

CLOSING THE OPEN DOOR: CURBING THE CORPORATE EXPLOITATION OF TAX LOOPHOLES

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I. BITING THE COUNTRY THAT FEEDS YOU—AN INTRODUCTION

Corporate America has long been the standard for business, serving as a beacon of hope to aspiring pioneers, entrepreneurs, liars, cheats, and frauds. With the rise of consumerism, citizens have become increasingly reliant on goods provided by corporations for their survival, as a result of local and family-owned businesses slowly disappearing due to acquisitions, takeovers, or bankruptcy filings. Subsequently, corporations today are more profitable, accounting for inflation, than ever before in American history.¹ Ironically, however, corporate taxes are contributing less to the United States (U.S.) Gross Domestic Product (“GDP”) than ever before.² Through the current system of tax collection, revenue falls entirely short of spending, resulting in a national debt of over \$36 trillion dollars and counting.³ This paper will explore the open door: the corporate exploitation of existing loopholes in the tax code to effectuate lower tax liability and the reasons behind the legality of such exploitation. Lastly, this paper will present possible solutions to permanently close the door, thus ensuring corporations are fairly taxed on their gains.

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¹ See William Watts, *Corporate Profits Are Near All-Time Highs, While Wages Are Near Lows. How Long Can This Last?*, MARKETWATCH (Feb. 5, 2025), <https://www.marketwatch.com/story/corporate-profits-are-near-all-time-highs-while-wages-are-near-lows-how-long-can-this-last-0b0885e7> [perma.cc/4TRE-TYE7] (noting that corporate profits today are between 9% and 11% of GDP, drastically higher than the 5% to 7% of GDP post Second World War).

² See *U.S. Corporate Tax Receipts as a Share of U.S. GDP*, SENATE FIN. COMM. (Apr. 13, 2025), <https://www.finance.senate.gov/imo/media/doc/Corporate%20tax%20receipts%204.13.21.pdf> [perma.cc/YYV5-43S7] (finding that, between 2022–2031, corporate tax receipts will make up just 1.25% of U.S. GDP on average, which is a historic low).

³ See *National Debt Clock: What is the National Debt Right Now?*, PETER G. PETERSON FOUND., <https://www.pgpf.org/national-debt-clock> [perma.cc/Z3YD-CMLH] (last visited Nov. 24, 2025).

A. WHAT IS A CORPORATION?

To adequately discuss corporate tax payments (or lack thereof), this paper must first describe what a corporation is. A corporation, at the most basic level, is a legally recognized business entity, and it functions as a standalone operation that is capable of being evaluated independently from the individuals who own and operate the organization. In the United States, corporations are divided for tax purposes as either C corporations or passthrough entities (“Passthroughs”).⁴ Both categories (apart from sole proprietorships) allow for asset protection, where the personal assets of the business entity’s owner are separate from those in a corporation and cannot be touched by judgment creditors save for veil-piercing under good cause.⁵ Otherwise, both differ drastically, with each category offering certain benefits that appeal to an individual seeking a particular corporate structure. While C Corporations allow for flexibility in investing and financing options, passthrough corporations can provide the same asset protection as their C counterparts without adhering to the same formalities that govern corporate law.⁶

C Corporations consist of the conglomerations dominating the fortune 500 list,⁷ and are subject to a corporate tax that, on paper, currently totals twenty one percent (21%).⁸ C Corporations report income on Form 1120, akin to a Form 1040 for an individual taxpayer.⁹ C Corporations can issue multiple forms of stock, which is an asset when considering equity financing.¹⁰ Additionally, C Corporations can provide asset protection, declare dividends, and attract foreign investors.¹¹ One caveat is that C Corporations are subject to double taxation because they are taxed on their income at 21%, and their investors are taxed on their dividends.¹² Additionally, corporations are subject to stringent formalities,

⁴ See Ryan Lasker, *C-Corp vs. Pass-through Taxes: What’s the Difference?*, MORNING BREW (May 3, 2021), <https://www.morningbrew.com/stories/2021/05/03/ccorp-vs-passthrough-taxes-whats-difference> [perma.cc/9R45-FP66] (defining the characteristics of each entity).

⁵ See *Here’s How Corporations Are Commonly Used in Asset Protection Planning*, THE WILL & TRUST PLAN., <https://www.willandtrustplanning.com/corporations-in-asset-protection-planning> (last visited Nov. 24, 2025) (explaining that corporate assets are free from liability on personal judgments unless the corporate veil is pierced).

⁶ See Lasker, *supra* note 4.

⁷ See *Full List of Fortune 500 Companies (2025)*, US500, <https://us500.com/fortune-500-companies> [perma.cc/A4CB-6ZQ8] (last visited Nov. 24, 2025) (listing the 2025 Fortune 500 companies).

⁸ See Tax Cuts and Jobs Act, Pub. L. No. 115–97, 131 Stat. 2054 (2017).

⁹ See *id.* (setting the current federal corporate tax rate at 21 percent); see also *Form 1040: U.S. Individual Income Tax Return*, INTERNAL REVENUE SERV. (2024), <https://www.irs.gov/pub/irs-pdf/f1040.pdf> [perma.cc/4AK9-RR5G].

¹⁰ See Lasker, *supra* note 4 (defining equity financing and the benefit C Corporations provide in attracting investors).

¹¹ See Aaron Hall, *Tax Differences Between C-corporations and S-Corporations Explained*, AARON HALL LLC, <https://aaronhall.com/tax-differences-between-c-corporations-and-s-corporations-explained> [perma.cc/T4CS-9NW6] (last visited Nov. 24, 2025) (describing the differences between passthrough corporations and C Corporations).

¹² See *id.* (explaining the double taxation that faces C Corporations, and how dividends are taxed either as capital gains or ordinary income to receiving shareholders).

the violation of which can incur strict scrutiny and compliance monitoring.¹³ If a corporation fails to comply, and the court finds the corporation is acting solely as an “alter ego” of the owner, the court may pierce the corporate veil and revoke asset liability protection under state law.¹⁴

In contrast, passthroughs are entities in which, for tax purposes, the income flows through to the entity owners. The most common forms of passthroughs are S Corporations, limited liability companies (LLCs), partnerships,¹⁵ and sole proprietorships.¹⁶ Partnerships are comprised of two or more individuals,¹⁷ where each partner will declare a percentage of the partnership’s income as their own attributed income.¹⁸ S Corporations can consist of up to 100 shareholders, allowing for asset protection while avoiding double taxation as experienced by C Corporations.¹⁹ Sole proprietorships, in contrast, offer no liability protection, as the sole owner and operator is personally liable for all profits, debts, and civil liability damages.²⁰ Lastly is the LLC, which serves as the “chameleon” of passthrough entities. Unlike other passthroughs, LLCs can elect to be treated as a corporation or a passthrough, providing flexibility to its members.²¹ Though all above-referenced entities have advantages and disadvantages for

¹³ See Gregory Robinson, *Why Are Corporate Formalities Important for Your Business?*, ADVOC.’S BLOG (Sep. 26, 2024), <https://www.therobinsonadvocacygroup.com/why-are-corporate-formalities-important-for-your-business> [perma.cc/3XJC-U65P].

¹⁴ See Jon Alper, *Piercing the Corporate Veil in Florida*, ALPER L. (May 22, 2024), <https://www.alperlaw.com/blog/piercing-the-corporate-veil-in-florida> [perma.cc/9V9J-WNRN] (finding that, in Florida, certain violations, such as failing to keep minutes, no separation of personal and business expenses, and purposeful underfunding can result in the court piercing the corporate veil and revoking corporate liability protection).

¹⁵ See FLA. STAT. §§ 620.81001–620.9902 (2025) (defining the state of Florida’s Revised Uniform Partnership Act and noting how, for taxation, partnerships can elect to be treated as general partnerships, LPs, LLPs, and LLCs).

¹⁶ See Hall, *supra* note 11.

¹⁷ See FLA. STAT. § 620.8101(7) (2025) (defining “partnership” within the state of Florida as “an association of two or more persons to carry on as co-owners of a business for profit”); *cf.* I.R.C. § 761 (1954) (defining a partner as a member, which does not exclude LLCs, LLPs, and corporations from being partners in a partnership).

¹⁸ See I.R.C. § 701 (1954) (stating that the partnership is not liable for income tax as an entity and that the partners themselves will be taxed on their attributable share of the partnership income within their respective brackets).

¹⁹ See Hall, *supra* note 11 (explaining that an S corporation may consist of up to 100 shareholders, so long as the shareholders are U.S. citizens. The S corporation provides asset liability protection, but the income is passed through the corporation and onto the shareholders, who pay individual taxes on their respective shares).

²⁰ See Aaron Hall, *Liability Protection for Sole Proprietors: What You Need to Know*, AARON HALL LLC, <https://aaronhall.com/liability-protection-for-sole-proprietors-what-you-need-to-know> [perma.cc/DES8-3WH4] (last visited Nov. 24, 2025) (noting the lack of liability protection for sole proprietorships due to the lack of separation between entity and owner).

²¹ See Hall, *supra* note 11 (explaining the fundamental basics of pass-through entities such as LLCs); *see also* *About Form 8832, Entity Classification Election*, INTERNAL REVENUE SERV. (Dec. 3, 2024), <https://www.irs.gov/forms-pubs/about-form-8832> [perma.cc/TV2N-DZL3] (providing information about the election of LLCs as corporations via Form 8832).

purposes of taxation, this paper will specifically examine C Corporations, known hereafter as “Corporations.”

