Tax Excessive CEO Pay Act 2024 FAQs

1. How would this tax work?

The wider a company's gap between CEO and median worker pay, the higher their federal corporate tax rate. Tax penalties would begin at 0.5 percentage points for companies that pay their top executives between 50 and 100 times more than their typical workers. The highest penalty would kick in for companies that pay top executives over 500 times their median worker pay. The tax penalty structure under this plan is as follows:

If a company's ratio between CEO and median worker pay is:	Their corporate taxes 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

2. What corporations would be subject to this tax?

The tax would apply to all private and publicly held U.S. corporations with average annual gross receipts of at least $100 million for the three preceding years.

3. How much revenue would be raised from this tax?

If current corporate pay patterns continue, the tax would raise an estimated $150 billion over 10 years. According to the Institute for Policy Studies, this additional revenue could finance important social needs, such as 15.58 million public housing units or 1.55 million elementary teacher jobs for a year.

- **In 2022, Walmart's CEO Doug McMillon made $25.3 million** while the typical worker at Walmart made $27,136. Under this legislation, Walmart, with a pay gap of 933 to 1, would have owed an extra $754 million in federal taxes in 2022. That's enough revenue to provide health care for over 260,000 low-income children for a year.

- **In 2022, Nike's CEO John Donahoe made $32.8 million** while the typical worker at Nike made $33,646. Nike, with a pay gap of 975 to 1, would have owed an extra $233 million, enough to pay for VA medical care for over 13,000 veterans for a year.

- **In 2022, Google's CEO Sundar Pichai made nearly $226 million** while the typical worker made $279,802. Google, with an 808 to 1 ratio, would have owed an extra $3.07 billion under this legislation, enough to pay for four years of public college for over 78,000 students.

4. What does the public think about putting a tax penalty on corporations with extreme gaps between CEO and worker pay?

A Gallup analysis found that this approach of taxing the rich "fits well with existing public opinion" and enjoys "majority support" even across party lines. In fact, a 2022 Just Capital poll found that 62 percent of Republicans want to see a fixed cap on CEO pay relative to worker pay — a more radical approach than a tax penalty on large disparities.

5. How does this tax address income inequality?

The tax will discourage the runaway CEO pay that is one of the key drivers of our country's extreme inequality. According to the Economic Policy Institute, from 1978 to 2022, CEO compensation grew by 1,047 percent. Meanwhile, after adjusting for inflation, the average worker makes nearly $50 a week less than he or she did over 50 years ago. The ratio of CEO-to-worker compensation was 344 to 1 in 2022, up from 21 to 1 in 1965. At the 100 S&P 500 companies with the lowest worker wages, pay ratios are even further off the charts. The average CEO-worker pay gap in the "Low-Wage 100" was 603 to 1 in 2022, according to the Institute for Policy Studies.

6. **How will this bill help workers at the bottom of the corporate pay ladder?**

This bill will change executive incentives by encouraging higher median wages and penalizing excessive CEO pay. CEOs today have an enormous personal motive—namely, their pay—to keep the cost of labor low. The more unpaid value they extract from their workers, the higher their own compensation. Channeling resources into executives' pockets also reduces the funds available for investment in training and other long-term strategies that could help workers move up the ladder.

7. **How does this tax affect our democracy and the broader economy?**

The tax will discourage the outrageous levels of compensation that give executives an incentive to take excessive risks. Wall Street's reckless "bonus culture" proved a key factor in the 2008 financial crisis. Current executive compensation practices also encourage CEOs to waste resources on stock buybacks that artificially inflate their own stock-based pay and take other short-term decisions that leave payrolls, employee training, and R&D budgets slashed. Excessive CEO pay undermines our democracy as well. The best evidence of the CEO pay contribution to our democracy's increasing trend towards oligarchy: of the top 100 political donors in 2020, 78 were either current or former top executives or their spouses.

8. **Why do some leading business experts support this tax?**

This tax will give corporations an incentive to narrow their pay differentials — hopefully by lifting up lower wage earners— which academic research indicates is good for the bottom line. Extreme compensation gaps hurt worker morale. Lower morale, in turn, reduces productivity and increases turnover. Peter Drucker, widely known as the father of modern management science, believed that the ratio of pay between worker and executive can run no higher than 20- or 25-to-1 without inflicting damage on a corporation's internal dynamics. There is no evidence that the rise in CEO pay levels has anything to do with improved managerial performance.

