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Executive-Pay Tax Break Saved Fortune 500 Corporations \$27 Billion Over the Past Three Years Apple & Facebook Biggest Beneficiaries of Stock Option Loophole

Earlier this year, Citizens for Tax Justice reported that Facebook Inc. had used a single tax break, for executive stock options, to avoid paying even a dime of federal and state income taxes in 2012. Since then, CTJ has investigated the extent to which other large companies are using the same tax break. This short report presents data for 280 Fortune 500 corporations that, like Facebook, disclose a portion of the tax benefits they receive from this tax break.

- These 280 corporations reduced their federal and state corporate income taxes by a total of \$27.3 billion over the last three years, by using the so-called “excess stock option” tax break.
- In 2012 alone, the tax break cut Fortune 500 income taxes by \$11.2 billion.
- Just 25 companies received more than half of the total excess stock option tax benefits accruing to Fortune 500 corporations over the past three years.
- Apple alone received 12 percent of the total excess stock option tax benefits during this period, enjoying \$3.2 billion in stock option tax breaks during the past three years. JP Morgan, Goldman Sachs and ExxonMobil collectively enjoyed 10 percent of the total.
- In 2012, Facebook wiped out its entire U.S. income tax liability by using excess stock option tax breaks.
- Over the past three years, Apple slashed its federal and state income taxes by 20 percent using this single tax break.

Stock Option Tax Benefits of 25 Major Corporations, 2010–12, \$-millions

Apple	\$ 3,193
Facebook	1,581
J.P. Morgan Chase & Co.	1,148
EMC	904
Goldman Sachs Group	840
Amazon.com	750
Exxon Mobil	660
Caterpillar	534
Hewlett-Packard	469
Oracle	422
Wells Fargo	402
Qualcomm	396
McDonald's	384
Google	368
Cisco Systems	342
General Mills	334
Walt Disney	322
Starbucks	311
PepsiCo	301
Chevron	286
NetApp	270
eBay	252
Intel	244
United Technologies	242
Yahoo	238
Total, these 25 Companies	\$ 15,192
Remaining 255 Companies	12,063
Total Tax Benefits, Fortune 500	\$ 27,255

How It Works: Companies Deduct Executive Compensation Costs They Never Actually Paid

Most big corporations give their executives (and sometimes other employees) options to buy the company's stock at a favorable price in the future. When those options are exercised, corporations can take a tax deduction for the difference between what the employees pay for the stock and what it's worth (while employees report this difference as taxable wages).

Before 2006, companies could deduct the "cost" of the stock options on their tax returns, reducing their taxable profits as reported to the IRS, but didn't have to reduce the profits they reported to their shareholders in the same way, creating a big gap between "book" and "tax" income. Some observers, including CTJ, argued that the most sensible way to resolve this would be to deny companies any tax deduction for an alleged "cost" that doesn't require an actual cash outlay, and to require the same treatment for shareholder reporting purposes.

But instead, rules in place since 2006 maintained the tax write-off, but now require companies to lower their "book" profits somewhat to take account of options. But the book write-offs are still usually considerably less than what the companies take as tax deductions. That's because the oddly-designed rules require the value of the stock options for book purposes to be calculated — or guessed at — when the options are issued, while the tax deductions reflect the actual value when the options are exercised. Because companies typically low-ball the estimated values, they usually end up with much bigger tax write-offs than the amounts they deduct in computing the profits they report to shareholders.

Reforming the Excess Stock Option Tax Break

Despite the changes that took effect in 2006, the stock option tax break is still clearly reducing the effectiveness of the corporate income tax. A November 2011 CTJ report assessing the taxes paid by the Fortune 500 corporations that were consistently profitable from 2008 through 2010 identified the excess stock option tax break as a major factor explaining the low effective tax rates paid by many of the biggest Fortune 500 companies.¹

In recent years, some members of Congress have taken aim at this tax break. In February of 2013, Senator Carl Levin (D-MI) introduced the "Cut Unjustified Loopholes Act," which includes a provision requiring companies to treat stock options the same for both book and tax purposes, as well as making stock option compensation subject to the \$1 million cap on corporate tax deductions for top executives' pay.

