journal of Empirical Legal Studies, February 17, 2020, https://onlinelibrary.wiley.com/doi/abs/10.1111/jels.12243; Laura Power and Austin Frerick, "Have Excess Returns to Corporations Been Increasing Over Time?" National Tax Journal, December 2016, https://www.journals.uchicago.edu/doi/abs/10.17310/ntj.2016.4.05; Sebastian Beer *et al.*, "Exploring Residual Profit Allocation," American Economic Journal: Economic Policy, February 2023, https://www.aeaweb.org/articles?id=10.1257/pol.20200212.

[10] Fox, *op. cit.*

corporate taxes does not discourage economic activity. A recent meta-analysis found no statistically significant link between corporate tax rates and growth.[11]

In recent work, I described how market power considerations may answer a question that arose in the research in the initial years after TCJA.[12] In particular, aggregate trends in wages and investment did not change due to TCJA despite the very large corporate tax cut, and many researchers found few economic effects from TCJA.[13] At the same time, some researchers did find some positive investment effects from TCJA, but the gains for workers were small or non-existent.[14]

One possible reconciliation of these findings could come from the fact that a small number of very large firms have the largest influence on both the corporate tax base and the economy. Thus, while a typical firm captured in a detailed study of individual firm behavior may indeed respond to the investment incentives created by TCJA, economy-wide investment, wage, and growth trends are disproportionately influenced by a small number of very large firms that are difficult to analyze and may not be fully reflected in the results.[15]

The corporate tax is also progressive. Both conventional scoring authorities and outside experts (e.g., the Joint Committee on Taxation, CBO, Treasury, and the nonpartisan Tax Policy Center) agree that the corporate tax is predominately paid by shareholders and the owners of capital income, who have disproportionately high incomes, whereas other types of taxes (such as payroll or income taxes on earned income) fall much more heavily on households that primarily receive wages or salaries and tend to have lower incomes.[16] Early evidence from the TCJA confirms this pattern.

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[11] Sebastian Gechert and Philipp Heimberger, "Do corporate tax cuts boost economic growth?" European Economic Review, August 2022, https://www.sciencedirect.com/science/article/pii/S0014292122000885.

[12] Kimberly A. Clausing, "US International Corporate Taxation after the Tax Cuts and Jobs Act," Journal of Economic Perspectives, Summer 2024, https://www.aeaweb.org/articles?id=10.1257/jep.38.3.89.

[13] Emanuel Kopp *et al*., "U.S. Investment Since the Tax Cuts and Jobs Act," International Monetary Fund, May 31, 2019, https://www.imf.org/en/Publications/WP/Issues/2019/05/31/U-S-46942; Matheson *et al*., "The Impact of the Tax Cuts and Jobs Act on Foreign Investment in the United States," IMF, May 6, 2022, https://www.imf.org/en/Publications/WP/Issues/2022/05/06/The-Impact-of-the-Tax-Cuts-and-Jobs-Act-on-Foreign-Investment-in-the-United-States-517616; William G. Gale and Claire Haldeman, "The Tax Cuts and Jobs Act: Searching for Supply-Side Effects," National Tax Journal, December 2021, https://www.journals.uchicago.edu/doi/10.1086/717132; Jason Furman, "Prepared Testimony for the Hearing 'The Disappearing Corporate Income Tax,'" February 11, 2020, https://www.congress.gov/116/meeting/house/110494/witnesses/HHRG-116-WM00-Wstate-FurmanJ-20200211.pdf.

[14] Patrick J. Kennedy *et al*., "The Efficiency-Equity Tradeoff of the Corporate Income Tax: Evidence from the Tax Cuts and Jobs Act," March 21, 2024, https://patrick-kennedy.github.io/files/TCJA_KDLM_2024.pdf; Gabriel Chodorow-Reich *et al*., "Tax Policy and Investment in a Global Economy," July 5, 2024, https://scholar.harvard.edu/sites/scholar.harvard.edu/files/chodorow-reich/files/tcja.pdf.