9. **How would this tax affect small businesses and worker-owned cooperatives?**

This tax targets large corporate enterprises that are exacerbating our country's income inequality. Because of their relatively very small pay gaps, small businesses and employee-owned firms and cooperatives — the building blocks of a fair and democratic economy — would get a leg-up on large competitors as a result of this tax.

10. **How would this tax affect corporate outsourcing?**

This bill directs Treasury to issue regulations to prevent avoidance, "including regulations to prevent the manipulation of the compensation ratio by changes to the composition of the workforce (including by using the services of contractors rather than employees)." In other words, if a company is found to have engaged in outsourcing to manipulate its pay ratio, it will face a tax penalty. The bill also creates a disincentive for offshoring by requiring corporations to take their offshore workers into account when they calculate their median pay. Shifting still more work to low-wage countries would actually lower their median wage and increase their tax liability.

11. **Isn't CEO pay a shareholder issue? Why should government get involved?**

Lawmakers mandate limits on corporate behavior all the time. They limit how much pollution corporations can spew out. They limit the chemicals companies can put into their products. They limit the hours they can force employees to labor. They set these limits because they recognize that irresponsible corporate behavior harms our communities. As demonstrated by the 2008 Wall Street meltdown to today's opioid crisis, excessive executive pay is clearly endangering the well-being of the public. This is a problem that is much broader than narrow shareholder concerns.

12. **Can people also work at the city and state levels to build momentum for a federal income inequality tax?**

Yes. In 2018, Portland, Oregon became the first jurisdiction to apply a tax penalty on publicly traded companies with wide gaps. More than 500 corporations that do business in the city are subject to the Portland pay ratio surtax. In November 2020, San Francisco voters overwhelmingly approved a similar tax. In its first year, 2023, the tax raised more revenue than expected, about $100 million, and proved to be more resilient than other local revenue sources. Lawmakers in at least nine U.S. states have also introduced pay ratio taxes.

Technical questions:

1. **How would the CEO-worker pay ratio be calculated?**

Large publicly held corporations must report their pay ratios to the Securities and Exchange Commission (SEC) under a regulation that originated in the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act. Large privately held corporations will calculate their pay ratios based on the same methodology and report them to the Treasury Department. Under the SEC rule, companies key their ratios to two numbers:

- ***CEO compensation.*** The SEC regulations require companies to include in their executive pay calculations all salary, bonuses, the estimated value of stock and stock option awards, changes in pension value, and perks. Under the proposed legislation, if the CEO is not the highest-paid, the numerator would be based on the highest-paid employee's compensation.

- ***Median employee compensation***. Companies can use various methods, including statistical sampling, to identify the employee with their firm's median — most typical — compensation. Part-time, temporary, and full-time U.S. and non-U.S. employees must be included, but not subcontracted employees. Companies can exempt non-U.S. employees from their ratio calculations only if these employees make up 5 percent or less of the total workforce. Companies cannot convert part-time and temporary employees into full-time equivalents.

2. **Why are foreign workers included in the median calculation?**

Industry groups pushed the SEC to exclude non-U.S. employees from pay ratio calculations. These same industry groups have been the driving force behind free trade agreements that increase the profit incentive for multinationals to shift production to low-wage countries. But the SEC did not back down to corporate pressure. By allowing only limited exceptions for including foreign workers in ratio calculations, the data increases understanding of how U.S. executives are globalizing away jobs for U.S. workers.

3. **Why are part-time workers included in the median calculation?**

The National Retail Federation and other corporate lobby groups fought relentlessly for regulation language that would let the corporations they represent convert part-time and seasonal workers into full-time equivalents, a statistical sleight of hand that would make their pay gaps look smaller. The SEC correctly refused to allow this conversion, arguing that basing pay ratio calculations on real paychecks would better reflect "the actual composition" of a company's workforce.

4. **What about firms that have small pay ratios because their CEO/founders take only nominal annual pay because they are sitting on mountains of their company's stock?**

If the CEO did not pocket the largest paycheck in the firm, the pay ratio calculation will be based on the highest-paid employee. At Tesla, for instance, the highest-paid employee in 2022, the CFO, made $46.6 million — 1,337 times as much as Tesla's median worker pay of just $34,084.