B. HISTORY OF CORPORATE TAXATION

To understand the modern-day corporate tax, a background on the history of the corporate tax is necessary. Though taxes existed earlier in American history, the first separate, federal corporate tax was introduced in 1909 under the Corporation Excise Tax Act, imposing a 1% tax on net income for Corporations with net incomes of over \$5,000.00.²² Critics considered the tax to be a work-around for the taxation of individual incomes prior to the ratification of a formal tax amendment.²³ The Sixteenth Amendment, granting Congress the power to “tax income from whatever source derived” without the need to consider apportionment amongst the states, was ratified in 1913, four years later (though similarly first announced in 1909).²⁴ After the ratification of the Sixteenth amendment, the Revenue Act of 1913 permanently introduced a federal income tax for both individuals and Corporations.²⁵ Specifically, Corporations would face a 1% tax on net income over \$5,000, akin to 1909’s Excise Tax.²⁶

To fund the involvement of the United States in World War I, the base corporate tax rate was increased to 6% in 1917, with an excess profit tax of 20% to 60%.²⁷ In 1918, just one year later, the corporate tax rate was increased to 12%, with an excise profit tax of 20% to 40%.²⁸ The excise profit tax was repealed in 1921, and the rate remained at 12% through 1928.²⁹ Due to urgent need to raise revenue during the Great Depression, the rate was raised to 13.75% in 1932, with an undistributed profits tax of 15% to 27% being introduced in 1936.³⁰ During World War II (“WW2”), rates were again raised, with the 1940 Revenue Act assessing base corporate tax rates of 24%, and reintroducing excess profit taxes at a whopping 25% to 50%.³¹ By 1942, the effective combined

²² See CHRISTOPHER HANNA, *TAX POLICY IN A NUTSHELL* 2–23 (2d ed. 2022) (describing the various tax rates imposed on corporations throughout varying time periods, beginning in 1909).

²³ See *id.* at 2 (describing the process for ratifying the Sixteenth Amendment).

²⁴ U.S. CONST. amend. XVI.

²⁵ See *The Revenue Act of 1913: Its Impact on Modern Taxation*, ACCT. INSIGHTS (Jan. 29, 2025), <https://accountinginsights.org/the-revenue-act-of-1913-its-impact-on-modern-taxation> [perma.cc/8MXD-7JME] (citing the establishment of a 1% tax on corporate income for incomes over \$5,000).

²⁶ See Jack Taylor, *Corporation Income Tax Brackets and Rates, 1909-2002*, INTERNAL REVENUE SERV. 284 (2003) (defining the rates being paid by corporations for the year 1913).

²⁷ See *id.*; see also War Revenue Act, ch. 63, 40 Stat. 300, 303 (1917) (implementing a “war excess profits tax” ranging from 20% to 60%).

²⁸ See Taylor, *supra* note 26; see also Revenue Act of 1918, ch. 18, 40 Stat. 1057, 1088 (1918).

²⁹ See Taylor, *supra* note 26; see also Revenue Act of 1921, ch. 136, 42 Stat. 227, 320 (1921) (repealing Title III of the Revenue Act of 1918 called “War-Profits and Excess-Profits Tax”).

³⁰ See Taylor, *supra* note 26, at 290 n.6.

³¹ See *U.S. Tax Hikes of the 1930s*, NEW WORLD ECON. (June 27, 2010), <https://newworldeconomics.com/u-s-tax-hikes-of-the-1930s> [perma.cc/W8M8-7B8W] (analyzing a history of tax hikes within the United States through the 1940s).

tax rates exceeded 80% for top corporate earners, funding the war effort and pulling the country out of the throws of the Depression.³² Through the 1950s, the excess profits tax was repealed, and base corporate rates ranged from 28% to 52%.³³

With the introduction of the Internal Revenue Code (“I.R.C.” or “Code”) of 1954, the corporate tax rate was set at 52%.³⁴ In 1965, the top corporate tax was set at 48%.³⁵ During the Reagan administration, the highest corporate tax rate was 51% in 1984 for corporate incomes over \$1 million.³⁶ This rate was staggered, however, meaning that corporate incomes would be taxed at 15% up to \$25,000; 18% up to \$50,000; 30% up to \$75,000; 40% up to \$100,000; 46% up to a million; 51% for incomes up to \$1.4 million; and back to 46% for incomes over \$1.4 million.³⁷ With the introduction of the 1986 Code, the top rate was cut to 34%.³⁸ Under President Clinton, the corporate tax rate was between 15% to 39%, bracketing corporate income into varying tax rates.³⁹ Until 2017, this method was the standard and remained untouched.⁴⁰ However, with the introduction of 2017’s Tax Cuts and Jobs Act (“TCJA”), the corporate tax rate was reduced to 21%.⁴¹ Historically, the highest contribution of corporate income taxes to GDP was approximately 6% to 7% during WW2.⁴² Today, corporate contributions are at their lowest.⁴³ The Senate Finance Committee estimates that corporate income taxes will contribute only 1.25% to the GDP in the next

³² See Joseph J. Thorndike, *Timelines in Tax History: From ‘Class Tax’ to ‘Mass Tax’ During World War II*, TAX NOTES (Sep. 19, 2022), <https://www.taxnotes.com/tax-history-project/timelines-tax-history-class-tax-mass-tax-during-world-war-ii/2022/09/16/7f3s2> [perma.cc/7SYK-6W6L] (noting how the base corporate tax was 40% during 1942, with an excess profits tax of 90%. This combined for an average tax rate of 80%).

³³ See *Historical Corporate Income Tax Rates & Brackets, 1909-2020*, TAX FOUND. (Jan. 1, 2025), <https://taxfoundation.org/data/all/federal/historical-corporate-tax-rates-brackets> [perma.cc/JT52-EZQC] (displaying data on corporate tax rates and the percentage of corporate tax collection as GDP).

³⁴ See HANNA, *supra* note 22, at 9 (describing the revision of the I.R.C. in 1954); see also Taylor, *supra* note 26, at 288 (displaying rates paid on corporate taxes for the year 1954).

³⁵ See *Historical Corporate Income Tax Rates & Brackets, 1909-2020*, *supra* note 33 (noting the top corporate tax rate of 48% in 1965 for incomes over \$25,000).

³⁶ *Id.* (displaying the highest tax rate through the Reagan administration of 51%).

³⁷ See *id.* (noting the staggered system of corporate taxation used to assess taxes on varying levels of income).

³⁸ See Tax Reform Act of 1986, Pub. L. No. 99-514, § 601(a), 100 Stat. 2085, 2249 (1986).

³⁹ See *Historical Corporate Income Tax Rates & Brackets, 1909-2020*, *supra* note 33 (noting the lowest corporate tax rate being 15% for income between \$0 to \$50,000, the highest tax rate is 39% for income between \$100,000-\$335,000, and all other tax rates falling within this range (even if exceeding \$335,000 in corporate income, the tax rates did not exceed 39%)).

⁴⁰ See *id.* (showing that the tax rate stays consistent from 1993 to 2017).

⁴¹ See HANNA, *supra* note 22, at 26 (describing the drastic reduction in corporate tax rates under the TCJA).

⁴² See *Historical Corporate Income Tax Rates & Brackets, 1909-2020*, *supra* note 33 (featuring a table displaying the percentage of corporate income tax to U.S. GDP).

⁴³ See *U.S. Corporate Tax Receipts as a Share of U.S. GDP*, *supra* note 2 (finding that, between 2022-2031, corporate tax receipts will make up just 1.25% of U.S. GDP on average).

decade.⁴⁴ Though the exact figure is contested,⁴⁵ such low estimates still cast doubt over the effectiveness of the current tax rate and call for necessary change.

II. THE OPEN DOOR: CORPORATE EXPLOITATION OF EXISTING TAX LOOPHOLES

Corporations are more profitable than ever before in American history, yet they now pay less in taxes than ever before.⁴⁶ In 2024, corporate profits before tax equaled an astonishing \$4 trillion dollars, beating the previous record of \$2.8 trillion dollars in 2021.⁴⁷ Despite this historic first, however, Corporations only paid \$489 billion in taxes for the fiscal year.⁴⁸ Though proponents could argue as to the amount and apparent significance of the corporate tax collected, simple calculations reveal that, without considering adjustments, a 21% corporate tax rate on \$4 trillion dollars would yield \$840 billion in revenue. Instead, the actual number of \$489 billion equals an effective tax rate of just 12.23%. This demonstrates the reality of effective versus theoretical tax rates, which warrants further explanation. It also suggests that the corporate tax system offers a number of “legal” tax avoidance strategies for Corporations to lower their tax liabilities.

A. BEAUTY AND THE BEAST: THEORITICAL VERSUS EFFECTIVE TAX RATES

There has long been a battle between those on either side of the theoretical versus effective tax rate conflict, with corporate supporters stating that the significant disparity between profits and taxes paid by Corporations is due to complex lawyering and clever financial arrangements, both of which are legal.⁴⁹ Opponents of this view argue that the exploitation of existing loopholes to effectuate lower tax liabilities are only legal because politicians allow it to be so.⁵⁰

⁴⁴ See *id.* (finding that the projected revenue will be 26% below the average).

⁴⁵ See *Fact Check: Higher Corporate Tax Revenue After GOP Tax Reform Debunks Another Democrat Myth*, HOUSE WAYS & MEANS COMM. (Apr. 18, 2025), <https://waysandmeans.house.gov/2022/04/18/fact-check-higher-corporate-tax-revenue-after-gop-tax-reform-debunks-another-democrat-myth> [perma.cc/3Q6D-KEA4] (theorizing that corporate tax contributions in 2022 would amount to approximately 1.9% of GDP, the highest figure since 2015).

⁴⁶ See Ricardo Marto, *What's Driving the Surge in U.S. Corporate Profits?*, FED. RESERVE BANK OF ST. LOUIS (Apr. 21, 2025), <https://www.stlouisfed.org/on-the-economy/2025/apr/whats-driving-surge-us-corporate-profits> [perma.cc/PDQ9-NQPY] (indicating that corporate profits exceeded \$4 trillion in 2024).

⁴⁷ See *id.*

⁴⁸ See *Federal Government: Tax Receipts on Corporate Income*, FRED (Oct. 30, 2025), <https://fred.stlouisfed.org/series/FCTAX> [perma.cc/MZT6-AS7D] (showing a graph detailing corporate tax payments per year, indicating payments of \$489 billion in 2024).