[15] In Kennedy *et al*., *op. cit*., as the authors note, it is difficult to analyze big multinational companies, since their method requires a focus on companies for whom there are comparable S corporations. While Chodorow-Reich *et al*., *op. cit.,* can do a much better job considering multinational companies with their methods, the complexity of the tax treatment affecting the largest companies, together with sample size issues, may generate difficulty fully addressing the behavior of the largest multinational companies. Regression results report the responsiveness of a typical firm, capturing important behavioral characteristics of such firms, but the concentration of the corporate tax base means that a tiny fraction of firms have outsized influence on the economy.

[16] For JCT modeling assumptions on the corporate tax incidence, see JCT, "Modeling the Distribution of Taxes on Business Income," October 16, 2013, https://www.jct.gov/publications/2013/jcx-14-13/. For CBO, see CBO, "The

While the law cut corporate taxes dramatically, people at the top of the income distribution realized the vast majority of the resulting gain. For example, Kennedy *et al.* found that 80 percent of the benefit of the TCJA's corporate tax cuts accrued to people in the top 10 percent of the income distribution.[17]

Taken together, the evidence suggests that increasing the corporate rate will raise significant revenues and have little impact on overall investment, while the costs will be borne predominantly by shareholders of very large corporations (where corporate profits are concentrated) with incomes at the top end of the distribution. And by reducing rents, corporate taxes can help promote competition and limit rent-seeking behavior that makes the economy less efficient.[18] Given the nation's need for more revenues, raising the corporate rate is sound policy.

The Role of International Taxation

In a purely domestic economy (i.e., one where companies are unable to relocate activity or profits), the corporate tax rate could be chosen based solely on assessing the trade-offs among raising revenues, who pays the cost of that revenue raising, and any potential impact on investment. However, one difficulty inherent in corporate taxation is that many of the largest companies that are most important in terms of the corporate tax base are multinational, so it is essential to resolve issues surrounding the mobility of multinational income and activity.

A key dilemma for policymakers has been resolving the seeming tension between protecting the U.S. corporate tax base (that is, ensuring global corporate profits are adequately taxed) and making the U.S. a "competitive" location for economic activity. But competitiveness is in the eye of the beholder. The business community has typically used the term to mean a comparison of the tax rates that U.S. multinational companies face relative to the rates their foreign competitors face. (U.S. multinationals claim they need lower rates to be more competitive.) For the national interest, though, the competitiveness of the U.S. location itself is likely more important. Thus, one might focus on measures that induce economic activity in the United States, which include factors such as high-quality infrastructure, a highly educated workforce, and a strong consumer base. In that regard, policymakers should be wary of tax systems that favor foreign activity relative to U.S. activity, as the U.S. tax system presently does (discussed in greater detail below).

TCJA made sweeping changes to U.S. international tax law, but it did not resolve that key dilemma. Trade-offs in the law's design mean that it did not settle either concerns about corporate tax base erosion or worries about the business community's competitiveness.

Distribution of Household Income and Federal Taxes, 2008 and 2009," July 2012, https://www.cbo.gov/sites/default/files/cbofiles/attachments/43373-06-11-HouseholdIncomeandFedTaxes.pdf. For Treasury, see Julie-Anne Cronin *et al.*, "Distributing the Corporate Income Tax: Revised U.S. Treasury Methodology," Treasury Office of Tax Analysis, https://home.treasury.gov/system/files/131/TP-5.pdf. For the Tax Policy Center, see James R. Nunns, "How TPC Distributes the Corporate Income Tax," Tax Policy Center, September 12, 2012, https://www.taxpolicycenter.org/publications/how-tpc-distributes-corporate-income-tax.

[17] Kennedy *et al.*, *op. cit.*

[18] In recent work, I make this case far more extensively. Kimberly A. Clausing, "Capital Taxation and Market Power," Tax Law Review, Vol. 77, Spring 2024. See also Edward G. Fox and Zachary D. Liscow, "A Case for Higher Corporate Tax Rates," Tax Notes, Vol. 167, No. 12, June 22, 2020, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3657324.

