

UC Office of the President

Student Policy Research Papers

Title

Exploring Corporate Lobbying and Tax Behavior: Before and After the TCJA

Permalink

<https://escholarship.org/uc/item/994099zf>

Author

McGraw, Maryemma R

Publication Date

2024-10-01

Data Availability

The data associated with this publication are available upon request.

Exploring Corporate Lobbying and Tax Behavior: Before and After the TCJA

Maryemma R. McGraw

UC Center Sacramento

POL 195 Policy Analysis in California

Dr. Paige Pellaton

Nov 18, 2024

Abstract

This paper explores the relationship between corporate lobbying expenditures and tax rates in the years before and after the enactment of the Tax Cuts and Jobs Act (TCJA) in 2017, focusing on eight major industry sectors. Using datasets from the Institute on Taxation and Economic Policy (ITEP) and OpenSecrets, the study employs regression analyses and visualizations to explore sectoral and corporate behavior. A new variable measuring the percentage of the statutory tax rate paid was calculated for each company, allowing for nuanced insights into corporate tax compliance. Results show a negative correlation between lobbying expenditures and tax rates, with sectors such as Communications/Electronics and Energy/Natural Resources benefiting the most. However, statistical insignificance due to a limited sample size highlights key data constraints. These findings emphasize the inequitable outcomes of the TCJA and the outsized influence of lobbying, particularly in California's dominant industries, such as technology and energy. The study underscores the importance of policy interventions to address these disparities and calls for expanded datasets to confirm these trends.

Keywords: TCJA, lobbying expenditures, tax rate, policy, California

Exploring Corporate Lobbying and Tax Behavior Before and After the TCJA

Corporate lobbying wields immense power in shaping economic policy, particularly in the realm of taxation. For years, major corporations have strategically used lobbying efforts to influence lawmakers and secure tax policies that benefit their bottom lines. The 2017 Tax Cuts and Jobs Act (TCJA), which slashed the corporate tax rate, stands as one of the most significant tax reforms in U.S. history. While the TCJA was sold as a means to stimulate economic growth, it also raised questions about the extent to which corporate lobbying may have shaped its final form. In California, where some of the largest corporate lobbying expenditures occur, these questions are particularly pertinent. Given the billions of dollars corporations invest in lobbying efforts each year, understanding how these resources might have influenced tax policy is essential for evaluating the true impacts of the TCJA. This paper explores the relationship between corporate lobbying and tax outcomes, specifically investigating whether lobbying expenditures were correlated with changes in corporate tax rates before and after the TCJA's enactment.

This paper specifically investigates the relationship between corporate lobbying expenditures and effective tax rates during the periods before and after the TCJA's implementation. Using datasets from the Institute on Taxation and Economic Policy (ITEP)¹ and OpenSecrets², the study analyzes sector-specific trends in tax rates and lobbying expenditures across two distinct periods: 2013-2016 and 2018-2021. By calculating the percentage of the statutory tax rate paid by each corporation, this paper explores whether increased lobbying activity has been associated with changes in effective tax rates.

¹ Gardner, M., Ettlinger, M., Wamhoff, S., & Marasini, S. (n.d.). *Corporate taxes before and after the Trump Tax Law*. ITEP. <https://itep.org/corporate-taxes-before-and-after-the-trump-tax-law/>

² *Industries*. OpenSecrets. (n.d.-a). <https://www.opensecrets.org/federal-lobbying/industries>

Broadly, the research question for this paper is: How has the 2017 Tax Cuts and Jobs Act influenced the U.S. corporate tax outcomes, and what role have corporate lobbying expenditures played in shaping these effects? More specifically, the paper asks: To what extent has the TCJA affected the percentage of the statutory tax rate paid by corporations from 2013 to 2021, and how are these effects associated with variations in lobbying expenditures across industries and firms?

The objectives of this study are to identify any trends in lobbying expenditures and tax rates in the wake of the TCJA and to examine whether these trends vary by sector. Through descriptive analysis and sectoral comparisons, this research aims to contribute to the ongoing discussion about the intersection of corporate lobbying, tax policy, and economic behavior. While this paper does not seek to establish causality, it will provide valuable insight into the possible connections between corporate influence and tax outcomes, especially in a state like California, where lobbying and economic disparities are deeply intertwined.

Context and Significance

The Tax Cuts and Jobs Act (TCJA) of 2017 marked a historic overhaul of the U.S. corporate tax system. Among its most significant provisions were the reduction of the statutory corporate tax rate from 35% to 21%, the shift to a territorial tax system, and new limitations on deductions for interest and other expenses. These measures were designed to make the U.S. tax system more competitive globally, encourage domestic investment, and reduce incentives for profit-shifting by multinational corporations. While the stated goals were clear, the actual outcomes—particularly in terms of equity, economic efficiency, and the influence of corporate lobbying—are more complex.

The *statutory tax rate* is the legally mandated percentage of corporate income owed in taxes, often cited as the headline figure in tax debates. However, the *effective tax rate*—the

percentage of income actually paid by corporations after accounting for deductions, credits, and other adjustments—frequently deviates from the statutory rate. To evaluate the equity and effectiveness of the corporate tax system, this study introduces a metric: the percentage of the statutory tax rate paid, calculated by dividing the effective tax rate by the statutory tax rate. This measure provides insights into how well the goals of the TCJA were met and whether corporations, on average, are paying their "fair share" of taxes.

