

Corporations Don't Pay Taxes!

Outrageous Scandal Revealed

By Tod Ginnis

It seems unthinkable. With the U.S. government now running trillion dollar deficits, I want to reveal a dirty little secret: corporations don't pay taxes!

Who is responsible for this outrage? Is it greedy executives skirting the law? Or did corrupt politicians create tax loopholes in exchange for campaign cash?

It's nothing so nefarious. I'm simply pointing out the reality that only people pay taxes. Corporations are merely legal structures that collect taxes from customers, employees, and shareholders, then pass them on to the government. Who actually pays the taxes varies greatly from company to company and industry to industry. But one thing is for sure—it is always human beings, not faceless companies, picking up the tab.

Passing the Costs on to You

Some people understand this intuitively through the axiom that companies pass higher costs onto consumers. But this isn't entirely true. Companies pass costs (including taxes) onto consumers if they can. Ideally, a company can raise prices enough to compensate for the tax hikes. If so, then customers absorb all of the impact.

If companies can't raise prices without losing business, then employees may be next to feel the pinch. This could take the form of layoffs, reduced compensation or benefits, lack of raises or bonuses, fewer new hires...it all depends on the specific situation. If the industry uses highly skilled labor that would be difficult to replace, then making up the tax hikes from employees may not be practical.

In this case, the business owners (shareholders) must absorb the impact of the tax hike via reduced earnings, or even losses. If the owners believe their company will not produce adequate profits in the new operating environment, they will no longer fund it. Often it is not management's decision, as money-losing companies are forced into bankruptcy after they burn through their assets. When a company shuts down, all three groups (consumers, employees, and owners) suffer. Even in profitable companies, it is usually some combination of the three who actually pay the tax.

Let's look at an example. Say the US government hit the auto companies with a new \$1000 Global Warming Tax on every car sold in the country. What would happen? The knee jerk response from Detroit and the foreign firms would be to raise the price of their vehicles by \$1000. But would all car purchasers be willing and able to cough up the extra grand? Not likely. No doubt some would postpone their purchases, or switch to less expensive or used cars. Auto executives would realize that consumers would not pay the entire tax.

Next, the firms would try to squeeze savings from their labor force. US automakers have little flexibility for pay cuts due to union contracts. And both US and foreign manufacturers may have to cut production if they fire too many workers. Assuming they expect to produce at a profit in the future, this would be counterproductive.

By default, it would probably be the owners of the auto companies who bore the brunt of this new tax through lower earnings or increased losses. And in the current environment, it's possible that such a tax would push one or more of the US firms into bankruptcy.

Who is Really Footing the Bill?

Let's be clear who we're talking about when we say "owners" or "shareholders." The owners of America's largest corporations are primarily big pension funds. And who benefits from the pension funds? Overwhelmingly it is that huge group of people we call the middle class.

Let's recap: when consumers foot the bill for corporate taxes, the people who pay are largely middle class. But if employees absorb the taxes, then the main harm is to....the middle class. On the other hand, if it's shareholders who are stuck, then the burden is borne by....the middle class. Are you noticing a pattern?

It gets worse. Often businesses vote with their feet and relocate to low-tax jurisdictions. Some move to different cities or states, and others even cross national boundaries to operate from low-tax areas such as the Caribbean or Ireland. This is very damaging to the communities that lose both the tax revenue and jobs that go with the companies. Even firms that don't move often limit their expansion to friendly locales, whether in the US or overseas.

There is a hidden burden of high taxes, as new businesses that might have begun in New York or California instead opt to start up in Nevada, or outside the country. This problem has become more acute as the world continues to shift from industry towards an information economy. Because of the cost of physical plants, it would have been very difficult for General Motors to move in the 1950s. But information-based companies can operate virtually anywhere with a decent communications infrastructure, and can relocate with little effort. Taxing authorities that continue to demand unreasonable sums will increasingly find themselves big losers.

In an economy closed to outsiders, high "corporate" taxes would not be as damaging. Every company would pay them, and the competitive landscape would remain unchanged. But in a global marketplace, high-taxed US companies are competing with foreign firms that have lower cost structures due to their smaller tax burdens. This puts the US companies at a severe disadvantage. When Daimler-Benz merged with Chrysler, the new entity chose to base itself in Germany rather than Detroit. One of the company's stated reasons was the US tax system. Why would it voluntarily saddle itself with a massive corporate tax liability?

Who Benefits?

Why do governments perpetuate the myth that corporations do (and should) pay taxes? Very simple: it allows them to meet their revenue goals without angering the population with hefty direct taxes. This strategy has obviously been very successful, as large segments of the population cheer new business taxes. Let's stick it to the big corporations! When a politician

suggests reducing the corporate tax, he faces ridicule as an enemy of the little guy. But as we have seen, the populist, anti-business rhetoric that sweeps the nation during recessions is ultimately self-defeating.

Next time you hear some talking head rant about the need for higher corporate taxes, feel free to yell back at your TV "Corporations don't pay taxes, moron!" Politicians will continue to talk down to us until they see we're listening, and we understand.

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