However, TCJA did lay important groundwork for future international tax reform efforts that *would* help resolve that dilemma. After TCJA was enacted, multilateral efforts to enact coordinated corporate minimum taxes (known as the "Pillar 2" international tax agreement) succeeded in raising the global floor for corporate tax rates on many corporate profits to 15 percent, thereby reducing pressure for countries to reduce their corporate tax rates. This presents an opportunity for the United States to strengthen its international tax rules, allowing it to protect the corporate tax base without triggering substantial concerns about U.S. multinational competitiveness.

Consider first the early experience from TCJA. Alongside the large corporate rate cut (from 35 to 21 percent), TCJA moved the U.S. system from a purportedly worldwide system to a purportedly territorial system. Under prior law, U.S. multinational firms' foreign income was taxed in full upon repatriation to the United States (e.g., when a foreign subsidiary distributed profits to its U.S. owners), but the corporation paid no tax until then. Under the TCJA changes, foreign income is generally not subject to the U.S. corporate tax. But when foreign income exceeds a 10 percent return on tangible assets (factories and equipment) in foreign countries and is either untaxed or taxed at low rates abroad, it faces a tax on global intangible low-taxed income (GILTI).[19] GILTI effectively creates a minimum tax on foreign income that is applied as it is earned (not when it is repatriated).

Thus, whether TCJA reforms raised or lowered U.S. taxation of the foreign income of U.S. multinational firms depends on individual firm circumstances. While GILTI generated substantial U.S. revenues, the effect on the tax burden of companies was mixed. For some U.S. multinationals, taxes on foreign income likely increased, and for others, such taxes decreased.

GILTI provided an important step forward, representing the first such tax that any country has tried to implement, but its design was ultimately flawed. To determine whether its foreign income is "low taxed" for purposes of GILTI, a U.S. multinational corporation calculates its global *average* tax rate – that is, both high- and low-taxed streams of foreign income are included in GILTI calculations.

Global averaging, however, is problematic in multiple ways. First, very low-tax countries abroad have little incentive to raise their tax rates in response to the GILTI minimum tax, since their rock-bottom rates, when combined with higher-taxed foreign income, will still generate benefits for U.S. multinationals. In contrast, under a country-by-country minimum tax (i.e., one that requires corporations to calculate the minimum tax in each country in which they operate separately, rather than averaging them together), jurisdictions abroad would have less reason to maintain tax rates below the minimum rate. Second, since high-tax foreign income generates credits that offset tax due on low-tax foreign income, even high-tax foreign income is tax preferred compared to U.S. income, which has no such advantage. For this reason, GILTI's global averaging feature often makes the U.S. the *least* desirable place to book income for many multinational companies.

TCJA also included other international tax provisions, including a lower tax rate for certain income from exports, the foreign-derived intangible income (FDII) deduction. Both GILTI and FDII have the perverse effect of encouraging multinationals to locate tangible assets offshore. Since the GILTI tax only applies to income exceeding a 10 percent return on foreign tangible assets, holding other factors constant, GILTI lowers taxes when *foreign* assets are higher. Further, though

[19] The GILTI tax rate is currently 10.5 percent and is scheduled to increase to 13.125 percent in 2026.

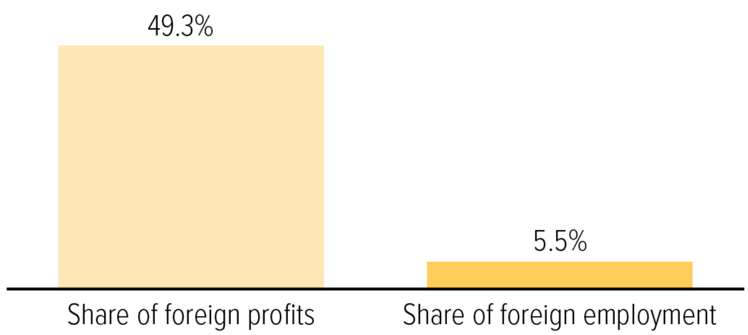
FDII was ostensibly enacted to encourage innovation (and its associated profits) in the United States, it is poorly targeted and includes a similar design flaw to GILTI. That is, the FDII deduction only applies on income above a 10 percent return on domestic tangible assets, so holding other factors constant, the FDII deduction will be higher as *domestic* assets are smaller (providing a disincentive for additional domestic investment).[20]

