

Surge in Corporate Tax Welfare Drives Corporate Tax Payments Down to Near Record Low

A startling surge in corporate tax welfare is expected to drive corporate income taxes over the next two years down to only 1.3 percent of the gross domestic product. That will be the lowest level since the early 1980s—and the second lowest level in at least six decades.

Driven in part by the new corporate tax breaks just enacted in the so-called “stimulus” bill, the total cost to ordinary American taxpayers of corporate tax welfare will exceed \$170 billion annually in each of the next two years.

In fact, for the first time since the early eighties, corporate tax loopholes will actually cost more than companies pay in income taxes in fiscal 2002 and 2003.

Corporate Tax Welfare, fiscal 2002 & 2003

\$-billions	2002	2003	Source
Official tax-expenditure list, pre-stimulus bill	\$ 91.3	\$ 95.1	JCT
Plus items not on official list—			
Meals & entertainment	4.1	4.3	CTJ/CBO
Offshore tax shelters	>18.0	>19.0	CTJ
Inconsistent treatment of stock options	>20.0	>21.0	CTJ
Plus new corporate items in stimulus bill	37.7	35.8	JCT/CTJ
Total corporate tax welfare	\$ 171.1	\$ 175.2	
Compare:			
Expected corporate income tax payments*	\$ 136.3	\$ 151.2	CBO

*FY 2002 figure excludes FY 2001 to 2002 two-week estimated tax payment shift.

Sources: Joint Committee on Taxation (JCT), Citizens for Tax Justice (CTJ) and Congressional Budget Office (CBO), 2002, as noted.

What has this meant for specific companies?

Even before this year’s new corporate loopholes, corporate tax welfare had been expanding rapidly. Tax breaks for stock options, congressional indifference to abusive offshore corporate tax shelters, and other tax breaks have allowed many companies to earn billions in profits, yet pay little or nothing in federal income taxes.

From 1996 through 2000, just ten large profitable companies enjoyed a total of \$50 billion in corporate tax breaks. That brought their combined tax bills down to only 8.9 percent of their \$191 billion in U.S. profits over the five years. In just the most recent two years for which data are available, these ten companies got \$29 billion in tax welfare, and paid a mere 5.9 percent of their profits in federal income taxes.

Microsoft enjoyed more than \$12 billion in total tax breaks over the past five years. In fact, Microsoft actually paid no tax at all in 1999, despite \$12.3 billion in reported U.S. profits. Microsoft’s tax rate for the past two years was only 1.8 percent on \$21.9 billion in pretax U.S. profits.

General Electric, America’s most profitable corporation, reported \$50.8 billion in U.S. profits over the past five years, but paid only 11.5 percent of that in federal income taxes. That low tax rate reflected almost \$12 billion in corporate tax welfare for GE.

Ford enjoyed \$9.1 billion in corporate tax welfare over the past five years. It reported \$18.6 billion in U.S. profits over the past two years, but paid a tax rate of only 5.7 percent.

Worldcom paid no taxes at all in two of the last three years, despite reported U.S. profits of \$15.2 billion. Worldcom's total tax rate over the three years was only 1.6%. Corporate tax welfare slashed Worldcom's tax bill by \$5.3 billion over the past five years.

IBM reported \$5.7 billion in U.S. profits in 2000, but paid only 3.4 percent of that in federal income taxes. In 1997, IBM reported \$3.1 billion in U.S. profits, and instead of paying taxes, got an outright tax rebate. Over the past five years, IBM enjoyed a total of \$4.7 billion in corporate tax welfare.

General Motors paid no taxes at all in three of the last five years, despite \$12.5 billion in reported U.S. profits. GM's tax rate for the past three years was *negative* 1.3 percent. Its corporate tax welfare totaled \$3.6 billion over the past five years.