The relevance of this study extends beyond national trends, as California represents a microcosm of the broader U.S. economy. As the world's fifth-largest economy and a hub for industries like technology, entertainment, and renewable energy, California plays a pivotal role in shaping and responding to federal tax policies. The state's concentrated industries, such as Silicon Valley's technology giants, are not only leaders in innovation but also significant players in corporate lobbying. California's tech sector, for example, has historically benefited from targeted tax breaks such as the Research and Development (R&D) tax credit which was implemented in 1981³. This credit, designed to incentivize innovation by allowing businesses to offset a portion of their R&D expenses against their tax liability, has been a cornerstone for tech companies investing in new technologies and products. Post-TCJA, questions remain about whether these advantages were amplified, further entrenching disparities between large corporations and smaller firms or emerging businesses.

Corporate lobbying is another critical dimension of corporate tax behavior and policy influence⁴. California leads the nation in lobbying expenditures, with sectors such as communications/electronics, health, and finance making up a substantial portion of the activity.

³ Sumagaysay, L. (2024, October 2). *A mystery surge in California tax revenue points to tech companies like Nvidia. here's why*. CalMatters. <https://calmatters.org/economy/technology/2024/10/ca-corporate-tax-revenue-surge/>

⁴ Hansen, W. L., & Mitchell, N. J. (2000). Disaggregating and explaining corporate political activity: Domestic and foreign corporations in national politics. *The American Political Science Review*, 94(4), 891-903.

Research has consistently shown that lobbying efforts are disproportionately concentrated among larger, older firms in established industries, which have the resources and influence to shape tax policy in their favor.⁵ These efforts are primarily directed at policymakers, including members of Congress, federal agencies, and state legislatures, to influence legislation and regulatory decisions. For example, corporations often target key congressional committees to shape tax policies like the Tax Cuts and Jobs Act. Additionally, they lobby federal departments like the Treasury or IRS during rule-making processes to ensure favorable interpretations and implementations of tax laws.⁶ In California, large technology firms like Google and Apple have utilized their significant resources to engage in such lobbying activities, securing billions in savings through strategies that smaller competitors often cannot access⁷.

Understanding how the TCJA impacted corporate tax compliance and how these effects intersect with lobbying expenditures is particularly important for California. The state's economic disparities are among the most pronounced in the nation, and the interplay between tax policy and lobbying could exacerbate these inequities. By focusing on the percentage of the statutory tax rate paid across different sectors, this study aims to shed light on whether the TCJA's reforms reinforced or reduced existing inequalities, both nationally and within California's unique economic context. This research highlights the broader implications of the TCJA for economic equity and governance, while situating California as a key case study in understanding the relationship between corporate power, tax policy, and lobbying in a post-reform landscape.

⁵ Alexander, R. M., Mazza, S. W., & Scholz, S. (2009). Measuring rates of return for lobbying expenditures: An empirical case study of tax breaks for multinational corporations. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.1375082>

⁶ Drucker, J., & Tankersley, J. (2019, December 30). How Big Companies Won New Tax Breaks From the Trump Administration. *The New York Times*. <https://www.nytimes.com/2019/12/30/business/trump-tax-cuts-beat-gilti.html>

⁷ Gardner, M., Ettlinger, M., Wamhoff, S., & Marasini, S. (n.d.). *Corporate taxes before and after the Trump Tax Law*. ITEP. <https://itep.org/corporate-taxes-before-and-after-the-trump-tax-law/>

Literature Review

Corporate lobbying significantly influences tax policy, firm behavior, and economic equity. While lobbying has grown in all eight sectors substantially over the past few decades, its relationship with tax rates, industry concentration, and corporate governance remains complex⁸. Sean Lux, Crook, and Woehr describe this complexity through the concept of corporate political activity (CPA), which encompasses practices such as lobbying, campaign contributions, and participation in political action committees⁹. This review synthesizes relevant studies, focusing on the determinants of lobbying, its financial returns, and broader policy implications, with particular attention to how these findings relate to California's unique economic and political landscape.

Determinants of Corporate Lobbying

Research consistently shows that corporate lobbying is highly selective, influenced by firm size, industry concentration, and potential payoffs from favorable policies¹⁰. For instance, Brasher et al. (2004)¹¹ highlight that lobbying is relatively rare, even in California, where the lobbying community is among the densest in the United States. Less than half of one percent of the state's manufacturing firms engaged in direct lobbying, and this was not significantly offset by collective efforts through trade associations. Larger and more diverse firms dominate lobbying activities due to their broader exposure to regulatory and policy challenges. Richter et

⁸ Hillman, A. J., & Hitt, M. A. (1999). Corporate political strategy formulation: A model of approach, participation, and strategy decisions. *The Academy of Management Review*, 24(4), 825-842.

⁹ Lux, S., Crook, T. R., & Woehr, D. J. (2010). Mixing Business With Politics: A Meta-Analysis of the Antecedents and Outcomes of Corporate Political Activity. *Journal of Management*, 37(1), 223–247.
<https://doi.org/10.1177/0149206310392233>

¹⁰ Hillman, A. J., & Hitt, M. A. (1999). Corporate political strategy formulation: A model of approach, participation, and strategy decisions. *The Academy of Management Review*, 24(4), 825-842.

¹¹ Brasher, H., & Lowery, D. (2017, January 20). *The corporate context of lobbying activity: Business and Politics*. Cambridge Core.

