The Tax Excessive CEO Pay Act

CEOs in the 1970s made about one million dollars, or 20 to 30 times the average pay of their company's middle-class workers. The average CEO at a Fortune 500 firm today makes close to $20 million per year, 200 to 300 times the average pay of their typical workers. The out of control growth of CEO pay is one of the key drivers of the disastrous rise in income inequality and wage stagnation in the United States.

The 2010 Dodd-Frank financial reform took a step forward by requiring publicly held corporations to disclose the ratio between their CEO and median worker pay, but the results of this important regulation show that disclosure is not enough. According to a 2019 report by the AFL-CIO, the average S&P 500 CEO-to-worker pay ratio was 287 to 1. There are 50 major corporations that reported CEO-worker pay ratios over 1,000 to 1, including McDonald's, Walmart, and Walt Disney.

Basic Features of the Legislation

The Tax Excessive CEO Pay Act would apply a higher corporate tax rate on companies that pay their CEOs a disproportionate amount of compensation compared to their workers. The higher corporate tax rate will be based on the CEO-to-median-worker pay ratio reported to the Securities and Exchange Commission by public companies as required by the Dodd-Frank Act.

The corporate tax rate would increase by 0.5% for those companies reporting at a ratio of 50 to 1 and grow to a rate of 5% for those companies reporting a ratio of 500 to 1 or higher.

If a company's compensation ratio is:	*Their corporate tax rate would increase:*
More than 50 but not more than 100	+.5 percentage points
More than 100 but not more than 200	+1 percentage points
More than 200 but not more than 300	+2 percentage points
More than 300 but not more than 400	+3 percentage points
More than 400 but not more than 500	+4 percentage points
More than 500	+5 percentage points.

The legislation would extend the current rules for public companies to disclose their CEO-to-median-worker pay ratio to private companies with revenues of $100 million and apply the additional corporate tax rates for private companies with excessive CEO pay.

For those companies where the CEO is paid little or nothing, typically due to their underlying ownership of the company, the ratio will be calculated based on the compensation of the company's highest paid employee rather than that of the company's CEO.

The legislation provides a specific grant of authority to the Treasury to address situations where companies manipulate their CEO-to-worker pay ratio due to the use of contractors or any other technique.

By increasing the tax rate on companies with excessive CEO pay, the bill could raise as much as $150 billion over 10 years and help reduce the rampant growth of income inequality.