⁴⁹ See *Tax Avoidance Is Legal; Tax Evasion Is Criminal*, WOLTERS KLUWER (last visited Nov. 24, 2025), <https://www.wolterskluwer.com/en/expert-insights/tax-avoidance-is-legal-tax-evasion-is-criminal> [perma.cc/D9VP-UC7L] (noting the benefits to clever tax planning and strategic structuring so as to legally minimize tax liability).

⁵⁰ See Edward J. McCaffey & Linda R. Cohen, *Shakedown at Gucci Gulch: The New Logic of Collective Action*, 84 N.C. L. REV. 1159, 1213 (2006) (noting that politicians purposefully draft temporary legislation to prolong existing issues and solicit donations from interest groups).

Despite the opposing positions, the data reveals that there is a difference in the tax rate being assessed and what Corporations are actually paying.⁵¹ To better understand the reasoning behind the amounts assessed and paid, one must appreciate the differences between the theoretical and effective tax rates, along with how Corporations achieve such a feat.

The theoretical tax rate is the tax rate that politicians state will be assessed for a certain amount of income;⁵² generally, this is referred to as a tax bracket. Following the passage of the TCJA in 2017, the corporate tax was amended to equate a flat tax of 21% on all corporate income.⁵³ If followed stringently, then all corporate income would be multiplied by 0.21 to result in the tax liability owed by a certain corporation to the government, with little room for alterations. Under the strict application of the applicable Code section, this would work and would ensure compliance while eliminating exploitation of unnecessary language within the I.R.C. However, tax law is never as simple as it seems because there are many ways of decreasing a corporation's tax liability. This concept, known as the effective tax rate, is why the purported tax rate of 21% under the TCJA is a façade, because tax, contrary to political talking points and assurances, does not exist in a vacuum. Practically speaking, the 21% corporate tax rate exists only as a ceiling.

The effective tax rate takes into consideration all expenses incurred by a corporation in producing a dollar, allowing clever accounting to address wages, debts, liabilities, and subsidiary transfers.⁵⁴ In a report focusing on corporate tax avoidance, the Institution on Taxation and Economic Policy ("ITEP") analyzed the tax payments of 342 Corporations between 2017–2021, finding an average tax rate of only 14.1% and amounting to "a third less than the statutory rate of 21%."⁵⁵ Of those 342 companies, 87 companies paid less than 10% in taxes; 55 companies paid less than 5% in taxes; and 23 companies paid 0% in taxes.⁵⁶ Though seemingly impossible for a company to pay nothing in taxes,

⁵¹ See Matthew Gardner et al., *Corporate Tax Avoidance in the First Five Years of the Trump Tax Law*, INST. TAX'N & ECON. POL'Y (Feb. 29, 2024), <https://itep.org/corporate-tax-avoidance-trump-tax-law/> [perma.cc/J4WR-NTKT] (analyzing the average tax rates of corporations).

⁵² See *Theoretical Tax Rate Definition*, LAW INSIDER (last visited Nov. 24, 2025), <https://www.lawinsider.com/dictionary/theoretical-tax-rate> [perma.cc/UMG7-QDST] (defining theoretical tax rates).

⁵³ Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97, 131 Stat. 2096 (codified as amended at I.R.C. § 13001) (setting the corporate tax at 21%).

⁵⁴ See *Effective Tax Rate: Step-by-Step Guide to Understanding Effective Tax Rate (ETR)*, WALL ST. PREP (Jan. 6, 2024), <https://www.wallstreetprep.com/knowledge/effective-tax-rate/> [perma.cc/4DR5-Y23L] (defining the effective tax rate and its use in justifying the difference between taxes assessed and taxes owed).

⁵⁵ See Gardner et al., *supra* note 51 (noting the use of tax avoidance strategies to effectuate a drastically lower tax rate than the reported rate of 21% making the 21% more of a ceiling than a standard).

⁵⁶ See Adam Lowenstein, *Trump Gave Top U.S Firms Staggering Tax Cuts, with Some Paying \$0 or Less – Report*, THE GUARDIAN (Feb. 29, 2024), <https://www.theguardian.com/business/2024/feb/29/trump-tax-cuts-us-companies?> [perma.cc/J92D-NH57] (analyzing the actual tax rate being paid by corporations and how it is drastically lower than the 21% rate as mandated under

it must be understood how deductions are factored into the computation of taxes. Corporations must accurately report all their income on Forms 1120. However, income can be affected by two types of deductions: above the line and below the line deductions. Below the line deductions are deductions that Corporations use after determining their Adjusted Gross Income (“AGI”) to lower the amount of income subject to tax. These deductions consist of, among other things, tax credits and minimum tax adjustments.⁵⁷ In contrast, above the line deductions directly reduce the amount of AGI generated by a company for purposes of tax reporting, with such deductions including the cost of goods, salaries, and ordinary and necessary business expenses.⁵⁸ Subsequently, even if a corporation reports income, the use of both deductions can severely reduce or, in some cases, entirely eliminate their tax liability.

B. EXPLOITATION OF LEGAL PRINCIPLE TO LOWER THE EFFECTIVE TAX RATE

Between 2018 and 2022, Bank of America earned over \$138 billion in profits, “yet the company paid only \$5.3 billion in income tax - an effective tax rate of just 3.8%.”⁵⁹ There are two concepts that enable Corporations to legally maximize losses and take deductions that effectuate the lowest tax liability possible. The two concepts are Transfer Pricing and Code Exploitation. As will be discussed below, Transfer Pricing concerns the goods themselves that are being sold to the public, with Corporations inflating prices to ensure a “reduced profit” on the goods being sold.⁶⁰ In contrast, Code Exploitation involves the principles established within the I.R.C. itself.⁶¹ Though very different in the way these concepts can be utilized, both can allow Corporations to minimize liabilities through legal tax avoidance (not to be confused with tax evasion). As such, though a corporate behemoth may make \$138 billion on paper, the actual number, when considering the cost of doing business, dwindles exponentially for purposes of taxable corporate income.

the 2017 TCJA).

⁵⁷ See Tanya Akimenko, *Above the Line vs Below the Line Deductions Explained*, GOLDEN APPLE AGENCY (Jan. 3, 2024), <https://www.goldenappleagencyinc.com/blog/above-line-vs-below-line-deductions> [perma.cc/FKZ7-6DPG] (explaining the differences between above and below the line deductions).

⁵⁸ *Id.*

⁵⁹ See Lowenstein, *supra* note 56 (referencing the use of loopholes to minimize tax liability when analyzing some of the nation’s most profitable corporations).

⁶⁰ See *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2022*, ORG. ECON. COOP. DEV. (Jan. 20, 2022), <https://www.oecd.org/en/topics/sub-issues/transfer-pricing.html> [perma.cc/VXN7-NDGR] (defining Transfer Pricing and establishing general guidelines to follow).

⁶¹ See Jeff Gerth, *Corporations Couldn’t Wait to “Check the Box” on Huge Tax Break*, PROPUBLICA (Sep. 26, 2011), <https://www.propublica.org/article/corporations-couldnt-wait-to-check-the-box-on-huge-tax-break> [perma.cc/U7F8-8EJK] (discussing just one way in which corporations are able to exploit code principles under the current Tax system, such as through Form 1120).

1. Transfer Pricing

Transfer Pricing occurs when two related Corporations set the prices for services, goods, or intangible property (such as intellectual property) that are transferred between themselves within a specific transaction.⁶² Very often, the two Corporations are either subsidiaries of a parent corporation, or the parent company is directly dealing with the subsidiary corporation.⁶³ In doing so, Corporations can exploit the varying tax rates of the companies in which they are doing business, reporting lower profits in the countries with higher tax rates and lower profits in the countries with little to no tax rates. The Internal Revenue Service (“IRS”) carefully monitors these transactions, so these transactions must clearly and accurately reflect the income attributable to the transfer.⁶⁴ Furthermore, the IRS requires the transaction to occur at an arm’s length, such that the deal between the two related companies would be no more beneficial or unfair than a deal between two unrelated companies.⁶⁵

Imagine Corporation A is a manufacturer of wooden chairs and is based in the United States, where the corporate tax rate is 21%. Corporation B is the wholly owned subsidiary of A and is based in the Bahamas, where there is no corporate income tax.⁶⁶ Corporation A sells chairs for \$10 each, but it pays Corporation B \$10 for the five cubic feet of lumber used in production. Subsequently, A pays no taxes on the sale of its chairs, because it has made no profit on paper. Corporation B, who buys its lumber at \$1 dollar per five cubic yards, has just made a \$9 profit on the sale of its lumber. However, because Corporation B is in the Bahamas, where there is no corporate income tax, the \$9 in profit is tax-free. On such a sale, Corporation A is in direct violation of the regulations imposed by the IRS.⁶⁷ When a corporation engages in a transaction with a controlled entity, there are certain reporting requirements that must be followed.⁶⁸

⁶² See Anshu Duhoon & Mohinder Singh, *Corporate Tax Avoidance: A Systematic Literature Review and Future Research Directions*, 21 LBS J. MGMT. & RSCH. 197 (2023) (noting the legitimacy risks associated with schemes such as Transfer Pricing on account of its potential for and history of abuse by corporations).

⁶³ See generally Shobhit Seth, *Understanding Transfer Pricing: Tax Implications and Examples*, INVESTOPEdia (Aug. 2, 2025), <https://www.investopedia.com/terms/t/transfer-pricing.asp#toc-what-is-transfer-pricing> [perma.cc/6MYJ-Y5DA] (defining transfer pricing and the way in which it functions).

⁶⁴ See I.R.C. § 482 (1986).

⁶⁵ See 26 C.F.R. § 1.482-1(b)(1) (2025).

⁶⁶ See *Taxation in the Bahamas*, BAH. GUIDE, <https://thebahamasguide.com/government/taxation/> [perma.cc/CND9-BHVA] (last visited Nov. 24, 2025) (noting the Bahamas’ lack of a corporate income tax).