<https://www.cambridge.org/core/journals/business-and-politics/article/abs/corporate-context-of-lobbying-activity/8924E4F16ED36C21146061BE2740258B>

al. (2009) expand on this by identifying industry concentration as a critical determinant of lobbying. Their findings suggest that monopolistic industries, such as pharmaceuticals and oil and gas, lobby more aggressively as they gain market power. This dynamic is particularly relevant to California, home to concentrated industries like technology and entertainment, which have significant lobbying clout to influence tax and regulatory policies at both the state and federal levels¹².

Financial Returns to Lobbying

The financial benefits of lobbying for tax purposes are substantial and well-documented. Richter et al. (2009) show that a 1% increase in lobbying expenditures reduces effective tax rates by 0.5 to 1.6 percentage points, yielding billions in tax savings. Research on the American Jobs Creation Act 2004 (AJCA) similarly demonstrates that lobbying for the one-time dividend deduction resulted in returns exceeding 22,000%, primarily benefiting large, well-established firms.¹³ California's industries exemplify these dynamics. The technology sector, a dominant force in the state, has used lobbying to shape tax policies like the R&D tax credit and international tax reforms under the TCJA, ensuring significant tax savings. Yet, these benefits tend to favor larger corporations with established lobbying budgets, reinforcing existing economic disparities within the state.¹⁴

Policy Implications and Equity Concerns

The relationship between lobbying and tax policy raises significant concerns about equity and economic efficiency. Evidence suggests that the benefits of lobbying disproportionately accrue to larger, older firms in declining industries, rather than to emerging businesses or

¹² Richter, B. K., Samphantharak, K., & Timmons, J. F. (2008). Lobbying and Taxes. *American Journal of Political Science*, 53(4), 893–909. https://doi.org/https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1082146

¹³ Alexander, R. M., Mazza, S. W., & Scholz, S. (2009, April 8). *Measuring Rates of Return for Lobbying Expenditures: An Empirical Case Study of Tax Breaks for Multinational Corporations*. Papers.ssrn.com. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1375082

¹⁴ Richter et al. (2008)

innovative sectors. However, in high-growth industries such as technology, firms like Google and Apple also leverage significant lobbying power to secure favorable tax provisions. For instance, the AJCA's repatriation holiday incentivized firms to repurchase stock rather than reinvest in growth opportunities, undermining the policy's stated goals.¹⁵ Additionally, the "Democracy for Sale" study by Reed Showalter¹⁶, demonstrates how industry concentration and corporate lobbying distort democratic governance. Concentrated industries not only dominate lobbying but also secure favorable tax provisions, leading to unequal compliance with statutory tax rates. These findings resonate in California, where the tech industry's consolidation and lobbying efforts have furthered inequalities in the state's tax landscape, particularly between high-growth startups and dominant firms in the tech sector.¹⁷

Implications for Tax Policy and Corporate Lobbying

The existing literature underscores the intricate relationship between corporate lobbying, tax policy, and economic equity, offering critical insights into the dynamics this paper will explore in its research. Studies on the determinants of lobbying highlight how firm size, industry concentration, and market power shape lobbying behavior, setting the stage for the investigation into sector-specific trends in lobbying expenditures. Similarly, research on the financial returns to lobbying reveals the tangible benefits in reduced tax burdens for large, well-established firms, directly aligning with this research's analysis of changes in the percentage of statutory tax rates paid before and after the TCJA. Finally, the broader implications of lobbying on equity and

¹⁵ Alexander, R. M., Mazza, S. W., & Scholz, S. (2009). Measuring rates of return for lobbying expenditures: An empirical case study of tax breaks for multinational corporations. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.1375082>

¹⁶ Showalter, R. (2021, August 25). Democracy for sale: Examining the effects of concentration on lobbying in the United States. *American Economic Liberties Project*. Retrieved from <https://www.economicliberties.us/our-work/democracy-for-sale/>

¹⁷ Showalter, R. (2021, August 25). *Democracy for sale: Examining the effects of concentration on lobbying in the United States*. American Economic Liberties Project. <https://www.economicliberties.us/our-work/democracy-for-sale/>

policy effectiveness provide a framework for assessing the disparities this research seeks to illuminate, particularly between sectors with significant lobbying clout and those with less representation. By examining how the TCJA has affected tax outcomes and lobbying patterns across industries, this work contributes to this ongoing dialogue, offering a focused perspective on the intersection of tax reform and corporate influence.

Theory and Hypothesis

The relationship between corporate lobbying and taxation lies at the intersection of political influence and fiscal policy. Lobbying is conceptualized as a tool used by corporations to influence legislative and regulatory outcomes in ways that minimize their tax liabilities among other benefits. Through financial contributions, advocacy, and dissemination of research, corporations aim to shape tax policy provisions to their advantage. Tax outcomes are assessed using the effective tax rate (ETR), which reflects the actual proportion of profits a corporation pays in taxes, as opposed to the statutory tax rate—the legal rate set by the government. This study introduces the percentage of the statutory tax rate paid as a metric for understanding how closely a corporation's tax burden aligns with its legal obligations. Variations in this percentage reveal disparities in how different firms or industries leverage lobbying to reduce tax burdens.

