

# Taxes and Firm Size: A Forty-Year Perspective

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1

## Research Question, Motivation, Prior Research and Contribution

- *RQ*: How is corporate taxable income and tax liability distributed across firms of different sizes?
- *Motivation*:
  - Corporate tax proposals are often based on beliefs about burdens of corporate tax on firms of different sizes
  - Policymaker and media attention is typically focused on the *largest* firms
- Prior research focuses on how firm characteristics influence *average* tax burdens (ETRs).
  - Most focus on publicly traded firms and use financial statement data
  - ETR measures have limitations in assessing tax burden, e.g.,
    - Increases or decreases in the ETR do not tell us if the absolute amount of the liability changed
    - Income may be subject to smoothing using NOL carryforwards or carrybacks
- *Contribution*:
  - Use an index to examine the distribution of tax relative to assets over time
  - Use a *more stable* measure of firm size over time (relative to income)
  - Our results serve as a **complement** to other research that looks at tax burden (i.e., ETR, cash ETR)

2

## Data and Methodology

- **Data:** Statistics of Income's Corporation Source Book and the Complete Report (after 2013)
  - Publicly available aggregated data for 1978-2017, that includes:
    - All 1120 filers (includes C and S Corporations)
    - Domestic income and tax liability
    - Worldwide assets
- **Measure:** Modified Suit's (1977) Index, following Hite and Roberts (1994):

$$S = 1 - \left\{ \sum \frac{1}{2} [T(a) + T(a-1)] (a_i - a_{i-1}) \right\} / 5,000$$

where:

T(a) = cumulative tax liability (or income) for a given asset grouping

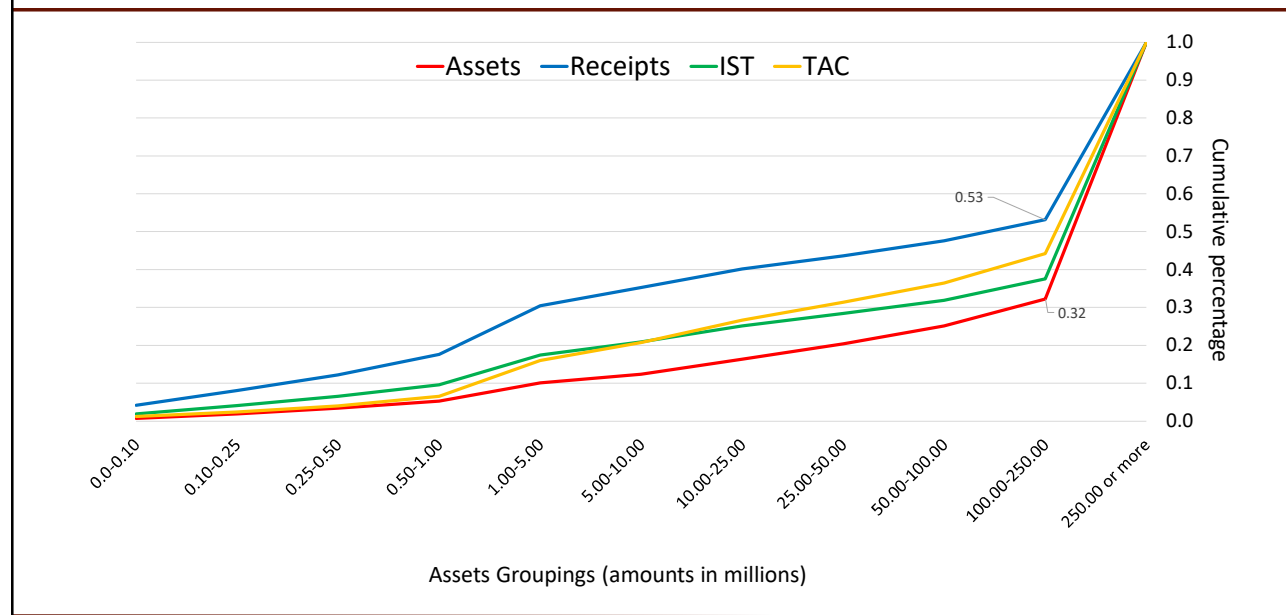
T(a-1) = cumulative tax liability (or income) for the preceding asset group