The appendix includes the full list of 280 corporations and the size of their reported federal and state tax break for excess stock options in the three year period between 2010 and 2012.

¹ Citizens for Tax Justice, *Corporate Taxpayers & Corporate Tax Dodgers, 2008-2010*, November 3, 2011, page 10. <http://ctj.org/corporatetaxdodgers/>

Excess Stock Option Tax Breaks of 280 Major Corporations, 2010–2012

Company (\$-millions)	2012	2011	2010	2010-12
Apple	\$ 1,351	\$ 1,100	\$ 742	\$ 3,193
Facebook	1,033	433	115	1,581
J.P. Morgan Chase & Co.	255	867	26	1,148
EMC	261	362	282	904
Goldman Sachs Group	130	358	352	840
Amazon.com	429	62	259	750
Exxon Mobil	178	202	280	660
Caterpillar	192	189	153	534
Hewlett-Packard	12	163	294	469
Oracle	97	215	110	422
Wells Fargo	226	79	97	402
Qualcomm	168	183	45	396
McDonald's	142	113	129	384
Google	188	86	94	368
Cisco Systems	60	71	211	342
General Mills	114	106	114	334
Walt Disney	122	124	76	322
Starbucks	170	104	37	311
PepsiCo	124	70	107	301
Chevron	98	121	67	286
NetApp	133	128	9	270
eBay	130	80	42	252
Intel	142	37	65	244
United Technologies	67	81	94	242
Yahoo	36	71	131	238
Nike	115	64	58	237
Gilead Sciences	114	41	82	237
Union Pacific	100	83	51	234
Yum Brands	98	66	69	233
CBS	103	72	16	191
Comcast	134	46	4	184
Limited Brands	116	48	19	183
3M	62	53	53	168
Praxair	60	53	51	164
Ameriprise Financial	64	90	9	163
Omnicom Group	85	30	45	160
Cognizant Technology Solutions	48	39	72	159
Medco Health Solutions	43	52	64	159
Microsoft	93	17	45	155
Time Warner Cable	81	48	19	148
BlackRock	74	27	44	145
MasterCard	47	12	85	144
Deere	30	70	44	144
Sherwin-Williams	105	13	20	137
TJX	62	46	28	137
W.W. Grainger	58	52	26	136
Dollar General	88	33	14	135
Express Scripts	45	28	59	133
Monsanto	50	36	43	129

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Company (\$-millions)	2012	2011	2010	2010-12
Bristol-Myers Squibb	71	47	8	126
Colgate-Palmolive	60	32	31	123
Costco Wholesale	64	45	10	119
Dow Chemical	76	23	20	119
Biogen Idec	55	51	13	118
Estée Lauder	58	50	11	118
Celgene	49	31	36	116
Starwood Hotels & Resorts	72	22	20	114
Time Warner	83	22	7	112
Aetna	50	39	23	111
Honeywell International	56	42	13	111
Allergan	46	38	27	111
CSX	37	35	38	110
Dick's Sporting Goods	65	21	22	108
Polo Ralph Lauren	40	43	25	108
Visa	71	18	14	103
Air Products & Chemicals	31	48	24	103
Norfolk Southern	28	42	32	102
Boeing	45	36	19	100
WellPoint	29	42	28	99
DaVita	62	21	6	89
CF Industries Holdings	36	47	6	89
VF	47	33	9	89
AmerisourceBergen	26	40	21	86
Baxter International	24	21	41	86
Western Digital	82	—	4	86
Northrop Grumman	45	17	22	84
Liberty Global	3	38	43	84
Precision Castparts	30	30	23	83
Prudential Financial	51	20	12	83
Texas Instruments	38	31	13	82
Ecolab	50	14	17	81
O'Reilly Automotive	39	23	19	80
AECOM Technology	1	61	17	80
Eaton	21	57	—	78
CVS Caremark	28	21	28	77
Whole Foods Market	50	23	3	76
Becton Dickinson	15	37	23	75
Rockwell Automation	19	38	16	73
Parker Hannifin	16	43	14	73
Kimberly-Clark	50	15	6	71
General Dynamics	29	24	18	71
SanDisk	16	25	30	71
Mattel	36	24	8	68
Peabody Energy	8	8	51	67
EOG Resources	67	0	-1	66
DirecTV	30	25	11	66
FedEx	18	23	25	66
PetSmart	43	14	9	66