This study posits that increased lobbying expenditures enable corporations to secure tax advantages, thereby reducing their effective tax rates relative to their statutory rate. The mechanism underlying this relationship operates through several pathways. Lobbying allows corporations to influence the drafting and passage of legislation, leading to favorable tax provisions. It also facilitates the creation or preservation of regulatory loopholes, such as deductions and credits, that reduce taxable income. Furthermore, disparities in lobbying success

across sectors may result in industry-specific differences in effective tax rates, as some industries are more adept at leveraging political influence than others.

Based on this framework, the study hypothesizes that corporations in sectors with higher lobbying expenditures will pay a lower percentage of the statutory tax rate than those in sectors with lower lobbying activity. It is expected that the percentage of the statutory tax rate paid by corporations will decrease following the passage of the TCJA, particularly in sectors with significant lobbying influence. Finally, the effects of lobbying on tax outcomes are anticipated to vary across industries, reflecting sector-specific differences in lobbying success and policy influence. These hypotheses provide a foundation for the empirical analysis that follows.

Research Design

This study investigates the relationship between corporate lobbying expenditures and corporate tax outcomes within the framework of the Tax Cuts and Jobs Act (TCJA). The primary unit of analysis is the industry sector, with data aggregated across corporations within each of the eight sectors classified by OpenSecrets¹⁸. Additionally, the study examines a smaller subsample of 15 prominent corporations, providing illustrative insights into the lobbying and tax behaviors of household-name companies.

The independent variable is lobbying expenditures, measured as the total annual spending by corporations within each industry, derived from OpenSecrets data¹⁹. The dependent variable is the percentage of the statutory tax rate paid, calculated by dividing the effective tax rate (ETR) by the statutory tax rate for each corporation and averaging these percentages across industries. To control for potential confounding factors, the analysis incorporates several control variables: eight sectors, pre- and post-TCJA time periods, and firm size measured by annual profits as

¹⁸ *Lobbying Data summary*. OpenSecrets. (n.d.-b). <https://www.opensecrets.org/federal-lobbying>

¹⁹ Ibid

reported in ITEP data²⁰. These controls account for structural differences that may independently influence lobbying expenditures and tax behaviors, ensuring that observed relationships are specific to the TCJA's impact.

The sample comprises 296 major U.S. corporations, all of which were consistently profitable during the study period and classified into the eight sectors. This dataset was provided by ITEP and includes corporations that are predominantly national and international, with annual revenues in the millions or billions USD. While these corporations operate globally, the study examines federal tax outcomes within the United States, aligning with the focus on U.S. federal tax laws and lobbying regulations.

The temporal scope of the study spans nine years (2013-2021), capturing corporate tax and lobbying behaviors before and after the TCJA's enactment in 2017. By aggregating data at the sector level, the design allows for an examination of broad patterns rather than firm-specific idiosyncrasies, aligning with the study's emphasis on sectoral differences in lobbying and tax outcomes. The inclusion of 15 individual corporations as illustrative examples complements the sector-based analysis, providing additional context for interpreting the broader trends observed.

Research Methods

This study employs a quantitative approach to examine the relationship between corporate lobbying expenditures and tax rates across major industry sectors before and after the implementation of the Tax Cuts and Jobs Act (TCJA) in 2017. The analysis spans two distinct periods: 2013-2016 (pre-TCJA) and 2018-2021 (post-TCJA).

Data Sources

²⁰ Gardner, M., Ettlinger, M., Wamhoff, S., & Marasini, S. (2024, May). *Corporate Taxes Before and After the Trump Tax Law*. ITEP. <https://itep.org/corporate-taxes-before-and-after-the-trump-tax-law/>

Data for this research were drawn from two primary sources: the Institute on Taxation and Economic Policy (ITEP)²¹ which provided effective tax rates for corporations during the study period and OpenSecrets²² which offered detailed records of lobbying expenditures by individual companies and industries. These datasets were merged to establish a comprehensive overview of sector-specific trends in lobbying expenditures and tax rates. The focus was on eight major industry sectors: health, communications and electronics, construction, energy and natural resources, finance, defense, and misc. business (resembling consumer goods and manufacturing).

Variables and Calculations

To analyze the tax outcomes, this study introduced a new metric: the percentage of the statutory tax rate paid. This variable was calculated as follows:

$$\text{Percentage of Statutory Tax Rate Paid} = \frac{\text{Effective Tax Rate (ETR)}}{\text{Statutory Tax Rate}}$$

This metric provides a clearer picture of how closely corporations adhered to the statutory tax rate, reflecting their effective tax burden relative to the legal rate.

Data Analysis

The analysis included several key steps. First, descriptive statistics were calculated to summarize lobbying expenditures, effective tax rates, and the percentage of statutory tax rates paid, both overall and by sector. Next, sectoral comparisons were conducted to examine trends in lobbying expenditures and tax rates, helping to identify notable patterns or anomalies across different sectors. Finally, various graphs and charts were developed to visualize changes in lobbying expenditures and tax rates before and after the Tax Cuts and Jobs Act (TCJA). These visualizations included line graphs to illustrate sectoral trends over time and scatter plots to

²¹ Ibid

²² *Lobbying Data summary*. OpenSecrets. (n.d.-b). <https://www.opensecrets.org/federal-lobbying>

explore correlations between lobbying expenditures and tax outcomes. In addition to descriptive and trend analyses, regression models were used to examine the relationship between lobbying expenditures and the percentage of statutory tax rate paid. The models controlled for sectoral and temporal effects, enabling the identification of patterns specific to the pre- and post-TCJA periods.