$a_i$  = cumulative share of assets for a given asset group

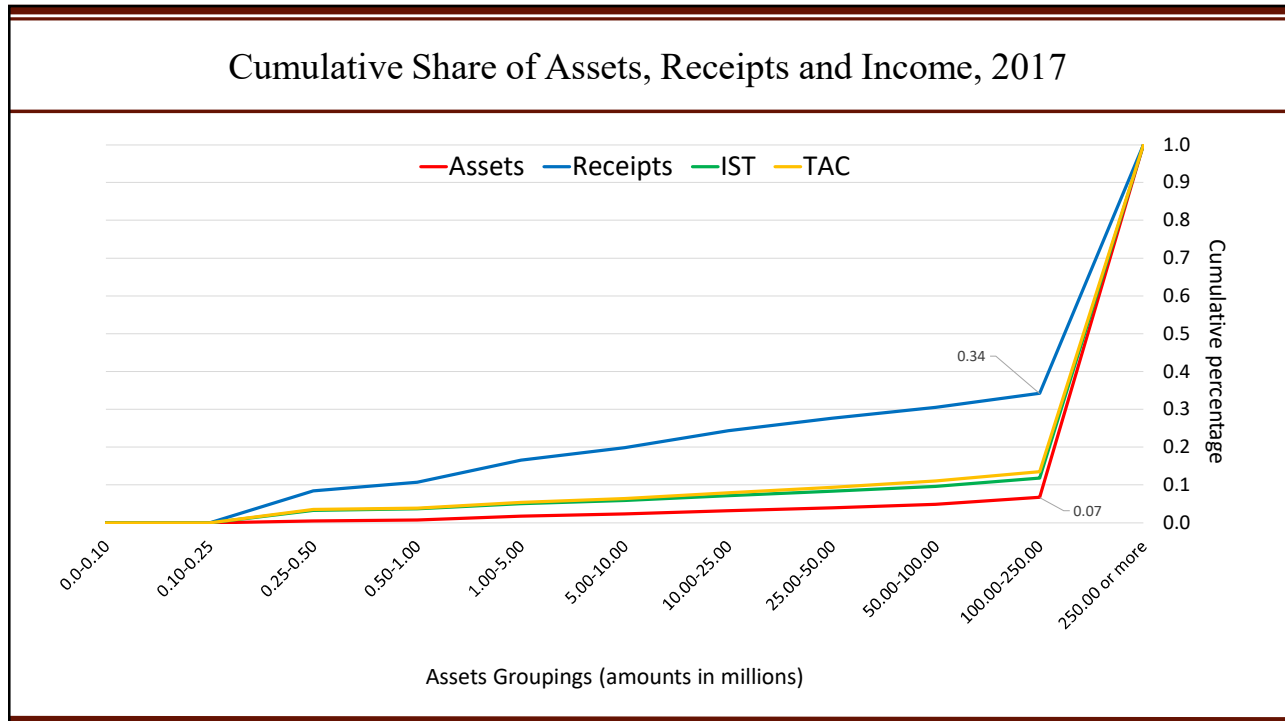
$a_{i-1}$  = cumulative share of assets for the preceding assets group