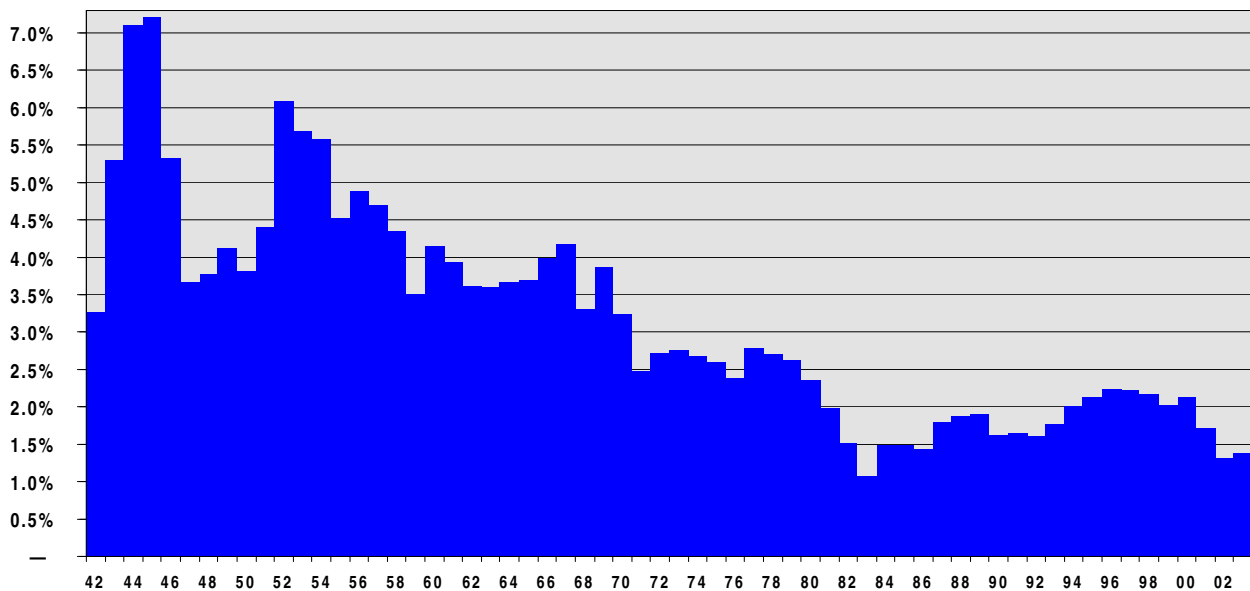
Enron paid no income taxes at all in four of the past five years, despite \$1.8 billion in reported U.S. profits. Enron's total taxes over the five years were a negative \$381 million. Its corporate tax welfare totaled \$1.0 billion.

El Paso Energy reported \$1.6 billion in U.S. profits over the past five years, but paid less than nothing in federal income taxes, getting tax *rebates* of \$254 million. El Paso's tax rate over the five years was *negative* 15.5 percent. Its corporate welfare totaled \$827 million.

Colgate-Palmolive paid no taxes at all in three of the past five years, despite \$1.6 billion in reported U.S. profits. Colgate's total tax rate over the five years was *negative* 1.3 percent, due to \$595 million in corporate tax welfare.

Navistar, on \$1.4 billion in U.S. profits over the past five years, paid only \$28 million in federal income taxes, a tax rate of only 2 percent. Navistar's corporate tax welfare totaled \$451 million.

Corporate Income Taxes as a % of GDP, Fiscal 1942 to Fiscal 2003



U.S. Profits, Federal Income Taxes & Tax Breaks for Ten Major American Companies 1996-2000