Analytical Focus

The study primarily focused on three key areas of inquiry. First, it examined how lobbying expenditures changed between the pre- and post-TCJA periods. Second, it explored how the percentage of statutory tax rates paid varied across sectors before and after the TCJA. Finally, it investigated whether there was evidence of a correlation between increased lobbying expenditures and reductions in the percentage of statutory tax rates paid. While the study does not aim to establish causality, the use of descriptive statistics and trend analysis highlights potential relationships between corporate lobbying and tax behavior.

Limitations

The study acknowledges certain limitations. The descriptive nature of the analysis prevents drawing definitive conclusions about causal relationships. Inconsistent reporting of lobbying expenditures by some corporations may introduce bias into sectoral comparisons. And, the findings are specific to the U.S. context and the industries analyzed, which limits their broader applicability. Despite these limitations, the research provides insights into the intersection of corporate lobbying and tax behavior, particularly in the context of significant policy changes introduced by the TCJA.

Results

The results of this study provide insights into the relationship between lobbying expenditures and tax outcomes before and after the implementation of the Tax Cuts and Jobs Act (TCJA). The findings, presented through regression analysis and visualizations, reveal both broad trends and sector- or corporation-specific nuances.

Regression Analysis

The regression analysis (Figure 1) examined the impact of sectoral predictors—including lobbying expenditures, changes in lobbying, saved taxes, and profits—on the percentage of statutory tax rates paid between 2018–2021. The model demonstrated a high R^2 value (0.964), indicating that 96.4% of the variance in the dependent variable was explained by the predictors. The adjusted R^2 value (0.917) confirmed a strong model fit despite the small sample size.

Figure 1

<i>Regression Statistics</i>					
Multiple R		0.982			
R Square		0.964			
Adjusted R Square		0.916			
Standard Error		0.07			
Observations		8			

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	4	0.399	0.0997	20.293	0.016
Residual	3	0.015	0.005		
Total	7	0.414			

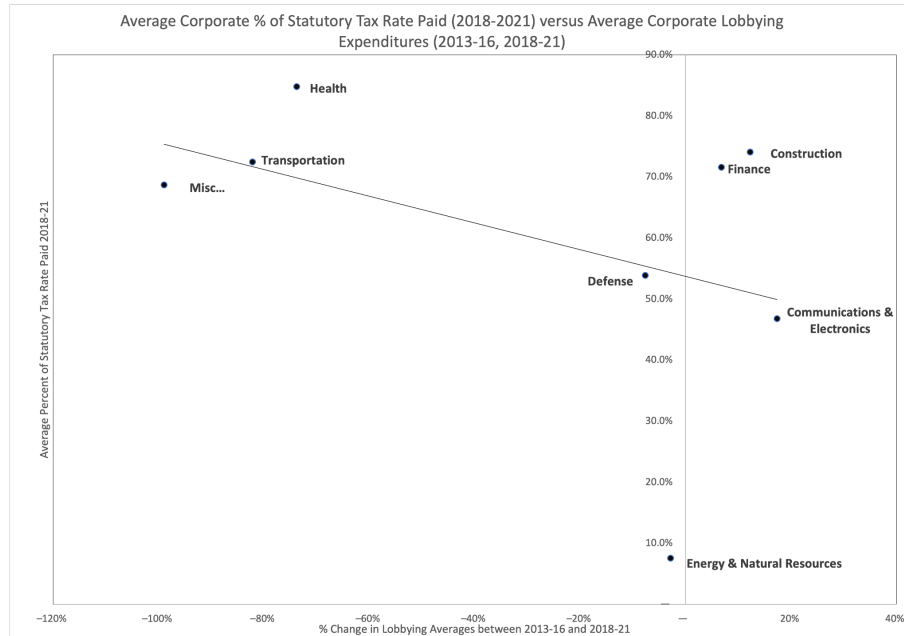
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-0.021	0.082	-0.260	0.811	-0.283	0.241	-0.283	0.241
X Variable 1: % change in lobbying	0.003	0.096	0.027	0.980	-0.302	0.307	-0.302	0.307
X Variable 2: % change in profits	-0.152	0.143	-1.057	0.368	-0.608	0.305	-0.608	0.305
X Variable 3: saved taxes	-7.63E-11	7.56E-11	-1.01	0.387	-3.17E-10	1.64E-10	-3.17E-10	1.64E-10
X Variable 4: % statutory rate paid	1.196	0.239	5.006	0.015	0.436	1.96	0.436	1.956

Among the predictors, the percentage of statutory tax rates paid in the earlier period (2013–2016) was statistically significant ($p = 0.015$), with a positive coefficient of 1.195, indicating its strong influence on post-TCJA tax rates. Other predictors, including changes in lobbying, profits, and saved taxes, were not statistically significant ($p > 0.05$). The residual analysis showed minimal deviations, further supporting the model's validity.

Sector-Level Analysis

The sector-level scatterplot (Figure 2) illustrates a negative linear relationship between changes in lobbying expenditures and the percentage of statutory tax rates paid.