So far, the early research on TCJA suggests three key lessons from TCJA's international provisions. First, while TCJA's international provisions were meant to be revenue-neutral, indications are that they have raised less revenue than expected (as a whole), with some provisions outperforming expectations, and others (in particular FDII) more costly than originally expected in JCT estimates.[21]

FIGURE 3

After the 2017 Tax Law, U.S. Multinationals Continue Reporting Significant Profits in Low-Tax Countries

Share of U.S. multinational corporation income and employment in low-tax jurisdictions, 2020



Note: Data are from the Bureau of Economic Analysis (profit type return series); they show the seven traditional low-tax jurisdictions that have hosted a lot of income in the past: Bermuda, the UK Caribbean islands (Caymans), Ireland, Luxembourg, Netherlands, Singapore, and Switzerland. Other BEA series, and the IRS series that uses country-by-country reporting would show even larger discrepancies between profit and employment shares. These data series have important tradeoffs that are discussed further in Clausing (2024).

Source: Bureau of Economic Analysis (BEA) and Internal Revenue Service (IRS) Statistics of Income

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Second, offshoring and profit shifting remain a serious problem after TCJA. Figure 3 shows that, as of 2020, U.S. multinationals continued to report substantial income in the lowest-tax locations, much as they had in prior years.[22]

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[20] For more detail on TCJA's international provisions, see Clausing, *op. cit.*

[21] Penn Wharton Budget Model, "Did Tax Cuts and Jobs Act of 2017 Increase Revenue on US Corporations' Foreign Income?" October 12, 2023, https://budgetmodel.wharton.upenn.edu/issues/2023/10/12/did-tcja-increase-revenue-on-us-corporation-foreign-income; Brad Setser, "Cross-Border Rx: Pharmaceutical Manufacturers and U.S. International Tax Policy," Council on Foreign Relations, May 11, 2023, https://www.finance.senate.gov/imo/media/doc/Setser%20Senate%20Finance%20Testimony.pdf.

[22] Javier Garcia-Bernardo, Petr Jansky, and Gabriel Zucman, "Did the Tax Cuts and Jobs Act Reduce Profit Shifting by US Multinational Companies?" August 28, 2023, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4554525.

OECD analysis shows similar distortions for multinational income worldwide. For example, a group of about ten low-tax jurisdictions are the destination for about 90 percent of shifted profit, and such jurisdictions report levels of profit that are vastly disproportionate to employment in those jurisdictions.[23]

Third, the record on how TCJA affected multinational competitiveness is unclear, as might be expected, given the ambiguous nature of the reforms.[24] That said, it wasn't clear that competitiveness was a problem that merited fixing, as U.S. multinational companies are dominant by many metrics, and their effective tax rates prior to TCJA were similar to those of their non-U.S. competitors.[25] Further, as noted above, the competitiveness of the U.S. *location* is likely the more important factor.

Simple reforms could vastly improve U.S. international taxation, however. These include ending the 10 percent tax-free return on tangible assets, increasing the tax rate on GILTI, and moving to a country-by-country minimum tax (instead of global averaging).[26] These reforms would substantially reduce the offshoring and profit shifting incentives in current law, while raising hundreds of billions of dollars in revenue.

Further, the case for these reforms is even stronger in the wake of the "Pillar 2" international tax agreement, under which governments throughout the world will raise the minimum tax on most multinational income from zero to 15 percent.[27] The agreement represents a rare solution to a global collective action problem.[28] Prior to the agreement, many countries struggled to tax mobile

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[23] OECD, "The Global Minimum Tax and the taxation of MNE profit," January 9, 2024, figures 4 and 7, https://www.oecd.org/en/publications/the-global-minimum-tax-and-the-taxation-of-mne-profit_9a815d6b-en.html.

[24] Dhammika Dharmapala, "The consequences of the 2017 US international tax reform: a survey of the evidence," International Tax and Public Finance, December 1, 2023, https://link.springer.com/article/10.1007/s10797-023-09823-8.