⁶⁷ See 26 C.F.R. § 1.482-1(a)(1) (defining the regulations surrounding Transfer Pricing and their purpose in ensuring fair competition).

⁶⁸ See *Instructions for Form 5472*, INTERNAL REVENUE SERV., <https://www.irs.gov/instructions/i5472> [perma.cc/N7VL-FRDR] (last visited Nov. 24, 2025) (mandating that transactions between corporations that are owned at a rate of 25% or more be reported).

Subsequently, Corporation A would likely be attributed the income and be forced to pay 21% in taxes on the \$9 profit.⁶⁹

However, a loophole exists in the specificity of the governing language that deals in comparability.⁷⁰ Under this standard, the IRS concedes that “whether a controlled transaction produces an arm’s length result is evaluated by comparing the results to those of taxpayers under similar circumstances.”⁷¹ Using the “Best Method Rule,” the arm’s length result of a controlled transaction is determined under the method that, with the facts and circumstances present, “provides the most reliable measure of an arm’s length result.”⁷² As such, Corporation B must now base its price on certain specific factors, such as the quality of lumber, the economy of the Bahamas, and the price of similar wood.⁷³

Therefore, Corporation B could now market the wood as the highest quality Bahamian lumber and provide a ten-year warranty on the material, selling it for \$8 per five cubic yards. If Corporation A cannot “afford” the cost of the lumber up front, then corporation B can provide Corporation A with a line of credit, charging 10% interest on the transaction.⁷⁴ With all facts considered, Corporation B can now sell its lumber to Corporation A for \$8.80 per five cubic yards (consisting of \$8 in lumber and \$0.80 in interest). Corporation B makes a \$7.80 profit, which is nontaxable, and Corporation A makes \$1.20 profit on each chair sold (paying \$0.25 in tax per chair). Corporation B can now use its profits to buy stock in Corporation A, resulting in Corporation A getting the ultimate benefit from the \$9 profit yet only paying \$0.25 in taxes.⁷⁵ Though the specifics may vary, Corporations routinely engage in Transfer Pricing to minimize tax liability and reduce their effective tax rates.

2. Code Exploitation

Transfer Pricing is an example of how Corporations can work around the existing laws, but it does not cover how corporations can use the laws

⁶⁹ See 26 C.F.R. § 1.482-1(b)(1) (requiring that transactions be made at an arm’s length, treating the deal as fairly as it would be between stranger corporations and stating that failure to comply results in harsh penalties).

⁷⁰ See generally 26 C.F.R. § 1.482-1(d) (referencing the comparability of the standard to real world scenarios, providing a practical basis on which to gauge legality of controlled transactions).

⁷¹ See *id.*

⁷² See 26 C.F.R. § 1.482-1(c) (stating that the best method for determining an arm’s length transaction is to evaluate the specific nature of the transaction at hand and base the deal on transactions of the same or similar nature).

⁷³ See *id.*

⁷⁴ See Vanessa Barford & Gerry Holt, *Google, Amazon, Starbucks: The Rise Of “Tax Shaming,”* BBC NEWS (May 21, 2013), <https://www.bbc.com/news/magazine-20560359> [perma.cc/R47X-KK4S] (addressing how Starbucks would use lines of credit to purchase supplies from subsidiary companies with interest as part of a plan to effectuate a tax of 0% on its \$400 million profit in the UK in 2012).

⁷⁵ See Davide Proietti, *Avoiding Tax Avoidance: A Rational Proposal to Close Existing Loopholes in the U.S. Corporate Tax System*, 12 FIU L. REV. 225, 236–38 (2016) (detailing the concept of Transfer Pricing through the exemplary use of soda can manufacturing).

themselves to their benefit. The concept of Code Exploitation covers just that, analyzing the way in which existing codes within the I.R.C. are both used and abused by Corporations for business deductions.⁷⁶ The Code is complex. It consists of thousands of individual sections and subsections that govern the taxation of individuals, partnerships, Corporations, and all others earning money within and outside of the U.S.⁷⁷ Regardless of whether someone is in favor of or against the code's complexity, there is no disputing that there are certain provisions within the I.R.C. that allow for the minimization of tax liability both above and below the line, such as sections 162 and 174.⁷⁸

a. Section 162(a)

Section 162 of the I.R.C. details the deductions that exist for trade and business expenses, directly lowering a Business's AGI as an above the line deduction.⁷⁹ Specifically, section 162(a) governs how ordinary and necessary business expenses may be deducted, allowing a company to subtract costs for salaries and compensation, travel, and rental expenses.⁸⁰ To properly understand the scope of section 162, one must first understand what "trade and business expenses" mean. In *Comm'r of Internal Revenue v. Groetzinger*, the Supreme Court defined the term to mean activities conducted with "continuity and regularity," where the primary purpose was to make a profit.⁸¹ The term "ordinary and necessary" on the other hand, can only be defined by separating the words and analyzing each separately. The Supreme Court defined "ordinary" to mean a customary or usual expense in the taxpayer's trade or business.⁸² The term "necessary" refers to an expense that is both appropriate and helpful for the development and furtherance of the business.⁸³ If both words are satisfied, then the deduction is allowable and can be used to lower reported AGI.

It is the satisfaction of these two standards that allows for corporate deductions through section 162(a), but the lack of regulations on the amount of the

⁷⁶ See generally *Guide to Business Expense Resources*, INTERNAL REVENUE SERV., <https://www.irs.gov/forms-pubs/about-publication-535> [perma.cc/QU43-CBEU] (last visited Nov. 24, 2025) (discussing that although the publication has been discontinued for the 2023 taxable year, it still gives an accurate guide on deductible business expenses using Code provisions that are still active).

⁷⁷ See I.R.C. § 162 (2025) (explaining the Code contains various subtitles and more than 7,800 individual provisions. Subtitle A, which encompasses corporate taxation, has 1,564 sections alone).

⁷⁸ See I.R.C. § 162 (addressing the section of the Internal Revenue Code that allows for ordinary business deductions, which are above the line deductions that help minimize corporate AGI); see also I.R.C. § 174 (2025) (allowing for the use of research credits as an example of below the line reductions).

⁷⁹ See I.R.C. § 162.

⁸⁰ See I.R.C. § 162 (a).

⁸¹ See *Comm'r of Internal Revenue v. Groetzinger*, 480 U.S. 23, 35 (1987) (defining "trade or business" for purposes of understanding § 162).

⁸² See *Welch v. Helvering*, 290 U.S. 111, 113–14 (1933) (defining ordinary expenses as part of the requirements under § 162 (a)).

⁸³ See *id.* at 114 (defining necessary expenses as part of § 162 (a)).

deductions and the extent of such deductions creates the opportunity for the abuse. One bright line rule is that capital expenditures, such as the purchase of new equipment or a facility, are not deductible (though they can be depreciated over a certain term of years).⁸⁴ Another is that the expenses must be incurred within the taxable year and be substantiated by record and bookkeeping to evidence their existence.⁸⁵ Beyond this, however, much of the limitations exist in the gray and are woefully undefined.⁸⁶ One example of corporate exploitation under section 162(a) refers to none other than travel expenses. So long as the trip is properly documented and the main purpose is for business, then even if days in between are spent sipping Margaritas, the whole trip is deductible.⁸⁷

b. Section 162(f)

Section 162(f) is responsible for several historic tax breaks to Corporations. Specifically, section 162(f) governs the nondeductible nature of expenses related to and including fines and penalties.⁸⁸ Under the TCJA, the act was amended to curb blatant exploitation of the principle.⁸⁹ However, we will examine use of section 162(f) both prior to and after 2017, analyzing how exploitation of the section is still possible to lower tax liability. Under the original language, the provision read: “No deduction shall be allowed under subsection (a) for any fine or similar penalty paid to the government for the violation of any law.”⁹⁰ Therefore, under the original provision, any claimed payment or expense that was either a fine or penalty was not deductible.

In 2006, Boeing brokered a \$615 million settlement with the Department of Justice for ethical violations.⁹¹ However, under section 162(f) as originally written, there was no prohibition on deducting settlement costs and expenses.⁹²

⁸⁴ See TAXPAYER ADVOC. SERV., TRADE OR BUSINESS EXPENSES UNDER IRC § 162 AND RELATED SECTIONS, https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/2013-ARC_VOL-1_S3_MLI-2.pdf [perma.cc/M6BD-3VE5] (last visited Nov. 24, 2025) (defining limitations under § 162 (a)).

⁸⁵ See *id.*

⁸⁶ See *id.* (noting that the majority of IRS scrutiny falls on the procedural production of evidence to support travel deductions, with less scrutiny on substance so long as evidence produced to such effect is valid).

⁸⁷ See *Code Section 162a: What Qualifies as Deductible Business Expenses?*, ACCT. INSIGHTS (Feb. 26, 2025), <https://accountinginsights.org/code-section-162a-what-qualifies-as-deductible-business-expenses/> [perma.cc/8H72-EG7W] (listing the criteria necessary to deduct travel expenses properly).

⁸⁸ See I.R.C. § 162(f) (2025).

⁸⁹ See Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97, § 13306(a), 131 Stat. 2054 (expanding exclusionary language of the provision to curb exploitation).

⁹⁰ See Tax Reform Act of 1969, Pub. L. No. 91-172, § 902(a), 83 Stat. 487, 710 (providing a narrow limitation of deductible expenses); see also I.R.C. § 162(a) (2025) (providing for the deduction of ordinary and necessary business expenses).

⁹¹ See Leslie Wayne, *3 Senators Protest Possible Tax Deduction for Boeing in Settling US Case*, N.Y. TIMES (July 7, 2006), <https://www.nytimes.com/2006/07/07/business/07boeing.html> (examining the potential for corporate abuse of I.R.C. § 162 (f)).

⁹² See Tax Reform Act of 1969 § 902(a).