Figure 2

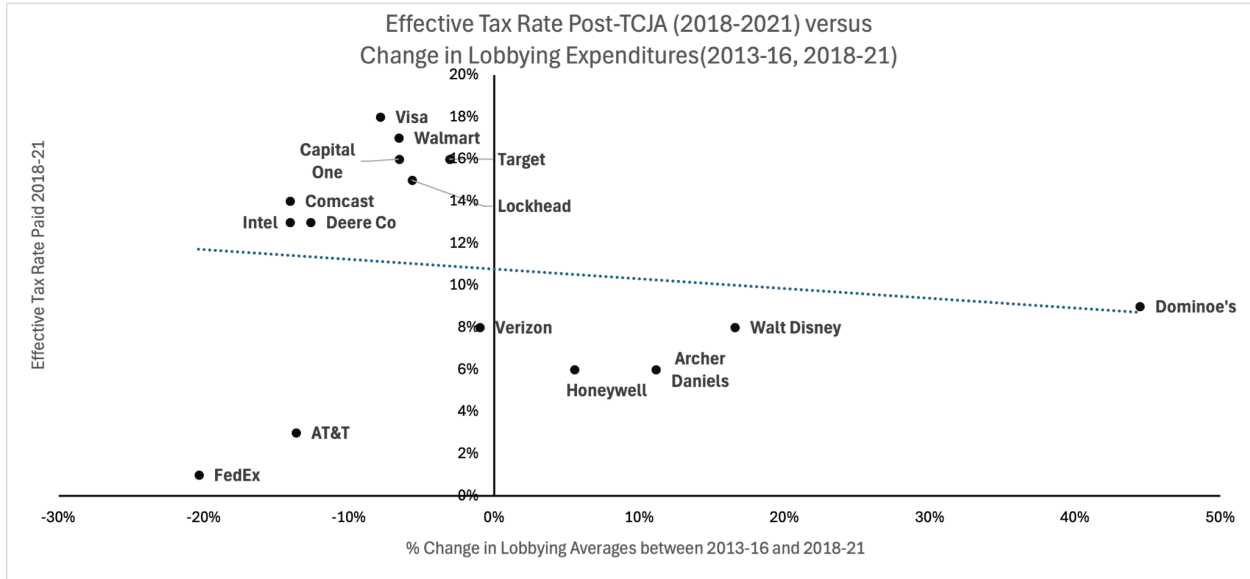


Sectors such as Health and Transportation displayed relatively stable tax rates (~70-80%) despite reductions in lobbying expenditures. In contrast, Communications/Electronics and Construction showed notable tax rate declines alongside increases in lobbying expenditures. Energy & Natural Resources consistently paid the lowest tax rates (~10%), irrespective of minimal changes in lobbying behavior. These patterns highlight the sector-specific variability in the relationship between lobbying and tax outcomes.

Corporation-Level Analysis

At the corporate level, Figure 3 reveals a similar negative correlation between lobbying changes and effective tax rates paid post-TCJA (2018-2021).