3

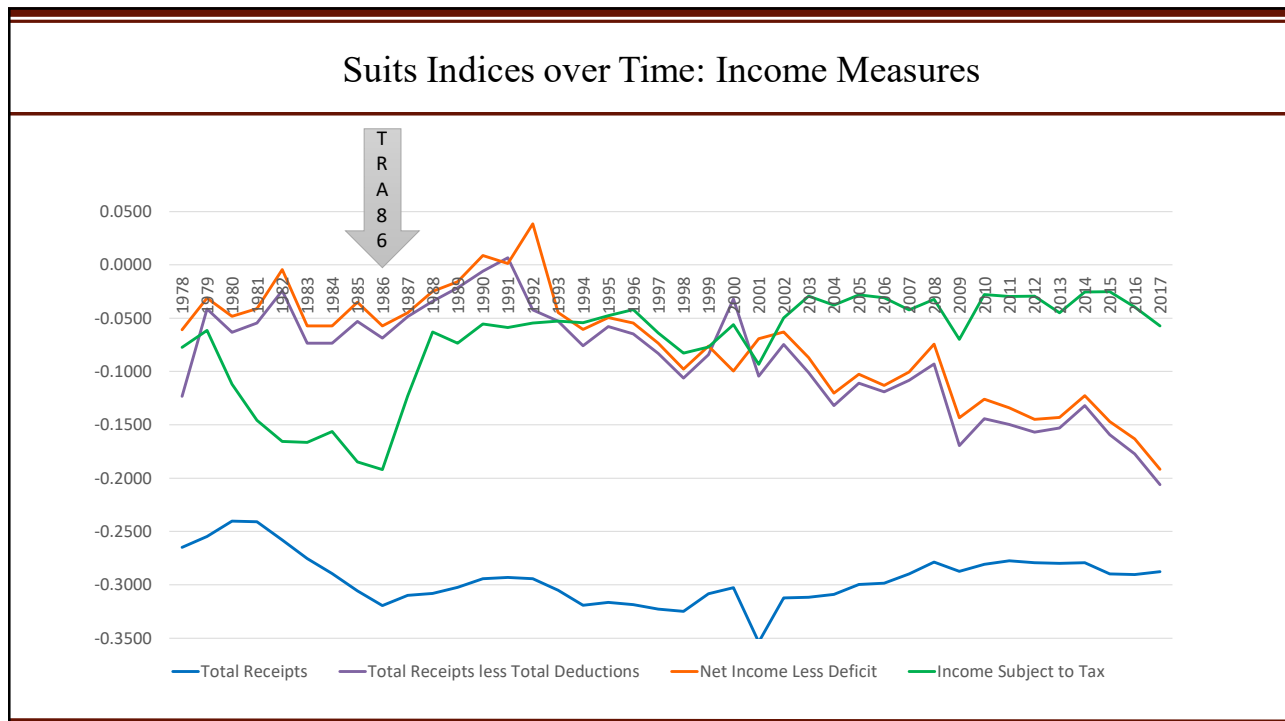
## Cumulative Share of Assets, Receipts and Income, 1978



4

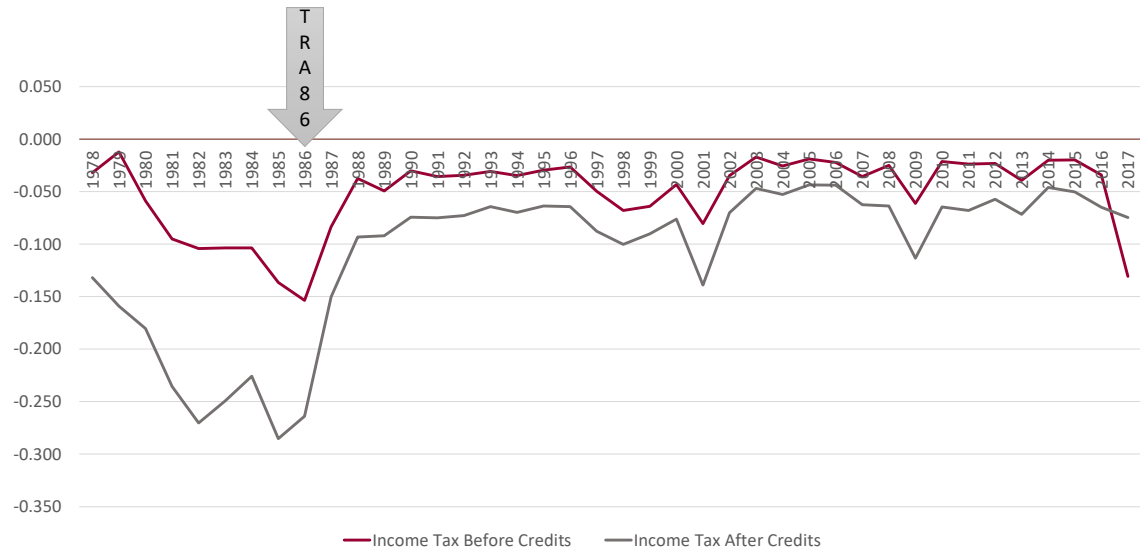


5



6

## Suits Indices Over Time: Tax Liability Measures



7

## Additional Analyses

- Provide a detailed breakdown of the effects of individual provisions, e.g., isolate the effect of:
  - depreciation
  - interest expense
  - S corporations
  - net operating losses (NOLs)
  - certain tax credits (i.e., FTC)
- Partition the “\$250 for or more” asset class for years with available data
- Tie our results to research that examines financial statement measures of tax burden

8