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Company (\$-millions)	2012	2011	2010	2010-12
Apache	4	32	28	64
Travelers Cos.	38	18	8	64
Dillard's	50	10	3	64
Anadarko Petroleum	52	-15	26	63
McGraw-Hill	42	19	2	63
Ross Stores	29	18	15	62
Nordstrom	24	22	16	62
Motorola Solutions	20	42	—	62
Valero Energy	27	23	11	61
Fidelity National Information Services	31	8	22	60
Gap	34	13	11	58
National Oilwell Varco	25	22	10	57
Thermo Fisher Scientific	23	17	13	52
Freeport-McMoRan Copper & Gold	8	23	19	50
Viacom	37	13	—	50
Hershey	34	14	1	49
Raytheon	13	14	21	48
Morgan Stanley	42	—	5	47
Franklin Resources	20	15	12	46
Occidental Petroleum	8	14	22	44
Jarden	43	—	—	43
Reynolds American	39	1	2	42
Airgas	18	8	15	41
FMC Technologies	27	9	6	41
AutoNation	11	23	8	41
C.H. Robinson Worldwide	12	15	13	41
Fidelity National Financial	31	6	3	40
Advance Auto Parts	23	10	7	40
Johnson Controls	3	30	7	40
Stanley Black & Decker	15	14	11	40
Xerox	10	6	24	40
Ball	21	6	13	40
Humana	22	15	2	39
CH2M Hill	11	13	15	39
Dover	23	9	6	38
Henry Schein	18	9	11	38
Goodrich	—	16	22	38
Cameron International	11	9	16	37
Phillips-Van Heusen	15	12	9	36
Expeditors International of Washington	5	5	24	35
Hormel Foods	9	15	10	34
Devon Energy	5	13	16	34
Wisconsin Energy	—	12	22	34
Rockwell Collins	9	7	17	33
Illinois Tool Works	16	8	9	33
Consol Energy	9	8	15	32
Campbell Soup	8	11	11	30
Cigna	15	10	5	30
Dr Pepper Snapple Group	16	10	3	29

Excess Stock Option Tax Breaks of 280 Major Corporations, 2010–2012

Company (\$-millions)	2012	2011	2010	2010-12
Clorox	10	9	10	29
Cummins	14	5	10	29
Symantec	8	7	13	28
Waste Management	11	8	9	28
Interpublic Group	15	8	5	28
UnitedHealth Group	—	—	27	27
Flowserve	11	6	10	27
St. Jude Medical	1	9	17	26
Kellogg	6	11	8	25
Big Lots	8	3	14	25
J.C. Penney	12	10	2	24
Tesoro	8	13	3	24
Laboratory Corp. of America	8	10	5	24
Harley-Davidson	13	6	4	23
Coventry Health Care	12	8	3	23
CarMax	10	9	4	23
Dominion Resources	10	2	10	22
GameStop	1	1	19	21
Ashland	12	4	5	21
Cliffs Natural Resources	13	5	3	21
World Fuel Services	4	6	10	20
Wesco International	11	5	3	20
Paccar	4	5	11	20
Genuine Parts	11	5	3	20
ITT	6	7	6	20
Community Health Systems	4	5	10	19
Murphy Oil	3	5	12	19
Foot Locker	11	5	3	19
Family Dollar Stores	12	5	2	19
H.J. Heinz	8	9	2	19
Stryker	1	6	11	18
Huntsman	4	10	4	18
Fluor	4	13	1	18
Synnex	3	4	10	17
Computer Sciences	2	6	9	17
Mosaic	—	13	3	17
Centene	11	4	1	16
Anixter International	3	7	5	15
Lubrizol	—	—	15	15
Edison International	-6	13	8	15
Arrow Electronics	5	8	2	15
J.M. Smucker	5	7	3	15
SPX	4	7	4	15
Rock-Tenn	10	—	4	14
Principal Financial	11	2	1	14
Jacobs Engineering Group	4	7	3	14
Ingram Micro	6	3	4	13
United Parcel Service	3	6	4	13
United Stationers	1	7	5	13

