PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

REDUCE BUSINESS INCOME TAXES

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ADVANCING AMERICAN FREEDOM

TOPLINE: The federal corporate income tax rate should be reduced from 21% to 17%, along with other reforms to federal and state business taxes.

BACKGROUND: The U.S. currently has a 21% federal corporate income tax rate. The weighted average of states' corporate tax rates adds an additional 4.53%, putting the combined U.S. corporate tax rate at about 25.53% as of 2025. Based on recent rankings, that is the 14th *highest* average corporate income tax rate out of 38 OECD countries. Reducing the federal corporate tax rate from 21% to 17% would put America near the 10 *lowest* corporate tax rates in the OECD, making America a far more attractive place for businesses to be located.

After corporate income is taxed at the business-entity level, profits that are distributed to shareholders are usually taxed a second time as dividends or capital gains. Most long-term capital gains are taxed at a rate of between 15% and 23.8%. Short-term capital gains face higher ordinary income tax rates.

Businesses that are organized as pass-through entities are taxed only under the individual income tax (no corporate income tax). The top individual income tax rate is 37%, but most pass-through income qualifies for a 20% deduction that effectively reduces the top marginal tax rate to 29.6%.

Action Items (Congress and States):

- **Reduce the federal corporate income tax rate to 17%.**
- **Reduce state corporate income tax rates**.
- **Allow pass-through businesses to permanently elect to have a single flat 29% federal tax rate** paid at the business level (not upon distribution), as a replacement for the complicated 20% pass-through deduction.
- **Repeal the corporate alternative minimum tax**.
- Offset any lost revenue with **reduced government spending.**

How It Would Make Life More Affordable:

- Lower business taxes would lead to more business creation, more investment, more competition and innovation, higher productivity, and better-paying jobs.
- Lower business taxes would boost the stock market and retirement wealth.

Related Legislation: Book Minimum Tax Repeal (S. 796); amendment to reduce corporate tax rate (S. Amdt. 2366 to the One Big Beautiful Bill, failed).

BOTTOMLINE: Businesses are the economic engines that drive growth, create jobs, and produce the abundant goods and services that keep prices down. Steep business taxes stifle the nation's economic engines.