



TAX REFORM

All taxes are paid by people, whether they're taxed as workers, consumers, investors, property holders, or business owners. And the more taxes people pay, the less disposable income they have left for everything else.

However, the harm caused by a tax isn't borne only by the person forced to pay it. When lawmakers force businesses to pay payroll taxes, for example, workers bear the brunt of the tax as employers factor the tax into their decisions about wages and hiring. Businesses pass along most of the cost of new taxes to workers and consumers not because they can, but because in the long run, they must. Most businesses operate in competitive industries with thin profit margins. Profits are necessary to motivate entrepreneurial individuals to take on the risks and challenges associated with running a business. If profits disappear, competition disappears, which ultimately harms consumers and workers.

Tax reform should focus on making the tax system more neutral—it shouldn't be designed to pick winners and losers but to apply relatively evenly across the economy. Tax reform should also make taxes clearer—taxpayers should understand the tax system and shouldn't be caught by surprise by hidden taxes or dramatic changes from year to year. And tax reform should ensure that taxes are limited. When lawmakers keep taxes low relative to the size of the economy, it mitigates a multitude of design problems. But when taxes are high, all the tax system's problems are magnified.

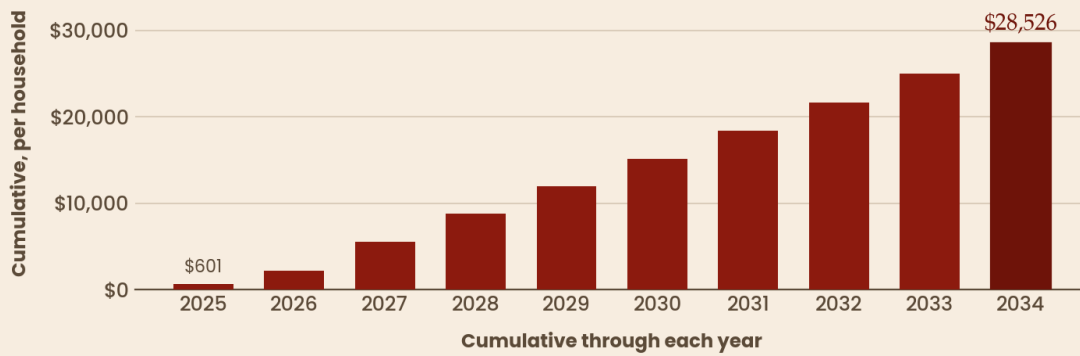
Uncompetitive tax systems make life less affordable by interfering with producers' ability to make goods and services available to consumers. Selective excise taxes interfere with consumer choice. Carbon taxes and severance taxes restrict energy production. Income taxes limit people's freedom to work and enjoy the fruits of their labor. Excessive taxes on businesses and capital limit innovation and competition.

In short, taxes don't just get passed on to consumers. In the process, they also drag down growth, distort prices and markets, discourage productivity, and drive wedges between people who would otherwise have mutual interests in trading with and working with one another. Bad tax policy comes with a heavy price. Limiting the harm of taxes should be an essential part of any affordability agenda.



Letting the 2017 tax cuts lapse would have cost the average household \$28,526

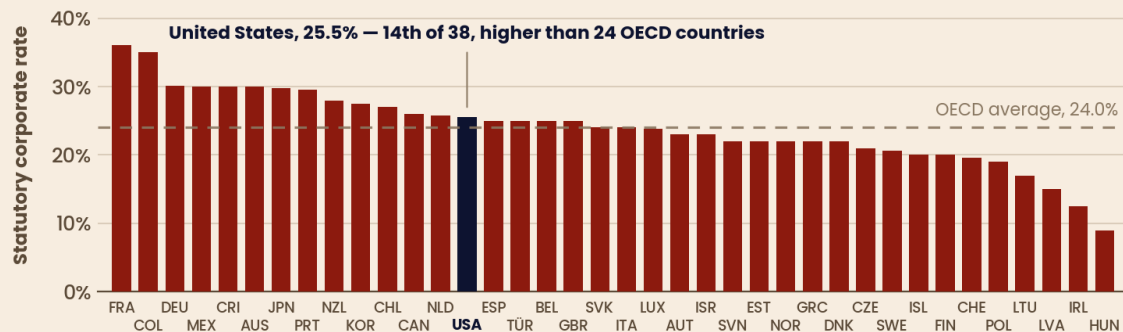
Cumulative tax increase avoided per household, 2025 to 2034



Sources: Congressional Budget Office, "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenue," May 2024; household projections from the Harvard Joint Center for Housing Studies. AAF calculation: the cumulative revenue difference from extending the 2017 tax cuts, divided by projected households. This is an average across all households. Tax savings tend to be higher for taxpayers that pay more taxes.

The U.S. still taxes business more heavily than most of the OECD

Combined statutory corporate income tax rate, OECD members



Sources: OECD Corporate Tax Statistics, Statutory Corporate Income Tax Rates, combined central and sub-central rate, most recent year available. Some missing data obtained from PwC Worldwide Tax Summaries, accessed September 2, 2026. The U.S. figure is the 21% federal rate plus the average state component, which is why it exceeds the federal rate on its own.