Americans for Financial Reform | Institute for Policy Studies

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Taxing Stock Buybacks Strengthens the Real Economy and Raises Nearly $200B for Critical Programs

Increasing the tax on corporate stock buybacks encourages investments in the real economy, discourages excessive executive compensation that widens economic inequality, and raises funds to protect healthcare, nutrition, and other programs that help working families. Stock buybacks are when a company purchases its own shares, resulting in fewer outstanding shares and an artificially higher share price. Buybacks are forecasted to hit a record $1 trillion in 2025, largely fueled by windfalls from a deep cut in the corporate tax rate. Instead of investing in workers, innovation, or productive capacity, firms use buybacks to juice executive compensation and manipulate market valuations.

The Inflation Reduction Act of 2022 added a 1 percent tax on corporate stock buybacks — a small but important step toward curbing this wasteful practice. A modest increase in this buybacks surcharge, as proposed in the Stock Buyback Accountability Act, would raise the tax to 4 percent, generate $166 billion in revenue over the next decade, and encourage companies to reinvest in workers and innovation instead of inflating their share prices.

Corporations broke promise to use windfall from tax breaks to increase worker pay: Large corporations promised to use windfalls from a deep cut in the corporate tax rate in the 2017 Republican tax law to raise worker pay. Instead, they went on a stock buyback spree. S&P 500 firms alone spent $806 billion on buybacks in 2018, a massive jump from the $519 billion spent repurchasing stock in 2017.

Stock buybacks divert resources from worker pay and productive investments: Every dollar spent on stock buybacks is a dollar not spent on increasing worker wages and benefits, consumer safety, research and development, and other productive investments. Studies have shown that stock buybacks are associated with wage stagnation and layoffs, investment slowdowns, and reduced innovation.

Executives win big from stock buybacks: Stock buybacks inflate the value of equity-based compensation — which makes up over 80 percent of CEO pay — by artificially raising share price. Executives can even benefit from the short-term bump in share price that results from a buybacks announcement. Lastly, CEO pay plans often include incentives to hit earnings per share targets, which stock buybacks can help companies meet.

Stock buybacks exacerbate racial and wealth inequality: Stock ownership — and therefore who benefits from stock buybacks — is deeply unequal. The wealthiest 1 percent of the population owns 50 percent of all corporate equities and mutual fund shares. The bottom 50 percent, half the country, owns just 1 percent. Racial disparities are also stark. While white households hold nearly 89 percent of all stocks and mutual fund shares, Black and Latine families hold under 0.7 percent and 0.6 percent, respectively.

Corporations often spend more money on stock buybacks than they pay in taxes: An Americans for Tax Fairness report found that between 2018 and 2022, 280 corporations spent $2.7 trillion on stock buybacks, more than four times what they paid in corporate income taxes over the same period, with 85 percent of firms spending more on stock buybacks than they paid in taxes.

We all pay for excessive stock buybacks:

- **Norfolk Southern:** The company responsible for the 2023 Ohio train derailment spent more than $10 billion on stock buybacks in the four years prior to the crash, $3 billion more than the railroad company spent on equipment upgrades and other long-term investments. A recently filed lawsuit includes seven wrongful death claims, including one for a one week old baby.
- **Southwest Airlines:** Elliott Investment Management pressured Southwest Airlines to initiate mass lay-offs, increase fees, reduce legroom, and sell and lease back their own planes, all with the apparent goal of cashing in on $2.5 billion in stock buybacks at workers' and travelers' expense.
- **Big three U.S. automakers:** UAW striking workers called attention to the big three U.S. automakers' 1,500% increase in spending on stock buybacks over the last four years as part of their fight for higher wages. General Motors announced a $6 billion stock buyback in February 2025.
- **Lowe's:** Between 2019 and 2023, Lowe's spent $42.6 billion on stock buybacks, enough to have given each of the firm's 285,000 employees a nearly $30,000 annual bonus for five years, which would have nearly doubled the retailer's $32,626 median annual worker pay.
- **Abbott:** Abbott authorized $8 billion in stock buybacks between 2019 and 2021 before its 2022 tainted infant formula recall, which contributed to a national baby formula shortage.