Subsequently, out of the \$615 million settlement, \$565 million of the amount was deductible, leaving Boeing with an effective fine of only \$50 million—approximately 9% of the original settlement.⁹³ For one reason or another, Boeing did not claim the deduction. Other companies, however, have exploited 162(f) shamelessly. On April 20, 2010, BP’s oil drilling rig, the Deepwater Horizon, exploded and spilled approximately four million barrels of oil into the Gulf of Mexico.⁹⁴ The spill cost BP an estimated \$37.2 billion.⁹⁵ However, of the \$37.2 billion, around \$10 billion was deductible under section 162(f) for settlement fees.⁹⁶ Both examples support the exploitative potential under the original provision of 162(f).⁹⁷

Under the TCJA, section 162(f) was reworked, and it now reads:

[N]o deduction otherwise allowable shall be allowed under this chapter for any amount paid or incurred (whether by suit, agreement, or otherwise) to, or at the direction of, a government or governmental entity in relation to the violation of any law or the investigation or inquiry by such government or entity into the potential violation of any law.⁹⁸

This language, then, seems to address deductions of expenses related to settlement agreements—which were heavily exploited prior to 2017. However, there is now an express exception written into the statutory language, allowing for valid deductions that constitute restitution for damage or harm.⁹⁹ So long as the above, amongst other considerations, is met, the entire amount is deductible.¹⁰⁰ Though settlements as a whole are no longer deductible, the portions of such settlements related to restitution—the act of making one whole—still remain deductible.¹⁰¹

⁹³ See Renae Merle, *Boeing CEO Asserts Commitment to Ethics*, SPOKESMAN REV. (Aug. 2, 2006) <https://www.spokesman.com/stories/2006/aug/02/boeing-ceo-asserts-commitment-to-ethics/> [perma.cc/T853-LFZV]; see also Wayne, *supra* note 93 (“\$50 million of the settlement represented a penalty to resolve criminal charges and was not deductible.”).

⁹⁴ See *Deepwater Horizon – BP Gulf of America Oil Spill*, ENV’T PROT. AGENCY (Apr. 23, 2025), <https://www.epa.gov/enforcement/deepwater-horizon-bp-gulf-america-oil-spill> [perma.cc/K6FX-K8AR] (detailing the BP oil spill and resulting effects).

⁹⁵ See PHINEAS BAXANDALL & MICHELLE SURKA, *SETTLING FOR A LACK OF ACCOUNTABILITY?* 5 (2015) (noting the \$37.2 billion in costs and the deductible nature of \$10 billion so as to offset total tax liability).

⁹⁶ See *id.*

⁹⁷ See Colleen Essid, *To Tax or Not to Tax: Internal Revenue Code 162(f), Tax Loopholes, and Unjust Enrichment*, 67 ST. LOUIS U. L.J. 143, 144–145 (2022) (noting the pre-2017 exploitation of section 162).

⁹⁸ I.R.C. § 162 (f) (2025) (quoting the reworked change and providing the updated version with regards to settlements being included).

⁹⁹ See I.R.C. § 162 (f)(2)(A)(i)(I) (explaining the newfound exception under the statute under fines and penalties).

¹⁰⁰ *Id.* (adding a note on the settlement amount being not included).

¹⁰¹ See Essid, *supra* note 97 (describing the changes between the original provision of § 162 (f) and the revision under the TCJA); see also *Restitution*, LEGAL INFO. INST. CORNELL L. SCH., <https://www.law.cornell.edu/wex/restitution> [perma.cc/RA4N-RAMD] (last visited Nov. 24, 2025)

However, in the legal context, restitution can also refer to disgorging something that has been taken, with both interpretations typically falling within the definition of the word.¹⁰² In 2020, the Supreme Court held that disgorgement of benefits can, in fact, constitute restitution for purposes of deductions under section 162(f).¹⁰³ Under *Liu v. Sec. Exch. Comm'n*, not only are corporate payments deductible when making a plaintiff or victim whole, but repayment of money that was unlawfully earned is now also deductible.¹⁰⁴ Under the treasury regulations defining the amended version of section 162(f), the deductible nature of such restitution is clearly explained. Though the regulations were amended, they are no less open-ended today than they were originally—allowing Corporations to deduct expenses related to their wrongdoing.¹⁰⁵

c. Sections 174 AND 41

However, section 162 only deals in above the line deductions which lower AGI, without addressing below the line deductions. For such deductions, Corporations look to provisions such as section 174, which allow for below the line amortization (writing off) of research credits.¹⁰⁶ Yet, section 174 does not specifically govern the administration of the Research and Development (“R&D”) credit; instead, the credit is governed by section 41.¹⁰⁷ However, section 174 governs the ability to amortize the credit over a term of five years for domestic research, and fifteen years for foreign research.¹⁰⁸

To fully understand the amortization of the R&D credit, we must first understand the credit itself. Under section 41, the R&D credit is awarded to Corporations who incur “qualified research expenses” in the pursuit of “qualified research.”¹⁰⁹ Qualified research is that which is taken for the purpose of discovering information that: (i) is technological in nature; (ii) the application of which is “new or useful in the development of a new or improved business component of the taxpayer”; and (iii) all activities related to the research contain a process of experimentation.¹¹⁰ Qualified research expenses are costs for either: (i) in house research, or (ii) contracted research. For in-house expenses, the credit exists for wages paid to employees, facility costs, and research supplies,

(defining restitution as compensation for loss or injury done).

¹⁰² See I.R.C. § 162 (f)(2)(A)(ii) (defining restitution as payment for wrongdoing and harm suffered).

¹⁰³ See *Liu v. SEC*, 591 U.S. 71, 75 (2020) (holding that disgorgement constitutes restitution).

¹⁰⁴ *Id.* (explaining plaintiff earnings are now deductible along with a corporate wrongdoers).

¹⁰⁵ See *Essid*, *supra* note 99 (noting the minimal impact the amendments to §162 (f) had on deductions related to corporate wrongdoing).

¹⁰⁶ See I.R.C. § 174 (a) (2025) (defining the use of research credits in lowering tax liability for the duration listed).

¹⁰⁷ See I.R.C. § 41 (d)(1)(A) (2025) (providing credits for research and development that can be amortized under § 174 to reduce tax liability).

¹⁰⁸ See I.R.C. § 174 (a).

¹⁰⁹ See I.R.C. § 41(b) (awarding the credit for qualified expenses incurred in the pursuit of technological research and development).

¹¹⁰ See I.R.C. § 41(d)(1).

whereas the credit for contracted research is a 65% reimbursement of all qualified costs associated with the research.¹¹¹

Once the research expenses are properly incurred under section 41, the Code, under section 174, allows for the expensing of such credit over either a five-year period (for domestic research), or a fifteen-year period (for foreign related research).¹¹² Before the TCJA, research credits could either be fully deducted under section 174 or amortized over five years at the taxpayer's election—providing a choice.¹¹³ Under the TCJA, the section was amended in an attempt to curb exploitation, resulting in mandatory amortization; though contested, companies are still able to effectuate reduced tax liabilities despite amortization.¹¹⁴ The biggest change in the amendment of section 174 is how deductions will only be fully expensed after the midyear convention, which restricts amortization to only a half years' worth in year one (assuming taxable year January–December).¹¹⁵ Even in a limited capacity, however, Corporations are still able to use section 174 to their benefit, reducing overall tax liability by amortizing the full cost of R&D development over the respective time period to recover their entire investment.¹¹⁶

C. THE ALTERNATIVE MINIMUM TAX

Through the use of both above and below the line deductions, Corporations are able to significantly reduce their AGI and associated tax liability so as to minimize the amount owed.¹¹⁷ An argument against this principle is the Alternative Minimum Tax (“AMT”), which ensures that there is a floor for corporate tax that, on paper, cannot be breached or lowered.¹¹⁸ Repealed under the TCJA

¹¹¹ See I.R.C. § 41(b)(2); see also I.R.C. § 41(b)(3)(A).

¹¹² See I.R.C. § 174(a)(2)(B).

¹¹³ See Richard Ray, *Amortizing R&E Expenditures Under the TCJA*, J. ACCT. (Nov. 1, 2022), <https://www.journalofaccountancy.com/issues/2022/nov/amortizing-r-e-expenditures-under-tcja> [perma.cc/5ADJ-Y7AU].

¹¹⁴ See Schneider Downs, *New Research and Development Capitalization Requirement Shuffles the System*, SCHNEIDER DOWNS (Nov. 8, 2023), <https://schneiderdowns.com/our-thoughts-on/research-development-capitalization-requirement-shuffles-system> [perma.cc/DE28-EV2Q] (explaining the ability to defer taxable gains and smooth earnings). *Contra* CONG. RSCH. SERV., SECTION 174 AND THE TREATMENT OF RESEARCH AND EXPERIMENTATION EXPENSES 1 (2020) (explaining the increase in tax liability during the first year of amortization).

¹¹⁵ See I.R.S. Notice 2023-63, INTERNAL REVENUE SERV. 9–10, <https://www.irs.gov/pub/irs-drop/n-23-63.pdf> [perma.cc/95K7-W73H] (last visited Nov. 24, 2025) (explaining the deduction for short taxable years, including the first taxable year of the deduction).

¹¹⁶ See *id.*; see also *Annual Report (Form 10-K) for Socket Mobile, Inc.*, SEC. & EXCH. COMM'N 24 (Mar. 3, 2025), <https://www.sec.gov/Archives/edgar/data/944075/000094407525000013/k10-2024.htm> [perma.cc/HW5V-FR4E] (discussing the increase of a deferred tax asset from \$10.1 million in 2023 to \$10.7 million in 2024 due to amortization of credits under § 174).

¹¹⁷ See Lowenstein, *supra* note 56 (describing effective tax rates significantly below the 21% corporate tax rates for 342 corporations observed).

