News Release
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DO STATE CORPORATE INCOME TAXES REDUCE WAGES?

As states across the country deal with falling revenues and budget shortfalls, policymakers must find ways to increase revenue and decrease spending while still promoting policies that will attract and retain businesses and jobs. One tool lawmakers may consider is the corporate tax rate, because it avoids taxing workers directly and is sometimes seen as a highly progressive tax, as most corporate capital is owned by wealthy individuals.

But, as economist R. Alison Felix of the Federal Reserve Bank of Kansas City writes in the article “Do State Corporate Income Taxes Reduce Wages?” policymakers should consider who actually carries the burden of corporate taxes. The article appears in the second quarter edition of the Bank’s *Economic Review*.

Research has shown that labor bears a large part of the corporate tax burden. Through an empirical analysis, Felix shows that state corporate taxes reduce wages, and this impact has increased over the last 30 years. Felix also finds that state corporate taxes have a larger negative effect on highly educated workers.

The article is available on the Bank’s website at www.KansasCityFed.org.

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