CTJ Citizens for Tax Justice

June 1, 2011
Contact:
Bob McIntyre, 202-299-1066 ext. 22
Anne Singer, 202-299-2066 ext. 27
www.ctj.org
UPDATED OCT. 21, 2011

Analysis: 12 Corporations Pay Effective Tax Rate of Negative 1.4% on $175 Billion in Profits; Reap $63.7 Billion in Tax Subsidies

Exxon Mobil, Boeing, Verizon, Others Illustrate Why Revenue-Raising Reform is Needed

Washington, DC – To better inform the public and lawmakers about how successful many American corporations have been in reducing or eliminating their federal income taxes, Citizens for Tax Justice is releasing a preview of its forthcoming major study of Fortune 500 companies and the taxes they paid — or failed to pay — over the 2008-10 period. Today's release details the pretax U.S. profits, federal taxes paid and effective tax rates of (in alphabetical order): American Electric Power, Boeing, Dupont, Exxon Mobil, FedEx, General Electric, Honeywell International, IBM, United Technologies, Verizon Communications, Wells Fargo and Yahoo. CTJ's full corporate report is scheduled for release this summer.[1]

The analysis serves to illuminate the current corporate tax debate in Washington, DC, and demonstrates that real corporate tax reform is long overdue. President Obama has indicated that he wants to reduce or eliminate corporate tax subsidies, but use all the increased revenue to lower the statutory corporate tax rate. Lobbyists for big business, along with many Republican political leaders, reject this "revenue-neutral" approach, and call for changes that would *reduce* corporate tax payments by trillions of dollars over the upcoming decade.

In contrast, Citizens for Tax Justice and many others take the position that at a time when our country faces huge long-term deficit problems, corporate tax reform should be significantly revenue-*positive*, as it was under President Ronald Reagan in 1986.[2] Since then, the corporate tax code has once again become overburdened with loopholes, shelters and special tax breaks.

Citizens for Tax Justice and 250 organizations from all 50 states with constituencies across America have signed a letter to Congress stating that "most, if not all, of the revenue saved from eliminating corporate tax subsidies should go towards deficit reduction and towards creating the healthy, educated workforce and sound infrastructure that will make our nation more competitive."[3]

The 12 corporations analyzed are major, nationally recognized companies in a range of industries, including manufacturing, energy, services, transportation, high tech and finance. They all made significant profits in 2010 and over the 2008-10 period.

.

[1] CTJ's comprehensive corporate tax reports in the 1980s played a key role in the enactment of the Tax Reform Act of 1986. See, e.g., *Corporate Taxpayers & Corporate Freeloaders, Four Years of Continuing, Legalized Tax Avoidance by America's Largest Corporations, 1981-84*, www.ctj.org/pdf/corp0885.pdf.

[2] Reagan's Tax Reform Act of 1986 was designed to increase corporate income tax payments by 34 percent.

[3] "Corporate Tax Reform: Consumer Groups, Labor Unions, Faith-Based Groups at Odds with Obama on Goals," www.ctj.org/taxjusticedigest/archive/2011/05/corporate_tax_reform_consumer.php.

- From 2008 through 2010, these 12 companies reported $175 billion in pretax U.S. profits. But as a group, their federal income taxes were negative: –$2.4 billion.
- All but two of the dozen companies enjoyed at least one no-tax year over the 2008-10 period, despite reporting substantial pretax U.S. profits in those no-tax years.
- Eight of the twelve companies reported net tax benefits over the full three-year period.

The table that follows shows the results of our analysis. It includes General Electric, whose tax-avoiding ways have been widely reported.[4] Over the 2008-10 period, GE enjoyed $8.3 billion in tax benefits on top of its $10.5 billion in pretax U.S. profits.

Not a single one of the companies paid anything close to the 35 percent statutory tax rate. In fact, the "highest tax" company on our list, Exxon Mobil, paid an effective three-year tax rate of only 14.2 percent. That's 60 percent below the 35 percent rate that companies are supposed to pay. And over the past *two* years, Exxon Mobil's net tax on its $9.9 billion in U.S. pretax profits was a minuscule $39 million, an effective tax rate of only 0.4 percent

Had these 12 companies paid the full 35 percent corporate tax, their federal income taxes over the three years would have totaled $61.2 billion. Instead, they enjoyed so many tax subsidies that they paid $63.7 billion *less* than that.

If just these 12 companies had paid at a 35 percent tax rate over the past three years, total federal revenues from corporate taxes would have been 12 percent higher than they actually were.

"These 12 companies are just the tip of an iceberg of widespread corporate tax avoidance," said Bob McIntyre, director of Citizens for Tax Justice. "Our elected officials have a duty to the American public to make reducing or eliminating the vast array of corporate tax subsidies the centerpiece of any deficit-reduction strategy."

Here is the information on the 12 illustrative companies. Technical notes follow on page 3.