¹¹⁸ See *Corporate Book Minimum Tax to Be Effective for 2023*, PWC (Aug. 2022), <https://www.pwc.com/us/en/services/tax/library/corporate-book-minimum-tax-to-be-effective-for-2023.html> [perma.cc/H59H-WUZ5] (recognizing the effect of the AMT, also known as the corporate book minimum tax, on domestic companies with incomes of over \$1 billion and foreign

and reintroduced in 2022, the AMT requires a minimum tax of 15% to be paid by Corporations with income over \$1 billion (\$100 million for foreign Corporations)—meaning that, even if a corporation pays less than the standard 21% rate, they cannot pay less than 15%.¹¹⁹ Under the law, gross income, not AGI, is assessed, meaning that Corporations cannot get around this rule by maximizing above the line deductions to lower taxable income.

However, though a great proposition, the AMT is still subject to loopholes. For one, the AMT does not account for income held by wholly owned subsidiaries, so long as the money remains offshore.¹²⁰ As such, transfer pricing, discussed above, is a primary avenue through which Corporations avoid the AMT. Additionally, below the line deductions, such as the R&D credit, can directly lower the amount owed under the AMT.¹²¹

III. THE ROOT OF THE PROBLEM—UNDERSTANDING CORPORATE EXPLOITATION

As explained in detail above, Corporations use the law to minimize their corporate tax liabilities despite earning record high profits.¹²² This paper's focus will now shift as to why this situation continues to exist, addressing the role that the political system plays in regulating the tax laws that govern our nation and the allowance for corporate exploitation to persist.

A. THE ROLE OF THE TAXPAYER

The perceived exploitation by Corporations to minimize their tax liabilities is a misnomer. They are utilizing the tax laws to their benefit. Nonetheless, the legal tax avoidance by Corporations is an ongoing issue in the American tax system, depriving this nation of sorely needed funds to manage the ever-growing debt and account for national spending.¹²³ Americans must take responsibility for the legislators they elected and re-elected, who promulgated the tax laws that created the corporate tax loopholes. All taxpayers, including

corporations with incomes of over \$100 million).

¹¹⁹ See *id.*

¹²⁰ See Alex A.T. Rathke, *Profit Shifting Under the Arm's Length Principle* 1–2 (2023), <https://ssrn.com/abstract=4581549> [<http://dx.doi.org/10.2139/ssrn.4581549>] (explaining how using Transfer Pricing can circumvent the regulations under the AMT by keeping the money offshore).

¹²¹ See ANTHONY A. CILLUFFO ET AL., TAX PROVISIONS IN THE INFLATION REDUCTION ACT OF 2022 (H.R. 5376) 3 (2022) (declaring that the R&D credit is part of the domestic business credits that can offset up to 75% of corporate liability under the AMT).

¹²² See *U.S. Corporate Tax Receipts as a Share of U.S. GDP*, *supra* note 2 (finding that corporate tax payments contributed just 1.25% to GDP). *Contra Fact Check: Higher Corporate Tax Revenue After GOP Tax Reform Debunks Another Democrat Myth*, *supra* note 45 (reporting that corporate tax payments would contribute an estimated 1.9% to GDP).

¹²³ See *Understanding the National Debt*, U.S. DEP'T OF TREAS., <https://fiscaldata.treasury.gov/americas-finance-guide/national-debt/> [perma.cc/T4N2-NXNH] (reporting that federal revenues are unable to account for spending, facilitating the need to borrow).

Corporations, seek to lower their tax liabilities.¹²⁴ However, until 2010, section 441(b) of the I.R.C. prohibited corporate funded independent expenditures as they related to political elections, preventing Corporations from being directly involved in the election cycle.¹²⁵ As such, though Corporations were allowed to arrange their affairs in such a way as to lower tax liability, they were barred from directly influencing political elections.¹²⁶

B. THE ROLE OF THE JUDICIARY

This all changed in 2010 with *Citizens United v. Fed. Election Comm'n*, in which the Supreme Court ruled on the legality of the provision as it applied to corporate political contributions.¹²⁷ In the landmark decision that has shaped our nation's political system for the last 15 years, the Court held that, under the First Amendment, the government could not "suppress political speech on the basis of the speaker's identity as a nonprofit or for-profit corporation."¹²⁸ As a result of the Court's decision, Corporations now had the same access to First Amendment protections as individual citizens, allowing them to create and donate unlimited funds to "SUPER PACs" (Political Action Committees) who can then donate independently to political elections.¹²⁹ So long as the politicians have no direct involvement, these unlimited donations are perfectly legal.¹³⁰

C. THE ROLE OF THE LEGISLATIVE BRANCH

Whereas it is the job of the Judiciary to interpret the laws, it is the role of the legislative branch to make such laws and regulations that govern our

¹²⁴ See *Helvering v. Gregory*, 69 F.2d 809, 810 (2d Cir. 1934) (quoting Judge Hand in stating "anyone may so arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the treasury; there is not even a patriotic duty to increase one's taxes.").

¹²⁵ See I.R.C. § 441(b) (2006) (prohibiting corporate and union contributions to federal candidates), *repealed by*, Pub. L. No. 113-105, § 2, 128 Stat. 1147 (2014).

¹²⁶ See Christopher Bergin, *Tax Avoidance Just Isn't What It Used to Be*, FORBES (Sep. 17, 2013, at 10:10 EDT), <https://www.forbes.com/sites/taxanalysts/2013/09/17/tax-avoidance-just-isnt-what-it-used-to-be/> [perma.cc/2PM3-J5VZ] (finding that the line between tax avoidance and tax evasion is becoming increasingly blurred, with tax avoidance no longer existing as it 'used to.' Additionally, Bergin references the connection between lax tax policies and a deficiency in corporate tax payments—evidenced in nations such as the U.K.).

¹²⁷ See *Citizens United v. FEC*, 558 U.S. 310, 342 (2010) (holding that corporations were entitled to the same protections under the first amendment as individual citizens and that the government could not regulate the corporate freedom of political speech).

¹²⁸ See *id.*

¹²⁹ See Daniel I. Weiner & Tim Lau, *Citizens United Explained*, BRENNAN CTR. FOR JUST. (Jan. 29, 2025), <https://www.brennancenter.org/our-work/research-reports/citizens-united-explained> [perma.cc/YR2L-DZZS] (defining SUPER PACs as outside organizations that can accept unlimited donations from corporations, so long as the groups do not donate directly to individual candidates; the SUPER PAC can then, in turn, spend unlimited money on campaign ads on behalf of or against any candidate— so long as the PAC is disclosed as the payor).

¹³⁰ See *id.* (explaining the restrictions on personal involvement with the SUPER PACs by political candidates).

country.¹³¹ However, after the ruling in *Citizens United*, there was no longer a check on political campaign expenditures limiting the amount of corporate donations.¹³² Though any direct connection between donations and influence over a politician is illegal, there is no prohibition on indirect influence, which politicians know. Though the current Tax code was written nearly 40 years ago and is in dire need of an overhaul, speculation exists that the reason for such delinquency lies in the deliberate reluctance of Congress to enact such change.

Sunsetting regulations have become the norm, replacing permanent regulations as the preferred method of legislative policymaking.¹³³ Though contested, scholars believe that, by doing so, members of Congress can attract the attention of interest groups and receive support from SUPER PACs by attracting the highest bidder to push for favorable policies.¹³⁴ Even where elected officials refrain from accepting corporate campaign contributions, many still take advantage of the stock market by leveraging their positions on committees with insider knowledge as to corporate activities.¹³⁵ Corporate agents (e.g., CEOs) must testify before Congress when subpoenaed, providing details regarding their operations through congressional hearings.¹³⁶ As such, politicians sitting on these committees can use their knowledge of corporate activity to make prudent investments that often see outstanding returns.¹³⁷ So long as legislators disclose these market moves within 45 days of the transaction, their actions are perfectly legal.¹³⁸ Consequently, where the legislative branch is directly

¹³¹ See U.S. CONST. art. I, § 1 (vesting all legislative powers in Congress).

¹³² See *Citizens United*, 558 U.S. at 372 (reversing the district court's restriction on corporate independent expenditures under I.R.C. § 441b and declaring the law unconstitutional).

¹³³ See William G. Gale & Peter R. Orszag, *Sunsets in the Tax Code*, TAX POL'Y CTR. 1553, 1554 (2003) (noting the rampant rise in use of sunset provisions following the Economic Growth and Tax Relief Reconciliation Act of 2001); see also Neil Irwin & Courtenay Brown, *1 Big Thing: the "Big, Beautiful Bill" Trade-Off*, AXIOS (May 14, 2025), <https://www.axios.com/newsletters/axios-macro-550d7040-30c5-11f0-949e-c18323cd67cf> [perma.cc/JKF7-MVYH] (noting that the 2025 tax proposal contains numerous sunset provisions, which will only prolong legislative dilemmas).

¹³⁴ See McCaffery & Cohen, *supra* note 50, at 7 (theorizing that the congressional prevalence to draft temporary policies is driven by a desire to solicit attention and campaign donations from interest groups).

¹³⁵ See Joe Perticone, *Members of Congress Crossing Ethical and Legal Lines in Trading Stocks*, THE BULWARK (Nov. 23, 2022), <https://www.thebulwark.com/p/members-of-congress-crossing-ethical-and-legal-lines-in-trading-stocks> [perma.cc/XVK8-BTLR] (documenting the power of congressmen not just to capitalize on stock market changes, but to influence the markets themselves via their positions on congressional committees and boards).

¹³⁶ *Id.*

¹³⁷ See Owen Klinsky, *Pelosi Stock Portfolio Exploded in Value During 2024*, WND (Jan. 9, 2025), <https://www.wnd.com/2025/01/pelosi-stock-portfolio-exploded-in-value-during-2024> [perma.cc/59CK-Y6QT] (finding that Nancy Pelosi's stock portfolio grew 70.9% between 2023 and 2024, outperforming the stock market by nearly 200% and outperforming Berkshire Hathaway's (Warren Buffet's) stock portfolio by over 200%).

