New study finds companies' campaign donations linked to lower tax rates

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Many politicians will tell you that donating to their campaigns does not affect the way they vote or design laws.

However, a new study from the W. P. Carey School of Business at Arizona State University suggests regular ongoing contributions help provide access to influential lawmakers, and that companies making campaign contributions specifically to tax-writing members of Congress wind up paying lower tax rates over time.

"We found that firms investing in relationships with tax policymakers through campaign contributions do gain greater future tax benefits," says Jennifer Brown, an assistant professor in the school and one of the study's authors.

"We specifically looked at members of the Senate Finance Committee and the House Ways and Means Committee in the research. Overall, we saw that donating companies experienced lower and more consistent effective tax rates in the long run," Brown says.

The new research was recently published online by the Journal of the American Taxation Association. The authors are Brown and two recent doctoral graduates from the W. P. Carey School: assistant professor Laura Wellman, now of the University of Illinois at Chicago, and assistant professor Katharine Drake, now of the University of Arizona.

In the study, the researchers remark that political action committee

(PAC) contributions to members of Congress, in general, rose 60 percent from the years 2000 to 2008, but PAC contributions specifically to tax-writing members of Congress went up even more – 80 percent.

"Proactive firms build relationships with policymakers through continued campaign support, with the expectation of gaining some economic benefit," says Wellman. "There is an advantage to getting in the game early and maintaining your seat at the table. Our research provides evidence that increasing the number of political ties to tax policymakers produces a stronger effect on future tax rates."

The paper points out that one member of the Senate Finance Committee raised more than $11 million in his 2008 campaign, even though he was running essentially unopposed. The research isn't aimed at showing that anything inappropriate is happening, but rather, that contributions to tax policymakers may help supply more access, such as a receptive ear.

The study uses PAC data from the Federal Election Commission and lobbying data from the Center for Responsive Politics. The researchers found that when a firm moved from the 25th percentile to the 75th percentile of "relational" activity – equal to supporting at least five more candidates – then that firm experienced a lower future cash effective tax rate, which added up to an average of about $33 million in annual savings. The frequency of the donations and the power level of the candidates also play a role in the equation.

The article adds that lobbying and contributions work together in achieving firms' tax-policy outcomes.

More information: The full study is available at aaajournals.org/doi/pdf/10.2308/atax-50908

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