Figure 3

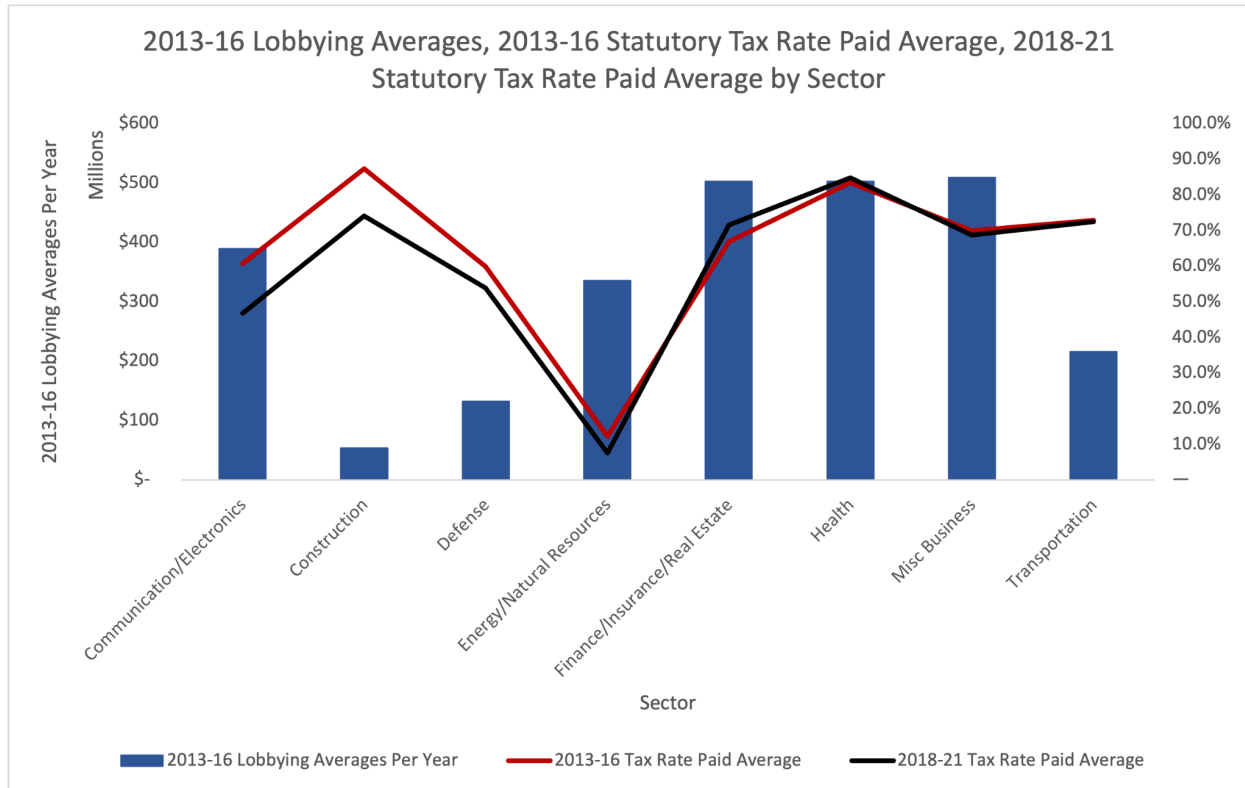


Companies like FedEx and AT&T demonstrated significant reductions in lobbying expenditures and some of the lowest effective tax rates (1% and 3%, respectively). Conversely, Domino’s Pizza, despite increasing lobbying expenditures by 44%, experienced a sharp drop in its effective tax rate from 29% to 9%. Other corporations, including Walt Disney and Verizon, exhibited moderate changes in lobbying and varying tax rate outcomes. The dotted regression line of the scatterplot confirmed the broad negative relationship, though deviations like Domino’s highlight the influence of unique corporate strategies.

Comparative Sector Trends

The bar chart and line graph (Figure 4) provides a comparative view of lobbying expenditures and statutory tax rates across sectors.

Figure 4



Between 2013–2016 and 2018–2021, statutory tax rates declined for most sectors, with Communications/Electronics and Construction showing the most significant reductions (~14 and 13 percentage points, respectively). In contrast, the Health sector experienced a slight increase in statutory tax rates paid (from 83.5% to 84.8%). Energy & Natural Resources consistently reported the lowest statutory tax rates across both periods, averaging 12.3% pre-TCJA and 7.6% post-TCJA.

Discussion & Implications

The findings indicate trends consistent with broader literature on lobbying and tax policy, though the results lacked strong statistical significance due to sample size limitations and variability in sectoral behavior. The regression analysis, in Figure 1, revealed a high r-squared value, suggesting that the included predictors explained a significant portion of the variance in

tax rates. However, none of the variables achieved statistical significance, highlighting the complexity of tax outcomes and the limitations of this study's dataset. Figures 2 and 3 support a general negative correlation between lobbying expenditures and tax rates, with sectors and corporations exhibiting variability. For example, sectors such as Energy & Natural Resources consistently reported low statutory tax rates, while Communications & Electronics and Construction demonstrate notable tax rate reductions alongside increased lobbying efforts. These patterns align with prior studies, such as those by Richter et al.²³, which documents lobbying's potential to secure favorable tax provisions.

At the corporate level, the analysis highlighted outliers that diverged from broader trends. For instance, Domino's Pizza, despite increasing its lobbying expenditures, experienced a significant drop in effective tax rates, underscoring the role of unique corporate strategies or other confounding factors. Those findings resonate with studies that emphasize the disproportionate benefits of lobbying for larger, well-resourced firms, as observed in prior research on lobbying's financial returns.

The implications for these findings are twofold. First, the results suggest that lobbying may play a role in shaping corporate tax outcomes, particularly in sectors with concentrated influence, such as technology and energy. However, the lack of robust statistical significance underscores the need for larger, more granular datasets to confirm these relationships. Second, this study highlights the potential inequities reinforced by the TCJA. While the legislation aimed to stimulate growth, its benefits appear disproportionately concentrated among firms and sectors with significant lobbying power, potentially exacerbating existing disparities.

²³ Richter, B. K., Samphantharak, K., & Timmons, J. F. (2008). Lobbying and Taxes. *American Journal of Political Science*, 53(4), 893–909. https://doi.org/https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1082146

From a policy perspective, these findings raise questions about the effectiveness of the TCJA in achieving equitable tax outcomes. While the act aimed to stimulate economic growth, its benefits appear concentrated in high-lobbying sectors like technology and energy. This trend is particularly concerning in California, where economic disparities are already among the most pronounced in the nation. The reduction in statutory tax rates for high-lobbying sectors aligns with equity concerns raised in studies like “Democracy for Sale”, which highlights how lobbying can distort democratic governance and economic fairness²⁴.

Limitations & Research Extensions

This study faced several limitations that impacted the depth and reliability of its findings. One of the primary challenges was the small sample size (n = 8 sectors, complemented by 15 individual corporations), which limited the statistical power of the analysis and increased the likelihood of overfitting in regression models. While the use of sector averages provided a broad view of trends, the aggregation may have obscured firm-specific variations in lobbying strategies and tax outcomes. Additionally, the study relied on publicly available data from ITEP and OpenSecrets, which, while reliable, does not account for unreported or indirect lobbying activities that may have significantly influenced tax policy. Furthermore, the data does not account for other confounding factors, such as industry-specific regulations, economic conditions, or shifts in corporate strategies, all of which could influence both lobbying expenditures and tax outcomes.