¹³⁸ See Tobi Opeyemi Amure, *How You Can Find Out Exactly What Lawmakers Are Investing In*, INVESTOPEDIA (June 27, 2025), <https://www.investopedia.com/how-to-find-lawmaker-investments-11753849> [perma.cc/7P9N-WV53] (noting how congressional trades over \$1,000 are required to be reported within 45 days, and while insider trading laws apply equally to lawmakers,

profiting from the current tax system, there is no incentive to rectify the loopholes these Corporations continually exploit.

IV. WHY CLOSE THE DOOR? THE ARGUMENT AGAINST TAX REFORM

Before addressing the need to close the open door, we will first address the main arguments behind leaving it open. Critics to reform will argue that: first, corporate taxes should not increase due to the notion of double taxation; second, they will argue that Corporations are not exploiting the I.R.C. because all acts of avoidance are in compliance with the code. However, such arguments are blind defenses of the corporate structure with little insight behind their claims. Here, both arguments will be deconstructed and evaluated on account of their merit.

The first argument, double taxation, revolves around the premise that Corporations are taxed on their income, and their shareholders are then taxed for dividends received by the corporation.¹³⁹ Currently, Corporations are taxed at 21% for their income (without consideration of any deductions or loopholes).¹⁴⁰ Practically, this means that a corporation that earns \$1,000,000 is supposed to pay \$210,000 in taxes.¹⁴¹ If the corporation makes a distribution to a shareholder, then that shareholder, so long as they hold the stock for 61 days prior to receipt, will pay capital gains tax on the dividend at a minimum of 15%.¹⁴² In contrast, an executive earning \$1 million a year would be taxed on a progressive scale, resulting in a 37% tax on his income and a total tax bill of \$370,000.¹⁴³ If receiving dividends, the executive is subject to the same regulations for capital gains.¹⁴⁴ Though making the same money, the executive still paid \$160,000 more in taxes than the corporation.

The second claim is equally baseless. It is true that tax avoidance is legal, and there are no laws being violated if a corporation solely engages in tax avoidance. However, tax avoidance being legal does not mean that there is no exploitation being utilized to engage in such tax avoidance. On the contrary, the

enforcement is rare and difficult to prove).

¹³⁹ See Julia Kagan, *Double Taxing: What It Is, How It Works, Criticism*, INVESTOPEDIA (July 31, 2022), <https://www.investopedia.com/terms/d/doubletaxing.asp> [perma.cc/RF33-BYY9] (explaining the concept of double taxation as being a tax on both the corporation and individual investor).

¹⁴⁰ See Tax Cuts and Jobs Act, Pub. L. No. 115–97, § 13001, 131 Stat. 2054, 2096 (2017) (setting the corporate tax rate at 21%).

¹⁴¹ See *id.*

¹⁴² See Nathan Reiff, *What Are Qualified Dividends, and How Are They Taxed?*, INVESTOPEDIA (July 15, 2025), <https://www.investopedia.com/terms/q/qualifieddividend.asp> [perma.cc/XHS3-QF6K] (defining qualified dividends for purposes of tax treatment).

¹⁴³ See Alex Durante, *2025 Tax Brackets and Federal Income Tax Rates*, TAX FOUND. (Oct. 22, 2024), <https://taxfoundation.org/data/all/federal/2025-tax-brackets/> [perma.cc/T3RS-B4GL] (providing the 2025 gradual tax table and standard deduction used in calculating the taxable amount on a \$1 million salary for an individual).

¹⁴⁴ See Reiff, *supra* note 142 (explaining that qualified dividends are taxed at long-term capital gain rates).

above examples provide copious evidence to support exploitation of the existing codes to reduce or eliminate tax liabilities altogether. In such a case, these actions being “legal” only means that the system has yet to classify them as illegal, not that they are proper or should continue to exist.

V. CLOSING THE OPEN DOOR ONCE AND FOR ALL

As such, there is no denying that immediate reform is necessary to counteract corporate loophole exploitation and ensure Corporations are taxed fairly for their gains. However, the question of how such reform might be accomplished can only be answered via a combination of three proposals: (i) re-establish political independence; (ii) simplify the I.R.C.; and (iii) implement plans to reinvigorate the IRS. Tax law does not exist in a vacuum. Therefore, these three proposals can only work effectively if they are all enacted.

A. RE-ESTABLISHING POLITICAL INDEPENDENCE

Political independence can only be accomplished if two things occur simultaneously: (i) *Citizens United*¹⁴⁵ is overturned, and (ii) politicians can no longer benefit from stock investments. The first proposal is more realistic. Before this case, established precedent held that Corporations were restricted from any direct involvement in political campaigns.¹⁴⁶ Furthermore, a case aptly named *End Citizens United PAC v. Fed. Election Comm’n* was recently ruled on by the D.C. Circuit Court of Appeals in favor of the plaintiff, where they alleged complaints for an untimely campaign registration and illegal coordination between a political candidate and PAC, respectively.¹⁴⁷ Though the current Supreme Court bench is unlikely to overrule *Citizens United*, such a case shows a push to overturn or narrowly define the current precedent, which very well may be possible under a more activist style bench.¹⁴⁸ If *Citizens United* is overturned, or if Congress passes laws to undo the effects of the case, it will be possible to rein in unchecked corporate spending on political campaigns.¹⁴⁹

However, overruling *Citizens United* is just one half of the battle. To effectively restore political independence, all forms of money (both direct and indirect) must be eliminated from politics altogether. The best way to accomplish such a goal is to push for legislation prohibiting active members of Congress,

¹⁴⁵ *Citizens United v. FEC*, 558 U.S. 310, 349, 354 (2010).

¹⁴⁶ *See Austin v. Mich. Chamber of Com.*, 494 U.S. 652 (1990) (holding that the restriction of corporate expenditures on political campaigns is constitutional), *overruled by, Citizens United*, 558 U.S. at 385.

¹⁴⁷ *See End Citizens United PAC v. FEC*, 90 F.4th 1172, 1175–76 (D.C. Cir. 2024) (describing the two administrative complaints filed).

¹⁴⁸ *See Dylan Matthews, How Democrats Missed a Chance to Reshape the Supreme Court for a Generation*, VOX (Jan. 22, 2017, at 2:57 PM), <https://www.vox.com/2016/8/22/12484000/perma.cc/9T54-HR3H> (finding that *Citizens United* can be overruled by a more liberal bench, if not more narrowly construed).

¹⁴⁹ *Contra id.* (expressing skepticism that Congress is likely to overturn *Citizens United*).

their spouses, and their families from trading in stocks or portfolios while serving. The idea is plausible. Senator Josh Hawley introduced the Preventing Elected Leaders from Owning Securities and Investments Act (“PELOSI Act”) in both 2023 and 2025.¹⁵⁰ Under the proposed bill, all members of Congress and their spouses would be banned from holding, purchasing, or selling individual stocks while in Office; only diversified mutual funds, ETFs, and Treasury bonds would be allowed.¹⁵¹ Though not perfect, it’s a start. If both events were to take place, there would no longer be an interest in delaying permanent tax reform, and real change could begin to take place.

B. SIMPLIFY THE I.R.C.

The next proposal is one that concerns the I.R.C. itself. Specifically, the current Code must be overhauled to a simplified version. Written in 1986, the current Code has over 4,500 provisions, each with their own exceptions and exceptions to those exceptions, making it very difficult to understand and follow.¹⁵² Worse still, the complexity makes it easier for Corporations to find and exploit loopholes within the Code. With 4,500 Code provisions to interpret (1,564 in Subtitle A alone, which is the Code section regarding income), such provisions can be construed in a myriad of ways by Corporations looking to take advantage of the system and minimize or eliminate their tax liabilities.¹⁵³ Many scholars theorize that a simplified Code could boost compliance.¹⁵⁴

Under the proposed simplifications, all Code sections, such as those mentioned in this paper, would be modified to become simpler and easier to follow. For example, section 162(a) allows for deduction of personal leisure within business expenses if structured properly. To simplify the statute, the provision should instead read: “No deductions shall be allowed for any days on business trips where less than eight hours of well documented, business-related work is handled.” Similarly, section 162(f) can be rewritten, even as currently amended, to remove section 162(f)(2), which is the provision that governs exceptions to the barring of deductions related to suits, agreements, and settlements by or at

¹⁵⁰ S. 58, 118th Cong. (2023) (proposing to counteract congressional trading).

¹⁵¹ S. 58 §§ 201–202 (defining “covered financial instrument,” and prohibiting Members and spouses from trading such instruments).

¹⁵² See Marjorie Gell, *3.8 Million and Counting: The Complexity and Wordiness of Tax Law*, 91 MICH. B.J. 50, 50 (2012) (finding that taxpayers spend, on average, 6.1 billion hours per year attempting to understand the tax code).

¹⁵³ *Id.* at 51 (explaining that complexity arises from provisions promoted by special interests); see also Richard N. Cooper, *Overtaxed by Tax Revision*, N.Y. TIMES (Sep. 10, 1984), <https://www.nytimes.com/1984/09/10/opinion/overtaxed-by-tax-revision.html> (noting that corporate convenience is one of the reasons behind the immense complexity of the tax code).

¹⁵⁴ See NAT’L TAXPAYER ADVOC., COMPLEXITY OF THE TAX CODE: THE COMPLEXITY OF THE TAX CODE BURDENS TAXPAYERS AND THE IRS ALIKE 45 (2022) (stating that the most serious problem posed by the current tax code is its complexity, prompting need to simplify the code as a way to enhance compliance).

the direction of government entities.¹⁵⁵ Without these exceptions, there will be a clearly defined prohibition on all deductions related to corporate “bad behavior,” preventing Code exploitation. Additionally, section 174 should be amended to replace the five-year amortization period with a 10-year amortization period for domestic research, and a 20-year amortization period for foreign research.¹⁵⁶ These modifications will help stem ongoing corporate exploitation of the Code.

