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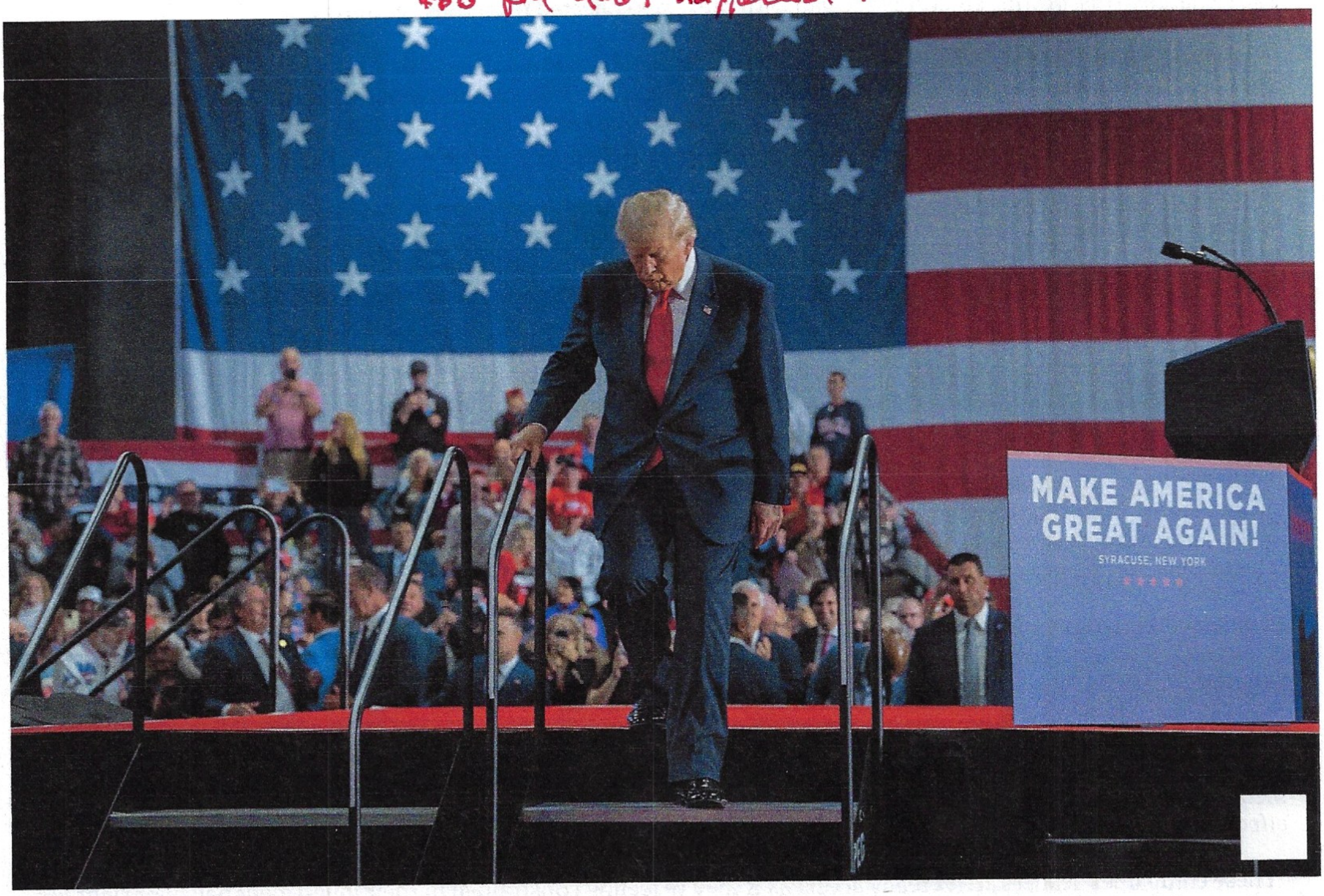
THE TRUMP YEARS

Corporate tax revenue falls as profits soar

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President Donald Trump arrives to deliver remarks for a campaign rally at The Oncenter in Syracuse, N.Y., on Oct. 9. Corporate tax revenue has fallen precipitously under President Trump even as companies' profits have surged to record highs. Haiyun Jiang — The New York Times

By Andrew Duehren
The New York Times

WASHINGTON — Corporate tax revenue has fallen precipitously under President Donald Trump even as companies' profits have surged to record highs, a divergence that began after Republicans approved tax breaks allowing firms to write off the cost of their investments more quickly.

Revenue from the corporate income tax, which applies to the profits made by the largest and most sophisticated companies in the United States, fell roughly 15%, to $381 billion, in the fiscal year that ended on Oct. 1, according to

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data released this month by the Treasury Department. The roughly $70 billion drop followed a similar decline the previous year. Corporate tax revenue is down more than quarter from 2024, the last full fiscal year of the Biden administration.