\$-millions	2000	1999	1998	1997	1996	1996-2000	1999-2000
Microsoft *							
Pretax US profit	9,611.9	12,254.6	11,586.3	6,448.3	4,343.2	44,244.3	21,866.5
Federal income tax	1,177.0	-791.0	920.0	965.0	914.0	3,185.0	386.0
Effective rate	12.2%	-6.5%	7.9%	15.0%	21.0%	7.2%	1.8%
Total tax breaks	2,187.2	5,080.1	3,135.2	1,291.9	606.1	12,300.5	7,267.3
General Electric							
Pretax US profit	13,102.4	11,471.6	9,848.5	8,323.2	8,118.8	50,864.5	24,574.0
Federal income tax	2,312.9	949.8	925.0	850.6	807.5	5,845.9	3,262.7
Effective rate	17.7%	8.3%	9.4%	10.2%	9.9%	11.5%	13.3%
Total tax breaks	2,272.9	3,065.2	2,522.0	2,062.5	2,034.0	11,956.7	5,338.2
Ford							
Pretax US profit	9,443.0	9,182.0	8,323.0	8,378.0	5,482.0	40,808.0	18,625.0
Federal income tax	598.5	461.3	1,405.3	2,104.3	632.5	5,201.9	1,059.8
Effective rate	6.3%	5.0%	16.9%	25.1%	11.5%	12.7%	5.7%
Total tax breaks	2,706.5	2,752.4	1,507.7	828.0	1,286.2	9,080.9	5,458.9
Worldcom							
Pretax US profit	6,324.3	6,123.5	2,724.2	670.7	183.4	16,026.0	12,447.8
Federal income tax	1,122.6	-763.6	-112.6	21.2	30.9	298.5	359.0
Effective rate	17.8%	-12.5%	-4.1%	3.2%	16.9%	1.9%	2.9%
Total tax breaks	1,090.8	2,906.9	1,066.1	213.6	33.3	5,310.6	3,997.7
IBM							
Pretax US profit	5,679.0	5,620.0	2,821.0	3,110.0	3,302.0	20,532.0	11,299.0
Federal income tax	191.0	1,214.0	752.0	-266.0	564.0	2,455.0	1,405.0
Effective rate	3.4%	21.6%	26.7%	-8.6%	17.1%	12.0%	12.4%
Total tax breaks	1,796.7	753.0	235.4	1,354.5	591.7	4,731.2	2,549.7
General Motors							
Pretax US profit	2,947.0	3,848.0	952.0	3,215.0	1,506.0	12,468.0	6,795.0
Federal income tax	-104.8	22.6	-19.0	1,236.9	-395.4	740.3	-82.2
Effective rate	-3.6%	0.6%	-2.0%	38.5%	-26.3%	5.9%	-1.2%
Total tax breaks	1,136.2	1,324.2	352.2	-111.6	922.5	3,623.5	2,460.5
Enron							
Pretax US profit	618.0	351.0	189.0	87.0	540.0	1,785.0	969.0
Federal income tax	-278.0	-104.9	-12.5	17.4	-3.4	-381.4	-382.9
Effective rate	-45.0%	-29.9%	-6.6%	20.0%	-0.6%	-21.4%	-39.5%
Total tax breaks	494.3	227.7	78.7	13.1	192.4	1,006.1	722.0
El Paso Energy							
Pretax US profit	1,032.8	-213.4	383.7	371.9	62.0	1,636.9	819.4
Federal income tax	-161.0	-57.0	-3.0	-56.0	23.0	-254.0	-218.0
Effective rate	-15.6%	nm	-0.8%	-15.1%	37.1%	-15.5%	-26.6%
Total tax breaks	522.5	nm	137.3	186.2	-1.3	826.9	504.8
Colgate-Palmolive							
Pretax US profit	473.7	387.0	348.5	261.6	166.9	1,637.7	860.6
Federal income tax	49.7	-57.8	-19.6	-19.3	25.4	-21.7	-8.2
Effective rate	10.5%	-14.9%	-5.6%	-7.4%	15.2%	-1.3%	-0.9%
Total tax breaks	116.1	193.3	141.6	110.9	33.0	594.9	309.4
Navistar							
Pretax US profit	141.0	485.0	400.0	236.0	106.0	1,368.0	626.0
Federal income tax	4.0	11.0	4.0	8.0	1.0	28.0	15.0
Effective rate	2.8%	2.3%	1.0%	3.4%	0.9%	2.0%	2.4%
Total tax breaks	45.4	158.8	136.0	74.6	36.1	450.8	204.1
Total, these 10 Cos.							
Pretax US profit	49,373.0	49,509.3	37,576.2	31,101.7	23,810.3	191,370.4	98,882.3
Federal income tax	4,912.0	884.4	3,839.6	4,862.0	2,599.6	17,097.5	5,796.3
Effective rate	9.9%	1.8%	10.2%	15.6%	10.9%	8.9%	5.9%
Total tax breaks	12,368.6	16,461.6	9,312.1	6,023.6	5,734.0	49,882.1	28,812.5

*Microsoft's fiscal years end in June of year following the calendar years listed.

Source: Corporate annual reports and forms 10-K.