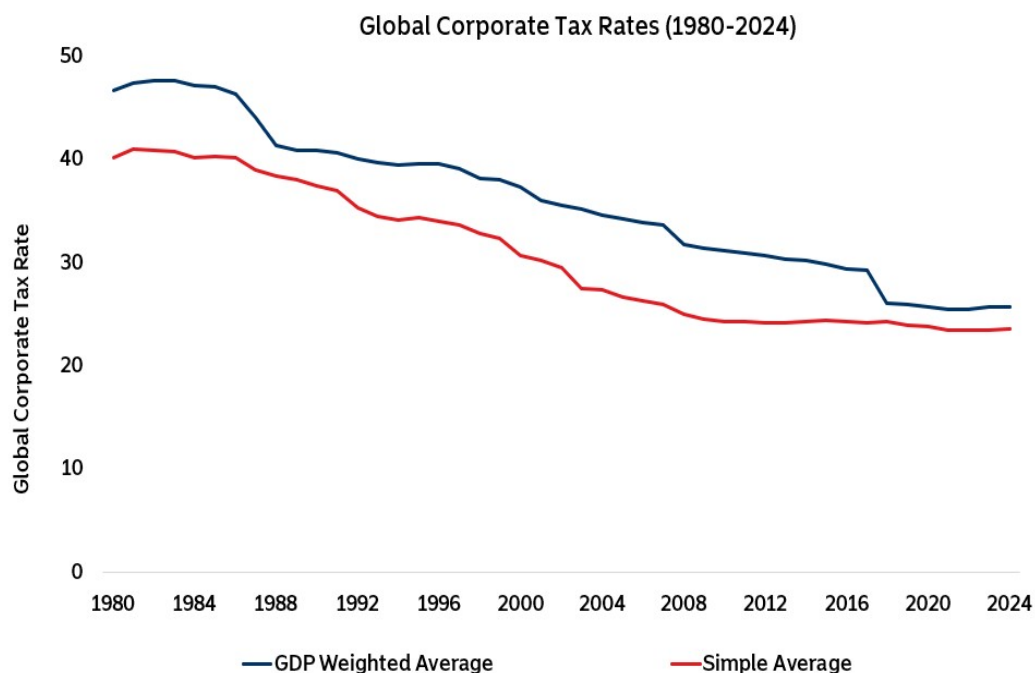


## Taxonomy of Profits

Tom Delic



Source: Tax Foundation - Corporate tax rates, data to 31 December 2024.

### What this chart shows

This chart illustrates the more-than-40-year secular decline in global corporate tax rates. The blue line shows the GDP-weighted average, while the red line is the simple average.

The 2020s may mark a turning point. After falling to a low of 25.5% in 2022, the GDP-weighted average has begun to move higher. Several countries have raised corporate tax rates in 2025; France is a notable example, with its effective top corporate tax rate rising to 36.1%.

### Why this is important

Two under-appreciated tailwinds to corporate profitability over the past four decades have been persistently falling corporate tax rates and interest costs. A 2023 study by Federal Reserve economist Michael Smolyansky, found that, for non-financial S&P 500 companies, aggregate interest and tax expenses as a percentage of operating earnings have halved relative to 1962-1989 levels.

While real corporate profits from 1989 to 2019 grew at roughly double the pace of the prior era, real operating earnings growth (i.e. before the benefit of falling tax and interest costs) was actually 0.2% per year lower than in 1962-1989. In other words, a significant share of profit growth came from lower tax and financing burdens, not stronger underlying business performance.

The cost of debt has normalised since 2022, but the impact on margins has been delayed because many firms sensibly locked in ultra-low rates for long maturities. As refinancing cycles move closer, higher interest costs will increasingly flow through to the bottom line. At the same time, higher corporate taxes may re-emerge as a headwind.

Governments are running their highest debt levels since World War II, while structural spending pressures — defence, the low-carbon transition, healthcare — continue to rise. New revenue sources will be needed. Corporate taxation, especially of large multinationals, remains firmly in policymakers' sights. Pillar Two of the OECD/G20 Inclusive Framework aimed to establish a 15% global minimum tax, but resistance from the US has weakened implementation. Even so, the direction of travel is clear: corporate tax revenue is again being viewed as a candidate for fiscal rebalancing.

Investors naturally gravitate toward fundamentals within a company's control — revenue, operating profit, cash generation. But tax and financing costs, though external, can have a significant impact. After four decades of powerful tailwinds, the landscape is changing. If interest costs and effective tax rates rise concurrently, the impact on net profit margins, return-on-equity, and ultimately valuation frameworks could be meaningful.



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