5214F Diamond Heights Blvd #3055
San Francisco, CA 94109

+1 (715) 469-6884
fellowship@yipinstitute.org
www.yipinstitute.org/fellowship/

The Cost of Corporate Tax Avoidance

Siddharth Shah

I. Executive summary

Warren Buffett recently declared that Americans would not owe *"a dime"* in federal taxes if 800 large corporations paid the IRS [1]. Multinational corporations use a variety of tax avoidance strategies to minimize their tax liabilities, thus repeatedly eroding the integrity of the tax system in the United States. Corporations use profit shifting, legal loop holes and offshore tax havens to lower tax liabilities. These strategies are technically legal, but in principle are contrary to the intent of the tax code. This brief explains how corporate tax avoidance undermines government revenues and shifts the burden of the federal tax system to citizens. It argues that greater transparency and closing of loopholes in the corporate tax system are needed to create a fairer and more sustainable fiscal system. And this brief will explore policy options to close these loop holes

II. Overview

In a multi-faceted global economy, corporations operate across multiple sectors, jurisdictions, and regions enabling various loopholes to significantly minimize tax obligations. Examples of this include profit shifting and the use of liscencing to reduce the recognized profits within the U.S. and move them to a location with virtually no real taxation. While tax planning is legal, most large corporations ignore the intent of the tax code and aggressively exploit its gaps to benefit themselves.

Arguably the most common method to avoid taxes is "profit shifting," where companies move around money and report income in low tax jurisdictions rather than where the economic activity actually occurs [4]. For example, companies like Nike and FedEx can register intellectual property in a country or region with low tax rates and then charge subsidiaries large licensing fees, creating a paper loss in the U.S. market and transferring all the profits out of high tax regions. The scale of this is striking: 73% of Fortune 500 companies operate subsidiaries in offshore tax havens, collectively holding an estimated $2.6 trillion in profits offshore, representing an estimated $752 billion in unpaid U.S. taxes [6].

This practice and various others have become extremely widespread, especially amongst the world's largest multinational firms. The continuous use of offshore tax havens is resulting in hundreds of billions of dollars not being paid to the government, placing financial burdens onto individual citizens. A landmark five-year study of 342 large, consistently profitable corporations found they paid an average effective federal income tax rate of just 14.1%; almost a third less than the statutory 21% rate, with 87 of them paying effective rates in the single digits or less [4].

This brief evaluates how the avoidance of corporate tax undermines economic equity, highlighting the need for policy reforms [3].

A. Relevance

Governments around the world lose an estimated 480 billion dollars annually due to corporate tax abuse and offshore tax evasion [3]. The relevance of this issue is even more prominent in the United States, where even as corporate profits and revenue have grown, their share of tax revenue has significantly reduced. This creates a gap where taxes are increased for individuals or small business owners and public spending is reduced.

Small businesses and individuals who lack the access to complex strategies are expected to pay taxes in full, resulting in an economic divide where the corporations with the most power, money, and resources are the only ones who have any potential to maximize the laws that were made to benefit everyone. A peer-reviewed 2025 study published in Management Science found a direct causal link between corporate tax avoidance and firm-level sales growth, concluding that rising tax avoidance among large firms has reinforced their dominant market positions and contributed to increased industry concentration, making the competitive disadvantage for smaller, non-avoiding firms measurable and significant [8]. Corporate tax avoidance, to put it simply, causes significant real world issues for both governments and citizens, and therefore is an extremely severe issue that needs to be dealt with.

III. History

A. Current Stances

Mechanisms to regulate corporate taxation have developed significantly with the increase of globalization. Historically however, corporate tax systems were designed around domestic economies that were easier to track, tax, and regulate within borders [7].

The major problem occurred when multi-national corporations grew and expanded into various nations with conflicting policies, making it difficult for existing tax frameworks to keep up. Differences in national corporate tax policy created opportunities for companies to shift profits to beneficial locations. In response, international organizations such as the Organisation for Economic Co-operation and Development launched initiatives like the Base Erosion and Profit Shifting [5] project to address these challenges.

In the US, measures such as the enactment of the Tax Cuts and Jobs Act of 2017 –which brought about the GILTI Tax– have been introduced in order to stop profit shifting [3]. However, critics argue that even though there is the above-mentioned policy measure, profit shifting through offshore destinations is still encouraged. Most recently, President Trump's "One Big Beautiful Bill Act" has worsened corporate tax avoidance, with ITEP finding that tax avoidance has increased at least in part due to this legislation [2].