Future research should address these gaps by expanding the dataset to include more firms and sectors, as well as integrating additional control variables such as industry-specific regulations, state-specific tax policies, and global tax compliance data. A longitudinal analysis

²⁴ Showalter, R. (2021, August 25). Democracy for sale: Examining the effects of concentration on lobbying in the United States. *American Economic Liberties Project*. Retrieved from <https://www.economicliberties.us/our-work/democracy-for-sale/>

that captures trends beyond the 2013-2021 window would also provide a more comprehensive understanding of how the TCJA continues to shape corporate lobbying and tax behavior. This longitudinal analysis would also allow insights into the long-term impacts of the TCJA, particularly in sectors like California's technology and entertainment industries. Future studies should also investigate the effectiveness of lobbying expenditures in achieving specific tax benefits, especially in California, where lobbying has historically shaped state and local tax policies²⁵. Exploring the effectiveness of lobbying expenditures in achieving specific tax advantages could yield insights into the mechanisms that drive observed disparities, providing a more nuanced view of corporate influence in policy making.

Conclusion

This study set out to examine the relationship between corporate lobbying expenditures and tax outcomes in the context of the Tax Cuts and Jobs Act (TCJA) of 2017. By analyzing data across eight major sectors and focusing on trends in lobbying expenditures and the percentage of statutory tax rates paid, the research highlighted notable patterns, such as a general negative correlation between increased lobbying and lower tax rates. However, statistical insignificance and small sample size limited the findings, underscoring the need for more granular datasets and broader analyses.

California, as the world's fifth-largest economy and a hub for innovation, provides a unique lens for exploring these dynamics. The state is home to industries such as technology, entertainment, and renewable energy, all of which are highly concentrated and active in lobbying at both the state and federal levels. This study's findings align with previous research suggesting that California's dominant industries, particularly its tech giants, disproportionately benefit from tax

²⁵ Kimelman, J. (2024, February 12). *A record amount went to lobbying California's government. Who were the biggest spenders?* CalMatters. <https://calmatters.org/politics/2024/02/california-lobbying-state-government/>

policies shaped by lobbying. Sectors such as Communications/Electronics and Energy/Natural Resources were particularly notable in this study for their substantial lobbying efforts and corresponding reductions in statutory tax rates.

The findings raise critical questions about equity, particularly in California, where economic disparities are among the most pronounced in the nation. If lobbying continues to enable well-resourced sectors and corporations to secure favorable tax outcomes, smaller businesses and startups—key drivers of innovation in California—may face increased challenges. Policymakers in the state must grapple with these disparities and consider measures to ensure a more equitable tax environment.

In conclusion, while the TCJA aimed to simplify and modernize the U.S. tax code, this study suggests that its benefits were not evenly distributed, particularly in a state as economically diverse as California. By situating California as a microcosm of broader national trends, this research contributes to the ongoing dialogue about the intersection of corporate lobbying, tax policy, and economic equity. Future research should deepen the focus on California to uncover the nuanced ways lobbying influences both federal and state tax systems, and to evaluate the long-term impacts of reforms like the TCJA on the state's unique economic landscape.

References

- Alexander, R. M., Mazza, S. W., & Scholz, S. (2009). Measuring rates of return for lobbying expenditures: An empirical case study of tax breaks for multinational corporations. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.1375082>
- Brasher, H., & Lowery, D. (2017, January 20). The corporate context of lobbying activity: *Business and Politics*. Cambridge Core. Retrieved from <https://www.cambridge.org/core/journals/business-and-politics/article/abs/corporate-context-of-lobbying-activity/8924E4F16ED36C21146061BE2740258B>
- Gardner, M., Ettlinger, M., Wamhoff, S., & Marasini, S. (n.d.). *Corporate taxes before and after the Trump Tax Law*. ITEP. <https://itep.org/corporate-taxes-before-and-after-the-trump-tax-law/>
- Hansen, W. L., & Mitchell, N. J. (2000). Disaggregating and explaining corporate political activity: Domestic and foreign corporations in national politics. *The American Political Science Review*, 94(4), 891-903.
- Hillman, A. J., & Hitt, M. A. (1999). Corporate political strategy formulation: A model of approach, participation, and strategy decisions. *The Academy of Management Review*, 24(4), 825-842.
- How did the TCJA affect corporate tax revenues?*. Peter G. Peterson Foundation. (n.d.). <https://www.pgpf.org/blog/2024/05/how-did-the-tcja-affect-corporate-tax-revenues>

Kimelman, J. (2024, February 12). *A record amount went to lobbying California's government.*

Who were the biggest spenders? CalMatters.

<https://calmatters.org/politics/2024/02/california-lobbying-state-government/>

Lobbying Data summary. OpenSecrets. (n.d.-b). <https://www.opensecrets.org/federal-lobbying>

Lux, S., Crook, T. R., & Woehr, D. J. (2010). Mixing Business With Politics: A Meta-Analysis of the Antecedents and Outcomes of Corporate Political Activity. *Journal of Management*, 37(1), 223–247. <https://doi.org/10.1177/0149206310392233>

Richter, B. K., Samphantharak, K., & Timmons, J. F. (2008). Lobbying and taxes. *American Journal of Political Science*, 53(4), 893–909. Retrieved from <https://doi.org/10.2139/ssrn.1082146>

Sumagaysay, L. (2024, October 2). *A mystery surge in California tax revenue points to tech companies like Nvidia. here's why.* CalMatters. <https://calmatters.org/economy/technology/2024/10/ca-corporate-tax-revenue-surge/>

Showalter, R. (2021, August 25). Democracy for sale: Examining the effects of concentration on lobbying in the United States. *American Economic Liberties Project*. Retrieved from <https://www.economicliberties.us/our-work/democracy-for-sale/>