[25] Clausing, *op. cit.*

[26] See Department of the Treasury, "General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals," March 11, 2024, https://home.treasury.gov/system/files/131/General-Explanations-FY2025.pdf; Clausing and Sarin, *op. cit.*

[27] Pillar 2 includes a country-by-country minimum tax of 15 percent on multinational company income, regardless of where it is reported. In December 2022, the European Union unanimously agreed to implement this minimum tax; other countries, including South Korea, Japan, Australia, Canada, and the United Kingdom, have also recently moved toward implementation. Based on current implementation plans, OECD researchers have concluded that 90 percent of the multinational companies that are in the scope of the agreement will be covered by its provisions; see Felix Hugger *et al.*, "The Global Minimum Tax and the taxation of MNE profit," OECD working paper, https://doi.org/10.1787/9a815d6b-en. The Pillar 2 agreement is complex, like many aspects of international taxation; readers can find more detail on the agreement's provisions in Kimberly Clausing, "The international tax agreement of 2021: Why it's needed, what it does, and what comes next?" Peterson Institute for International Economics, April 2023, https://www.piie.com/publications/policy-briefs/international-tax-agreement-2021-why-its-needed-what-it-does-and-what; and in OECD, "Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy," October 8, 2021, https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf; alongside updates on the OECD base erosion and profit shifting (BEPS) website at https://www.oecd.org/tax/beps/.

[28] While rearguard arguments are still being made against minimum taxation and the agreement, such arguments are often disingenuous. See Natasha Sarin and Kimberly Clausing, "Debunking 5 Republican arguments against the global

multinational income, since their efforts could always be undermined by other countries willing to provide a more favorable rate or regime. The design of the Pillar 2 agreement includes a mechanism — the "undertaxed profits rule" — that ensures that foreign profits that are taxed below the minimum tax rate are taxed by countries adopting Pillar 2. This rule protects countries that adopt Pillar 2 from the profit shifting of companies based in countries that have not adopted Pillar 2, thereby addressing the "prisoners' dilemma" problem that so often plagues global collective action.

As Pillar 2 is implemented, and global corporate tax rates rise, the business community's arguments that competitiveness concerns require low U.S. corporate tax rates will become far less persuasive. In fact, without more adequate U.S. taxation of U.S. multinationals' foreign profits, U.S. companies could end up paying higher taxes to *foreign* governments under the Pillar 2 rules — revenues that the U.S. government would have collected if it had imposed a minimum tax.

An Agenda for the Future

According to a recent tabulation, the United States is in the bottom 10 percent of more than 110 jurisdictions in terms of corporate tax revenue relative to GDP, despite the United States having a disproportionate share of the world's most profitable corporations.[29] Given pressing fiscal needs, the coming opening for tax reform, and sound evidence that profitable corporations can pay more in taxes without large impacts on the economy, corporate and international revenue raisers should be an important part of the 2025 tax policy debate. Raising the corporate rate, alongside accompanying international tax reforms, can raise revenue in an economically efficient and progressive manner.

The concentration of the corporate tax base and the dominant role of large multinational companies mean that corporate and international tax reforms can make our economy more competitive and efficient. By reducing the current tilt in the competitive playing field that favors large companies with market power relative to smaller firms, and foreign operations relative to domestic operations, corporate tax reform can be part of making a tax code that encourages robust competition.

One suite of reforms that would meet the moment include raising the corporate rate to 28 percent, reforming foreign income taxation (through the changes to GILTI outlined above) to reduce offshoring and profit shifting, and replacing FDII with policies that more directly provide robust research and development incentives.

The 2025 TCJA expirations provide an important opportunity to build a corporate tax system that better fits the needs of the United States. And, while the international Pillar 2 agreement can continue to be strengthened, it provides a useful starting point that makes U.S. international tax reform less vexing than in the past.

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minimum tax," Washington Post, August 7, 2023, https://www.washingtonpost.com/opinions/2023/08/07/global-minimum-tax-republican-arguments/.

[29] OECD, "Corporate Tax Statistics 2024," July 11, 2024, https://www.oecd.org/en/publications/corporate-tax-statistics-2024_9c27d6e8-en.html. See data from recent Forbes Global 2000 lists of top global companies.