Behind the decrease are the tax cuts that Republicans passed and Trump signed last year. That law lets companies claim larger deductions in the year they make new investments, a change made as many of the country's largest technology firms began pouring hundreds of billions of dollars into artificial intelligence projects, including data centers.

The cuts have reduced corporate tax revenue even more sharply than analysts projected. Company leaders, locked in a frenzied race to build more powerful AI models, have said they plan to keep increasing their investment spending, potentially depressing corporate tax revenue for years to come. The additional investment may also supercharge firms' profits, enlarging the gap with the taxes collected from those earnings.

"It's very unusual to see a divergence of that magnitude, but it's not surprising in the sense that we know what's causing it," said Peter Berezin, chief economist at BCA Research, an investment research firm. "AI spending is projected to increase for the next few years, so these companies will be able to write off even more of their spending. If they didn't have huge profits, that would be one thing. But they do."

The fall in corporate tax revenue is just part of the deterioration in the nation's fiscal situation. The difference between government spending and revenue neared $2 trillion last fiscal year, as military spending increased and higher interest rates raised the cost of payments on the federal debt. The debt held by the public, more than $32 trillion, is now nearly equivalent to the annual output of the economy, a level not seen since the years after World War II.

The deficit is growing even though the economy remains relatively strong and unemployment low. Corporate profits have only swelled in recent years, powering stock indexes to record highs, a development that might be expected to increase corporate tax receipts. Revenue from the individual income tax grew last fiscal year.

But in their tax cut, Republicans made a series of changes allowing companies to reduce the amount of earnings subject to tax. They changed the timeline over which companies can write off the cost of new investments, as well as research and development costs. Rather than deducting the cost of new computing equipment over several years, for example, companies can now write it off immediately.

Businesses aggressively lobbied Congress for this seemingly minor accounting tweak because it improves the economics of new investment. Academic researchers found that the tax break, when previously in place, did help generate additional investment, which can help power the economy overall.

That was before the competition to dominate AI technology unleashed hundreds of billions of dollars in spending on chips, data centers and the electrical systems that power them. Major companies such as Microsoft, Google and Meta appear so committed to sharply increasing their investment that the tax break may not be having much of an effect on their plans.

"These companies' leaders aren't really acting as if they're feeling constrained in their investment behavior right now," said Matt Gardner, a senior fellow at the Institute on Taxation and Economic Policy, a liberal think tank. "It seems pretty uncontroversial to say that we are rewarding these companies for what they were going to do anyway."

The tax break applies to investment spending broadly, not just to data centers and other AI-related expenses. While the tax change could encourage additional business investment in other sectors, the AI rush is so significant that it may be crowding out other capital expenditures. Financing the build-out of AI infrastructure has helped push up interest rates, making borrowing for new investments more expensive across the economy, while the prices of other business inputs have also increased.

"It looks like we are at a point for the macroeconomy of having about as much investment as we can," said Gabriel Chodorow-Reich, a Harvard economics professor who co-wrote a paper finding that the tax break helped increase investment. "In that circumstance, increasing the marginal incentive to do investment may end up ultimately increasing the price of investment, rather than producing more total investment."

On the campaign trail, some Democrats have started to attack Republicans for voting to approve the tax break, painting it as subsidy exclusively for data centers. Sen. Ron Wyden of Oregon, the top Democrat on the Senate Finance Committee, has proposed excluding components for data centers from the investment incentive.

That has worried proponents of the tax incentive, which has historically enjoyed a measure of bipartisan support. They argue that the accelerated write-offs will, over a longer time frame, still spur additional business investment. The drop in tax revenue should be temporary, they said, as companies exhaust the deductions they can claim on their investments.

"To the extent that we think this investment is occurring because there are very large profits to be had, when those profits are had, they will be taxed, and that's how we should want the tax system to work," said Erica York, a senior economist at the Tax Foundation, a think tank that generally supports lower taxes.

But the government's payday may be years away if the AI investment cycle continues unabated. Then there is the question of whether the AI investments will actually become profitable.

"If we realize data processing is a commodity, and we can have open-source models that charge way, way less, then there's a big bubble and the whole thing bursts," said Jeff Hoopes, a professor of accounting at the University of North Carolina.

"You end up not generating as much revenue," he said, adding that the revenue would not have materialized in that case under the previous tax approach, either.

The decline in corporate tax revenue is an early indicator of how AI could reshape the tax system. As companies and investors profit off AI, those earnings would, under current law, face lower tax rates than the wages paid to workers, who may also be displaced by the technology. That could, in the long run, curb tax revenue overall.

On Wall Street, excitement about AI is tempered by concerns about the deficit. Beyond the tax cuts passed through Congress, the Trump administration has taken several regulatory steps that could reduce tax payments for companies, including by weakening a measure aimed at limiting corporate tax avoidance.

David Kelly, chief global strategist at J.P. Morgan Asset Management, said the economy didn't need the business tax breaks that Republicans passed last year.