Similarly, transfer pricing must also be addressed. Critics to such a proposal state that Corporations will simply “leave the United States” if extremely harsh regulations are enacted.¹⁵⁷ However, even if Corporations are to leave the country, they are sure to continue selling their products. In 2024, U.S. consumers spent approximately \$23.3 trillion on goods and services, comfortably taking the first-place spot from China (whose residents spend approximately \$7 trillion per year).¹⁵⁸ As such, even if companies are to remove their physical presence from the U.S., they will still need to sell to U.S. consumers.¹⁵⁹ To combat corporate relocation, Congress can enact legislation (and likely must renegotiate tax treaties or agreements with foreign countries) to tax all Corporations doing business in, selling products in, performing services in, or partnering with Corporations located in the United States.¹⁶⁰ In contrast to existing law, this proposal would base the foreign corporation’s income on sales and provide no deductions afforded to Corporations located in the United States.¹⁶¹ Thus, even if they are no longer based in the United States, foreign Corporations will have to pay corporate taxes for goods sold in the country (similar to

¹⁵⁵ See *Are Fines and Penalties Tax Deductible Under 162(f)?*, ACCT. INSIGHTS (June 21, 2025), <https://accountinginsights.org/are-fines-and-penalties-tax-deductible-under-162f/> [perma.cc/J9LH-Z69S] (“Despite the broad rule of nondeductibility, the law provides specific exceptions for certain payments.”).

¹⁵⁶ See Ray, *supra* note 113 (explaining that § 174 now requires 5-year amortization for domestic and 15-year amortization for foreign research expenditures and noting bipartisan proposals to delay or repeal the change).

¹⁵⁷ See Daniel J. Mitchell, *US Taxes Are Far Too High – No Wonder Companies Are Fleeing*, CATO INST. (Aug. 29, 2014), <https://www.cato.org/commentary/us-taxes-are-far-too-high-no-wonder-companies-are-fleeing> [perma.cc/RR73-R3XH] (“Many politicians in Washington are angry that some American companies are redomiciling in the UK, Canada, and elsewhere. These ‘inversions’ generally occur . . . with tax being a big reason . . .”); see also Warren, *Jayapal, Boyle Introduce Ultra-Millionaire Tax on Fortunes Over \$50 Million*, ELIZABETH WARREN (Mar. 1, 2021), <https://www.warren.senate.gov/newsroom/press-releases/warren-jayapal-boyle-introduce-ultra-millionaire-tax-on-fortunes-over-50-million> [perma.cc/PC5U-BREH] (including an “exit tax” on the net worth above \$50 million of any U.S. citizen who renounces citizenship to avoid the tax).

¹⁵⁸ See *Gross Domestic Product, 4th Quarter and Year 2024 (Second Estimate)*, U.S. BUREAU OF ECON. ANALYSIS (Feb. 27, 2025), <https://www.bea.gov/news/2025/gross-domestic-product-4th-quarter-and-year-2024-second-estimate> [perma.cc/HB48-M635] (displaying projections showing a total U.S. consumption amount of \$23.3 trillion for 2024).

¹⁵⁹ See *id.* (supporting the claim that the U.S. economy is extremely important for corporate business).

¹⁶⁰ See PWC, *DOING BUSINESS IN THE UNITED STATES: A GUIDE TO KEY TAX ISSUES 19–20* (2020) (finding that all corporations, U.S. or foreign, can be taxed on business conducted in the U.S.).

¹⁶¹ See *id.*

Corporations paying taxes within each state in which they operate).¹⁶² To combat transfer pricing, legislation can be imposed that will “tax all businesses on the earnings of 25% or more owned Corporations, regardless of the corporation’s country of origin.”¹⁶³ These two proposals alone will prevent corporate migration and curb transfer pricing, all while ensuring Corporations are fairly taxed for their profits earned via the support of U.S. customers.

Lastly, in reworking and simplifying the Code, corporate taxes will increase to a flat rate of 30%, and the AMT will no longer be deductible by below the line deductions such as credits under section 41.¹⁶⁴ In doing so, Corporations will now be forced to pay more in taxes without the benefit of several of the most common loopholes to exploit. Through these efforts, corporate contributions will hopefully increase from their current rate of 2% to GDP and be a more substantial component of federal revenue collection.¹⁶⁵

C. REINVIGORATE THE IRS

Though historically funded properly, the IRS is currently a shell of its former self. Reduced funding, mass-layoffs, and inadequate training means the country’s main revenue collection agency lacks the personnel and resources needed to properly enforce code compliance and regulate corporate loophole exploitation.¹⁶⁶ Enhanced funding alone, however, will not solve the agency’s problems. It is true that, as per estimates, every one dollar (\$1) invested into the IRS provides approximately \$12 in value.¹⁶⁷ However, despite assessing tax

¹⁶² See *id.* at 19 (finding that foreign corporations are subject to tax for U.S. derived profits).

¹⁶³ See Elizabeth Pandolfi, *An Overview of Tax Implications for Foreign-Owned Businesses in the U.S.*, BENCH (Aug. 10, 2022), <https://www.bench.co/blog/tax-tips/tax-implications-foreign-owned-business-us> [perma.cc/NT2J-XHHZ] (explaining the nature of a 25% owned corporation and supporting the theory of attribution).

¹⁶⁴ See Jamie Roman, *Understanding Alternative Minimum Tax (AMT): Who Is Affected?*, TAX L. ADVOC., <https://taxlawadvocates.com/understanding-alternative-minimum-tax-amt-who-is-affected/> [perma.cc/W8A2-L3KB] (last visited Nov. 24, 2025) (supporting that disallowing the use of deductions to lower AMT liability will help enforce collection efforts and close out commonly exploited avoidance loopholes).

¹⁶⁵ See *U.S. Corporate Tax Receipts as a Share of U.S. GDP*, *supra* note 2. *Contra Fact Check: Higher Corporate Tax Revenue After GOP Tax Reform Debunks Another Democrat Myth*, *supra* note 45.

¹⁶⁶ See *IRS Budget Cuts Will Delay Your 2026 Tax Refund: Here’s Why*, FINGERLAKES1 (June 26, 2025, at 6:54 AM), <https://www.fingerlakes1.com/2025/06/26/irs-staff-cuts-2026-tax-season/> [perma.cc/55WX-KSSJ] (finding that tax cuts to the IRS have delayed collection efforts and resulted in a lack of compliance).

¹⁶⁷ See Clea Simon, *Turns Out IRS Audits of Wealthy Offer Terrific Return on Investment for Taxpayers*, HARV. GAZETTE (July 19, 2023), <https://news.harvard.edu/gazette/story/2023/07/turns-out-irs-audits-of-wealthy-offer-terrific-return-on-investment-for-taxpayers> [perma.cc/9H4D-YBWN] (finding that every \$1 spent on auditing the top 10% of earners yields an investment return of \$12); see also Andrew Leahey, *Starving the Watchdog—Budget Cuts to IRS-CI Undercut Crime Fighting*, FORBES (June 23, 2025), <https://www.forbes.com/sites/andrewleahey/2025/06/23/starving-the-watchdog-budget-cuts-to-irs-ci-undercut-crime-fighting/> [perma.cc/XE5A-QJNB] (finding that the IRS’ Criminal Investigations unit recovered over \$9 billion in 2024 on a budget of just under \$800 million).

deficiencies at both the individual and corporate levels, the IRS is unable to collect upon these debts.¹⁶⁸

To rectify the problem, the IRS first must receive additional funding, but it does not end there. Specifically, Congress in collaboration with the Department of the Treasury and the IRS must work to clearly define corporate reporting and ensure corporate data is reported at the same rate as payroll information.¹⁶⁹ Next, a new Information Technology system and updated databases must be created for the IRS, so it can more accurately cross-reference data reported to the IRS and other federal, state, and local government agencies.¹⁷⁰ Lastly, more specialized revenue agents and revenue officers must be hired and trained, so they can retrieve and interpret the information available through the updated databases.¹⁷¹ Through these measures, missing taxes can both be assessed and collected, ensuring corporate compliance moving forward.

VI. CONCLUSION

There is no debating the problem that corporate tax avoidance causes to the future of this country. As the United States continues to delve deeper into its debt, Corporations rake home record profits while contributing less to the economy than ever before.¹⁷² Through concepts such as Code exploitation and transfer pricing, Corporations are able to “legally” avoid paying the taxes they would otherwise owe, thus effectuating far lower effective tax rates than the theoretical rates imposed by Congress. As a result of both judicial and legislative action (and inaction), these loopholes continue to exist and continue to be exploited. Only through a combination of political independence, Code simplification, and reinvigoration of the IRS will this nation slowly ensure that Corporations begin contributing as much to the economy as the American people they are profiting from.

¹⁶⁸ See Leahey, *supra* note 167 (finding that enforcement and conviction rates have dropped significantly due to consistent budget cuts).

¹⁶⁹ See generally U.S. DEP'T OF TREAS., GENERAL EXPLANATIONS OF THE ADMINISTRATION'S FISCAL YEAR 2024 REVENUE PROPOSALS (2023) (finding that the misrepresentation of income via payroll taxes accounts for approximately 1% of such reported income, compared to approximately 50% for self-reported income).

¹⁷⁰ See Charles O. Rossotti et al., *Shrinking the Tax Gap: A comprehensive Approach*, TAX NOTES (Nov. 30, 2020), <https://www.taxnotes.com/featured-analysis/shrinking-tax-gap-comprehensive-approach/2020/11/25/2d7ht> [perma.cc/2SWK-LSXS] (theorizing that increased reporting and funding alone will do nothing to lower avoidance rates without properly trained staff to analyze collected data).

¹⁷¹ *Id.*

¹⁷² See *U.S. Corporate Tax Receipts as a Share of U.S. GDP*, *supra* note 2. *Contra Fact Check: Higher Corporate Tax Revenue After GOP Tax Reform Debunks Another Democrat Myth*, *supra* note 45.