The Tax Excessive CEO Pay Act

CEOs in the 1970s made about one million dollars per year, or 20 to 30 times the average pay of their company's middle-class workers. The average CEO at the largest 350 U.S publicly-owned firms today makes $22.2 million per year, 290 times the median pay of their typical worker. Among the 100 S&P 500 companies with the lowest worker pay, the average CEO makes 632 times more than the median worker. The out-of-control growth of CEO pay is one of the drivers of the disastrous rise in income inequality and wage stagnation in the United States.

The 2010 Dodd-Frank financial reform requires 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. In 2024, 57 publicly held U.S. companies reported CEO-worker pay ratios over 1,000 to 1, including household names like McDonald's, Chipotle, and Starbucks.

Basic Features of the Legislation

The Tax Excessive CEO Pay Act would apply a higher corporate tax rate on companies that pay their CEO (or their highest-paid executive, if that is not the CEO) a disproportionate amount of compensation compared to their workers. The higher corporate tax rate will be based on data public companies report to the Securities and Exchange Commission, as required by the Dodd-Frank Act.

The corporate tax rate would increase by 0.5% for those companies reporting a ratio between the compensation of the highest-paid executive and median worker pay of higher than 50 to 1 on average over 5 years and grow to a rate of 5% for those companies reporting a ratio of 500 to 1 or higher. The ratio is calculated based on the average annualized compensation over 5 years.

If a company's average compensation ratio is:	*Their corporate tax rate would increase:*
More than 50 but not more than 100	+0.5 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.

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. If this legislation had been in effect in 2024, some of the largest companies would have paid much more. For example:

- If Elon Musk receives the full $975 billion compensation package that Tesla's board proposed, Tesla could owe up to $100 billion more in taxes over the next decade under this legislation.
- **Starbucks** would have owed up to $204 million more in taxes. The coffee chain paid its CEO Brian Niccol $95.8 million in 2024, 6,666 times its typical employee.
- **Walmart** would have owed up to $929 million more in taxes. The retailer paid its CEO Doug McMillon $27.4 million in 2024, 930 times its typical employee.

- **Home Depot** would have owed up to $725 million more in taxes. The big box chain paid its CEO Edward Decker $15.6 million in 2024, 443 times its typical employee.

- **Nike** would have owed up to $161 million more in taxes. The sportswear firm paid its outgoing CEO John Donahoe II $28.4 million, 584 times its typical employee.

- **JPMorgan Chase** would have owed up to $2.38 billion more in taxes. The bank paid its CEO Jamie Dimon $37.7 million, 348 times its typical employee.

- **Amazon** would've owed up to $3.1 billion more in taxes. The firm's highest-paid executive last year, Amazon Web Services head Adam Selipsky, made $34.3 million, 922 as much as the company's typical employee.

- **Tesla** would've owed up to $114.6 million more in taxes. The highest-paid executive in 2024 was CFO Vaibhav Taneja, who made $139.5 million, 2,436 times as much as Tesla median pay.

This legislation would extend the current pay ratio disclosure rules for public companies to private companies with gross receipts of $100 million per year. The additional corporate tax rates would apply to both public and private companies with excessive CEO pay.

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