The tax avoidance debate still remains ongoing in terms of whether there is a need to have more international coordination in addressing issues of tax avoidance, or whether nations need to continue competing with one another through low rates of taxation.

IV. Policy Problem

A. Stakeholders

The primary stakeholders of corporate tax avoidance span across a variety of private, public, and individual sectors.

1) Primarily, individual tax payers bear the most direct burden: when corporate tax revenue declines, governments compensate through higher personal tax rates or reduced public services. The IRS predicts a 606 billion dollar short fall in government tax revenue, and the subsidiaries of these fiscal shortfalls are almost always tax payers and never the corporations who created the gap in the first place [7].
2) Small businesses are the second major stakeholder affected by this issue because they fundamentally lack the resources, legal infrastructure, or international presence to compete with large multi-national corporations. This places them a structural disadvantage that worsens as corporations continue to widen the competitive and economic gap. To put this into perspective, in the United States, at least 88 profitable corporations paid zero federal income tax in 2025 alone [2]. It is simply impossible to compete when corporations gain a 21 percent increase on their profit margins, leaving small businesses with absolutely no upside.
3) While the third major stakeholder is somewhat of a combination of the two before it, it is important to note that both federal and state governments are the stakeholders too, and while individual corrupt politicians may profit from enabling tax avoidance, the general government loses billions. These governments depend on corporate tax revenue to fund public goods, such as infrastructure, healthcare, education, and national defense. Persistent shortfalls in corporate taxes degrade their ability to deliver these goods equitably.
4) Finally, large corporations themselves are stakeholders as well. This is because they are instrumental in any sort of regulatory reform and, therefore, are essential stakeholders when discussing any real, workable solutions. Additionally, they play a big role in lobbying the government and contributing to political campaigns, enabling them to have significant influence on policy.

B. Risks of Indifference

The risks of inaction regarding corporate tax avoidance are both structural and fiscal. The government is actively losing money every year as avoidance continues. This directly contributes to austerity measures, deteriorating public infrastructure, and cuts to social programs that disproportionately affect lower-income communities.

The risks are doubled when considering that prolonged indifference perpetuates an uneven playing field. The competitive harm from corporate tax avoidance has been documented empirically: rising avoidance among large firms has reinforced their dominant positions, increasing industry concentration and squeezing out smaller competitors [8]. Over time, this contributes to a widening gap that enriches corporate monopolies, carrying downstream to wages, consumer choice, and economic vitality.

From the standpoint of social and public trust in the equity of the tax system, it is constantly eroded when corporations are visibly seen avoiding their obligations with impunity. Continued indifference will fuel political polarization and disillusionment with public institutions. This impact will begin to extend well past just fiscal policy, towards social unrest, and prolonged ostracization of unethical corporations.

C. Nonpartisan Reasoning

Because corporate tax avoidance does not just affect one part of the political spectrum but rather the entire U.S. fiscal system, there is significant and compelling bipartisan reasoning for intervention:

1) Fiscal responsibility and debt reduction: the need to reduce the federal deficit is a concern shared by both conservative and progressive policymakers. Closing corporate tax loopholes is a revenue-raiser that does not require raising rates on individuals or small businesses. The Congressional Budget Office estimates that reforming international tax provisions alone could generate hundreds of billions in additional revenue over a decade — a fiscally significant and politically viable approach across the aisle [9]. This need is completely objective and independent of any political views. The main discrepancy occurs in the means in which tax provisions are implemented.
2) Economic justice and a level playing field: A corporate tax system in which the biggest companies pay the least is a betrayal of the principle of a free and fair market. This distortion is not only good progressive equity policy but good conservative fair competition policy. When 73% of Fortune 500 companies squirrel profits away in offshore tax havens while small domestic businesses pay their full statutory rate, the market is no longer a level playing field for any company regardless of political affiliation [6].
3) National security and public investment: The underfunding of government programs, in part due to the $688 billion annual tax gap, limits investment in infrastructure, research, and national defense [7]. These common national priorities are supported by the stable and fair tax base, and absent that, it is in every government and citizens best interest to invest into international tax provisions.

V. Tried Policy

There have been a number of legislative and international efforts to limit corporate tax avoidance with mixed results in terms of bearing a successful impact.

The launch of the OECD's Base Erosion and Profit Shifting (BEPS) project in 2013 was a landmark multilateral effort to address cross-border profit shifting, setting out common standards and frameworks for countries to implement [5]. BEPS has improved information exchange and awareness but critics point out that without binding enforcement mechanisms, there is uneven compliance across jurisdictions.

