Biden Corporate Tax Plan to Harm Economic Success Trump Built

Economists say President-elect Joe Biden's plan to raise the corporate tax rate will undo President Donald Trump's reshoring efforts as it will likely send some American companies packing and keep others overseas, harming the economy.

Biden campaigned on bumping the corporate tax rate from 21% to 28% in order to help fund his plans for green energy policies, infrastructure projects, and other ambitious, progressive initiatives. According to the Tax Policy Center, Biden's overall tax plan will raise about $2.1 trillion over 10 years, totaling 0.8% of the gross domestic product. Democrats' control, while narrow, over the House and Senate ultimately boosts the odds of Biden's tax hikes going into effect.

While a corporate tax hike will likely bring in more money on its face, experts say it will cause greater economic damage as companies weigh the cost of paying more taxes or taking their business to tax havens elsewhere. And that is the cost of Biden trying to undo Trump's legacy.

"The corporate income tax [reduction] was a hallmark of Trump's reshoring initiative to bring back manufacturing to the U.S.," industry expert and principal of New Jersey-based The Boyd Co. John Boyd said, adding there was so much momentum for reshoring, especially after the damage coronavirus inflicted on supply chains.

Trump decreased the corporate tax rate from 35% to 21% as part of a tax code overhaul known as the 2017 Tax Cuts and Jobs Act. Companies have become accustomed to the lower tax rate that is now in danger with the Democrats at the helm. If the corporate tax rate increases to 28%, Boyd said companies will "do the math" and quickly realize that paying a mandated penalty will outweigh the cost of the tax increase and regulations that are likely to come under a Biden administration.

Biden has proposed imposing a 10% surtax on corporations that offshore manufacturing and service jobs and creating a 10% "Made in America" tax credit for companies that restore production in the U.S. Biden has also shown interest in a pause on stock buybacks, a move economists warn could harm the market.

Peter Earle, an economist and research fellow at the American Institute for Economic Research, said a Democrat-controlled Congress may even push for the tax rate to creep back up toward the 30% range. "The higher [the corporate tax rate] is, the more likely it is that some companies will leave," he said, noting he thinks the tipping point that will send CEOs packing will be if the tax rate hits 30% or greater.

Paul Karch, president and CEO of Solaiya, which helps companies obtain government contracts and provides expertise in various areas of business development, said companies valued at $100 million and greater will be "rethinking" where they want to be headquartered if the corporate tax hike is implemented. That's because companies that report a net income greater than $100 million, but owe no U.S. income tax, may also be subjected to a 15% minimum tax on book income if Biden's tax changes go into effect.

While Karch doesn't foresee a mass exodus of U.S.-based businesses taking place right away, especially with coronavirus travel restrictions still in place, he does think companies will begin evaluating their options.

"In the short term I don't think people are going to immediately say I will move out," he said. "They will wait for the dust to settle a little bit. I think you can say the first year is going to be a wait and see." Until international coronavirus travel restrictions ease, he said most companies will be forced to stay put. "Large corporations are still going to have to think about COVID," he said. "You can't pick up a company and move it. You can't get visas for people to pick up and move. That's the biggest roadblock right now for anyone moving out of the U.S."

He also said executives will have to navigate through the impacts of Brexit and how the business landscape of the United Kingdom and European Union may change.

Karch predicts some companies will leave states like New York and California for more tax friendly states. He points to Elon Musk's recent move to Texas as an example that other executives may follow.

Boyd said the momentum companies had to reshore under Trump's "America First" initiatives will subside under Biden. Even after experiencing supply chain issues in China because of the coronavirus, he said companies will not be eager to return to the U.S. if they face higher taxes. "We aren't going to fully take advantage of this potential of reshoring," he said, adding some of the Democrats' policy agendas, such as requirements proposed under the Green New Deal, will make it more difficult for companies to justify bringing operations back to the U.S.

He predicts there will be a lot of "nearshoring" with companies choosing to leave China for Canada, Mexico, and even Costa Rica or Colombia as an alternative to returning to the U.S.

Amid the economic downfall caused by the coronavirus pandemic, Biden has also called on corporate leaders to commit to a year of no stock buybacks. Companies can buy their stock back from either the open market or shareholders. Businesses can then return that money to shareholders, which can result in their stock prices going up.

Instead of using money to buyback stocks, Biden pushed for CEOs to use the money to keep employees on the payroll. Earle said the correlation between using surplus money to keep or add jobs isn't accurate. "Investment and savings are where new jobs and growth comes from," he said.

Earle said there is a lot more to buybacks than what appears to be corporate insiders making a lot of money. He said politically stock buybacks is an easy target to go after, but placing draconian measures on stock buybacks would “hurt an already suffering market.”

“When companies buy back their stock, they put cash back into the economy,” he said, adding it isn’t a self-serving policy that many view it to be. “A buyback policy could have a lot of unintended consequences,” he said.

Earle also notes that any large change in the tax rate could result in an under collection of taxes. Citing the Laffer curve, a theory by economist Arthur Laffer, any significant change to the tax rate becomes counterproductive to raising additional revenue. He said there is an optimal point on the chart for tax collection and any major change can result in “missing the optimal spot pretty badly.”

While many predict that any changes to the tax code wouldn’t go into effect until 2022, economists warn against raising the corporate tax rate at all as the economy goes into pandemic recovery mode. “Companies are in a cost-cutting mode post COVID,” Boyd said. “This is not a good time to raise taxes.”