Twelve Corporations: Their U.S. Pretax Profits and Their Federal Income Taxes, 2008–2010

$-millions	2010			2009			2008			3 year totals		
Company	**US Profit**	**FedTax**	**FedRate**	**US Profit**	**FedTax**	**FedRate**	**US Profit**	**FedTax**	**FedRate**	**US Profit**	**FedTax**	**FedRate**
General Electric	4,248	–3,253	–76.6%	1,574	–833	–52.9%	4,638	–651	–14.0%	**10,460**	**–4,737**	**–45.3%**
American Electric Power	1,869	–134	–7.2%	2,014	–575	–28.6%	2,016	164	8.1%	**5,899**	**–545**	**–9.2%**
Dupont	949	–109	–11.5%	180	23	12.8%	995	14	1.4%	**2,124**	**–72**	**–3.4%**
Verizon Communications	11,963	–705	–5.9%	12,261	–611	–5.0%	8,294	365	4.4%	**32,518**	**–951**	**–2.9%**
Boeing	4,450	–3	–0.1%	1,494	–136	–9.1%	3,791	–39	–1.0%	**9,735**	**–178**	**–1.8%**
Wells Fargo	16,486	1,345	8.2%	21,797	–3,967	–18.2%	11,087	1,941	17.5%	**49,370**	**–681**	**–1.4%**
Honeywell International	1,243	–482	–38.7%	1,723	–28	–1.6%	1,937	476	24.6%	**4,903**	**–34**	**–0.7%**
FedEx	1,749	60	3.4%	1,289	15	1.2%	1,208	–38	–3.2%	**4,247**	**37**	**0.9%**
IBM	8,861	190	2.1%	9,404	473	5.0%	8,208	338	4.1%	**26,473**	**1,001**	**3.8%**
Yahoo	855	–82	–9.6%	354	102	28.8%	453	125	27.5%	**1,663**	**145**	**8.7%**
United Technologies	2,543	44	1.7%	2,539	198	7.8%	2,854	550	19.3%	**7,935**	**791**	**10.0%**
Exxon Mobil	7,419	992	13.4%	2,490	–954	–38.3%	9,745	2,744	28.2%	**19,655**	**2,783**	**14.2%**
These 12 companies	**62,636**	**–2,136**	**–3.4%**	**57,120**	**–6,293**	**–11.0%**	**55,226**	**5,989**	**10.8%**	**174,982**	**–2,440**	**–1.4%**

NOTES: Negative taxes and rates reflect tax benefits received rather than taxes paid. "nm" = not meaningful.

[4] "G.E.'s Strategies Let It Avoid Taxes Altogether," David Kocieniewski, *The New York Times*, Mar 24, 2011, p. 1.

Technical notes:

Pretax profits are generally reported pretax U.S. profits as reported in the companies 10-K reports to shareholders and the SEC, less state income taxes paid.[5] The notes below describe any adjustments we made to reported pretax U.S. profits for specific companies.

Federal income taxes are the "current" U.S. federal taxes reported by the companies,[6] less any "excess tax benefits from employee exercise of stock options," which are not taken into account in the "current" tax line, but are instead reported as additions to shareholders' equity (and/or in the cash flow statement). We assigned part of the excess stock option benefit to state income taxes, and the rest to federal income taxes. The notes below report the amounts of any federal stock option tax benefits.

Specific company notes:

Boeing: Income taxes are net of $19 million, $5 million and $100 million in excess stock option federal tax benefits in 2010, 2009 and 2008, respectively.

Exxon Mobil: Income taxes are net of $232 million, $116 million and $61 million in excess stock option federal tax benefits in 2010, 2009 and 2008, respectively.

FedEx: FedEx's fiscal year ends on May 31. Pretax income was adjusted upward by $810 million in 2009 and $367 million in 2008 to ignore non-deductible, non-cash "goodwill impairment" book charges. Income taxes are net of $21 million and $3 million in excess stock option federal tax benefits in 2009 and 2008, respectively.

General Electric: Pretax income was adjusted by replacing the company's non-cash "provision for loan losses" with actual "charge-offs, net of recoveries." This adjustment reduced pretax profits in 2010 and increased them in 2009 and 2008.

Honeywell International: In its 2010 report, the company changed its accounting method for pensions, and retroactively restated its pretax profits for 2009 and 2008. The profit figures shown in our report use the profits actually reported in the company's 2009 and 2008 reports. Income taxes are net of $11 million, $1 million and $17 million in excess stock option federal tax benefits in 2010, 2009 and 2008, respectively.

United Technologies: Income taxes are net of $78 million, $41 million and $26 million in excess stock option federal tax benefits in 2010, 2009 and 2008, respectively.

Verizon Communications: In its 2010 report, the company changed its accounting method for pensions, and retroactively restated its pretax profits for 2009 and 2008. The restatement had little effect for 2009. For 2008, our report uses the profits actually reported in the company's 2008 report.

Wells Fargo: Pretax income was adjusted by replacing the company's non-cash "provision for loan losses" with actual "charge-offs, net of recoveries." This adjustment reduced pretax profits in 2010 and increased them in 2009 and 2008. Income taxes are net of $80 million, $15 million and $102 million in excess stock option federal tax benefits in 2010, 2009 and 2008, respectively.

Yahoo: Income taxes are net of $108 million, $90 million and $103 million in excess stock option federal tax benefits in 2010, 2009 and 2008, respectively.

Note: *More details on how specific companies reduced their federal income tax bills will be included in CTJ's upcoming major report on Fortune 500 companies.*

[5] The pretax profit figures do not include foreign profits, since these are rarely if ever taxed by the United States.

[6] "Deferred" taxes are not included until and if they are actually paid, at which time they will show up in the "current" tax line in the companies' 10-Ks.