The U.S. Tax Cuts and Jobs Act of 2017 introduced the GILTI provision to create a minimum tax on the profits U.S. companies make outside the United States [9]. GILTI was a meaningful step forward, but its impact was limited by major sacrifices, including a deduction for returns on tangible foreign assets, that effectively reduced the real tax burden well below the statutory rate [10] The result: 342 large, profitable corporations paid an average effective rate of only 14.1% in the first five years after passage of the law [4].

More recently, the OECD's reform of the Global Minimum Tax (Pillar Two), which was finalized in 2021, aims to establish a 15% global minimum corporate tax rate to reduce the incentive to shift profits to low-tax jurisdictions [8]. But the U.S. has not yet fully implemented its domestic counterpart law, leaving American companies partially outside the regime and resulting in continued compliance gaps. Meanwhile, the One Big Beautiful Bill Act (OBBBA) has gone the other way, with ITEP finding it has helped lead to increased corporate tax avoidance for some businesses, and reduced tax avoidance for others [2]. The issue with the OBBBA is that it hinders support for the most vulnerable citizens by cutting things like food stamps in order to enable the avoidance of large corporations.

VI. Policy Options

Strengthening the GILTI Minimum Tax

To preface, the GILTI tax rate is essentially the minimum tax that the U.S. puts on a company, even if they shift profits. For example, if Nike used licensing to shift profits to Bermuda, GILTI still enables the U.S. to tax those profits even though they were technically made in Bermuda. The GILTI tax rate of about 10.5% (after deductions) is far below the 21% domestic corporate rate and 15% global minimum agreed under OECD Pillar Two as it stands [10]. Strengthening GILTI by removing the tangible asset reduction and increasing the effective minimum rate to 15% would align the United States with its international partners and significantly reduce the incentive for profit-shifting. Such a reform would be implemented within the existing infrastructure of the IRS and would require an act of legislation through the Ways and Means Committee.

The fact is that just because companies today pay no tax, that shouldn't force the government to compromise with only half the tax they are owed. Strengthening GILTI is the most direct legislative tool available for narrowing the gap between what large multinationals owe in principle and what they actually pay.

The pros here are that less of the profit shifted taxes are actually evading the U.S. tax system, and it uses very little taxpayer money to implement this solution. The cons, however, are that it is relatively hard to implement given the number of companies that contribute to campaigns, which would have their profits go down significantly from such a policy.

Closing Transfer Pricing/ Legal Loopholes

Transfer pricing, or the manipulation of profits that get shifted through licensing and pricing between subsidiaries of the same corporate group to shift profits into low-tax jurisdictions, is one of the most widely abused tax avoidance channels [5]. Changes to transfer pricing rules should require inter-company transactions to be priced according to real economic substance, not paper arrangements that determine where profit is booked. This is the surest way to guarantee that a company is being taxed in the same area where it acquired its profits.

This would involve building out the IRS's transfer audit capacity, increasing penalties for non-compliant arrangements, and aligning U.S. transfer pricing standards with the updated OECD guidelines under BEPS Action Plans 8–10. Doing this is critical to successful policy, as the IRS has the most direct control over taxing these corporations. The IRS currently recovers about 18 percent of the total corporate income tax gap through enforcement [7]. Through targeted investment in the IRS, we enable them to increase their audit capacity, increasing the share of recovered taxes substantially.

The pros and cons of this are essentially the inverse. This solution takes more money and people to implement; however, it simply implements a policy that is already in place, which means no company that isn't blatantly evading taxes will be affected.

VII. Conclusions

This brief explored how profit-shifting and offshore tax havens collectively deprive the government of hundreds of billions in annual revenue thereby shifting the burden onto ordinary taxpayers and small businesses. It went into depth about the root enablers of avoidance and the consequent policy options that would solve them. Of these two options strengthening the GILTI minimum tax is the most feasible, however investing into the IRS's audit capacity will have by far the greatest and most full-proof impact.

Corporate tax avoidance is a defining fiscal challenge of our time and requires that we look at every dimension of how the tax code is written, enforced and exploited. Bridging the gap between what corporations owe and what they actually pay will not happen overnight but can be done by focusing on legislative reform and strengthening enforcement and building the international coordination needed to eliminate safe harbors for profit shifting. We can get to a fairer tax system, if we approach these solutions with pragmatism, and if we pursue implementation of these solutions with the same persistence that corporations have long shown in avoiding their obligations.

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