Pro-Worker Tax Policies to Rein in CEO Pay and Wasteful Stock Buybacks

In the debate leading up to passage of the 2017 GOP tax law, large corporations promised to use windfalls from a deep cut in the corporate tax rate to raise worker pay. Instead, they went on a stock buyback spree. S&P 500 firms alone spent $806 billion on buybacks in the first year after that tax reform, a massive jump from the $519 billion they spent repurchasing stock in 2017. And the spree continues, with analysts forecasting a historical outlay of more than $1 trillion in 2025.

By repurchasing their own stock on the open market, companies artificially pump up the value of their shares. This, in turn, inflates the stock-based compensation that makes up about 80 percent of CEO pay, while siphoning resources from worker wages, R&D, and other long-term investments. Analysts have documented the association between buybacks and worker layoffs, as well as reduced capital investment and innovation and wage stagnation. Extensive research also shows that huge gaps between CEO and worker pay undermine corporate performance by lowering employee morale and boosting turnover.

Tax policies are a powerful tool for steering Corporate America in a more equitable and productive direction.

Increase the new stock buybacks tax

The 2022 Inflation Reduction Act introduced a 1 percent excise tax on the repurchase of corporate stock. Bills in the last congressional session would build on this new tax. The **Stock Buyback Accountability Act** (S. 413), would raise the buybacks excise tax to 4 percent, a move that would discourage this wasteful practice while generating an estimated $166 billion in new revenue over the next decade (see p. 239).

Tax corporations with excessive levels of CEO pay

Higher tax rates on companies with wide CEO-worker pay gaps would create an incentive to rein in executive pay and raise worker wages, all the while generating significant new capital for vital public investments.

- ➢ The **Curtailing Executive Overcompensation (CEO) Act** (S. 3176/H.R. 6191) would apply an excise tax to publicly traded and private companies with large CEO-to-median-worker pay disparities. The tax owed would be proportional to the degree a company's pay ratio exceeds 50 to 1 and to the level of the CEO's compensation. Companies with a large pay gap would owe extra taxes—and if they *also* have extremely high CEO pay, they would owe even more. This bill, if in effect in 2022, would have raised an estimated $10 billion or more from the *Fortune* 100 largest U.S. companies alone.

- ➢ The **Tax Excessive CEO Pay Act** (S. 794/H.R.1979) would tie a company's federal corporate tax rate to the size of the gap between its CEO and median worker pay. Tax penalties would begin at 0.5 percentage points for companies that pay their top executives between 50 and 100 times more than their median workers. The highest penalty would apply to companies that pay top executives over 500 times worker pay. Revenue estimate: $150 billion over 10 years. The CEO Accountability and Responsibility Act (H.R. 1284) imposes similar tax penalties for large pay ratios.

TAKE ON WALL ST · AFR Americans for Financial Reform · CWA · Americans for Tax Fairness · Institute for Policy Studies

A 2024 survey suggests that a tax hike on corporations that pay their CEO at least 50 times more than they pay their median employee would be enormously popular. Large majorities in every political group supported the idea (89 percent of Democrats, 77 percent of Independents, and 71 percent of Republicans).

Additional tax policies to build worker power

While wealthy CEOs reap billions from the Trump-GOP tax law, hardworking union members can no longer deduct the cost of union dues. If Congress reinstated a **tax deduction for union dues**, it would only require a 0.1% **increase in the corporate tax rate** to fully pay for it. Policy makers should also pass the **No Tax Breaks for Union Busting Act** so businesses can no longer claim tax deductions for interfering with unionization campaigns, like spending on so-called "captive audience meetings" and anti-union advertising campaigns. Employers spend an estimated **$400 million** trying to hinder union organizing efforts each year. The bill also establishes an IRS reporting requirement for employers who intervene in protected labor activities.

We all pay for excessive CEO pay and stock buyback spending

The current CEO pay system encourages reckless and wasteful actions designed to bump up share prices in the short term while siphoning resources from workers and often putting the rest of us at risk.

- **Norfolk Southern**, the company responsible for the 2023 train derailment in Ohio, spent more than $10 billion on stock buybacks in the four years leading up to that crash, $3 billion more than the railroad company spent on equipment upgrades and other long-term investments. During those four years, Norfolk's CEO pay averaged $13.6 million. A recently filed lawsuit charges that the company's negligence led to the deaths of seven people.
- Between 2019 and 2023, **Lowe**'s spent $42.6 billion on stock buybacks, enough to have given each of the firm's 285,000 employees an annual $29,865 bonus for five years, nearly doubling the retailer's median annual worker pay of $32,626. By contrast, Lowe's CEO Marvin Ellison enjoyed total compensation of $18.2 million in 2023.
- If **American Airlines** had not spent $12.5 billion on stock buybacks in the decade leading up to Covid-19, they arguably would not have needed the $5.8 billion bailout from taxpayers to survive the crisis. The airline's CEO made $11.6 million the year before the pandemic hit — 189 times the company's median worker pay.
- Bankers chasing huge bonuses drove our economy off a cliff. In the three years leading up to the 2008 financial crisis, the **top five executives at the 20 biggest bailed out banks** had averaged $32 million each in personal compensation.

Learn More

- Americans for Financial Reform, Stock Buybacks Work
- Institute for Policy Studies, CEO-Worker Pay Resource Guide
- Americans for Tax Fairness, Engine of Inequality: A Flood of Corporate Profits Is Enriching Wealthy Shareholders Through Stock Buybacks and Dividends, At The Expense of Workers and The Public