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Company (\$-millions)	2012	2011	2010	2010-12
Universal American	4	8	1	13
Emcor Group	7	4	1	12
L-3 Communications	3	2	7	12
Tenneco	4	4	4	12
CenturyLink	—	—	12	12
Apollo Group	1	4	7	12
Best Buy	—	—	11	11
SAIC	—	—	11	11
Tyson Foods	3	5	3	11
Northeast Utilities	9	1	1	11
Levi Strauss	3	3	5	10
UGI	2	4	4	10
Quest Diagnostics	4	4	1	9
Oshkosh	—	2	6	8
Health Net	6	1	1	8
Alcoa	1	6	1	8
Republic Services	2	3	4	8
Western Refining	4	3	—	8
Shaw Group	2	3	2	8
Western Union	1	5	1	7
ConAgra Foods	9	—	-2	7
Fifth Third Bancorp	1	2	4	7
KBR	4	3	—	7
Weyerhaeuser	5	2	—	7
Automatic Data Processing	6	1	0	7
Exelon	2	1	3	6
Group 1 Automotive	3	3	1	6
Bemis	1	1	4	6
Health Management Associates	1	3	1	6
Molina Healthcare	4	2	0	6
Owens & Minor	1	2	2	6
Johnson & Johnson	3	1	1	5
Electronic Arts	—	4	1	5
Nucor	5	1	-1	5
TRW Automotive Holdings	1	3	1	5
Insight Enterprises	2	2	1	5
Core-Mark Holding	1	2	2	5
Safeway	1	2	2	5
First American	2	1	1	5
Masco	—	—	4	4
Fortune Brands	—	—	4	4
Ryder System	1	2	1	4
Reliance Steel & Aluminum	-0	-0	4	3
Tech Data	—	2	1	3
Reinsurance Group of America	0	5	-2	3
CA	3	—	—	3
Charles Schwab	—	—	3	3
Lincoln National	-1	3	1	3
Sealed Air	0	3	—	3

Excess Stock Option Tax Breaks of 280 Major Corporations, 2010–2012

Company (\$-millions)	2012	2011	2010	2010-12
Freddie Mac	1	1	1	3
Bed Bath & Beyond	—	—	3	3
Manpower	0	1	1	3
Con-way	2	1	0	3
CVR Energy	0	2	0	2
URS	0	1	1	2
AT&T	—	2	—	2
Loews	—	—	2	2
Baker Hughes	—	—	2	2
Public Service Enterprise Group	—	1	1	2
Staples	0	2	—	2
Casey's General Stores	—	1	1	2
Avon Products	-2	-0	4	2
BJ's Wholesale Club	—	—	2	2
R.R. Donnelley & Sons	0	0	1	2
Jabil Circuit	1	0	0	1
Terex	—	—	1	1
Chesapeake Energy	2	-3	2	1
NCR	—	1	—	1
PNC Financial Services Group	—	—	1	1
Lowe's	—	—	1	1
Holly	—	2	-1	1
Omnicare	—	—	1	1
H&R Block	—	0	1	1
Alliant Techsystems	—	0	1	1
Susser Holdings	—	—	1	1
Sysco	—	—	0	0
SLM	—	—	0	0
General Cable	-1	1	-0	0
Lear	0	—	—	0
Barnes & Noble	—	0	0	0
Tutor Perini	—	0	0	0
Frontier Oil	—	—	0	0
Telephone & Data Systems	—	—	0	0
Kindred Healthcare	—	0	-0	0
All 280 Companies	\$ 11,247	\$ 9,092	\$ 6,916	\$ 27,255

Note: Several companies with fiscal years ending after March have not yet released annual financial reports for 2012. For these companies, we report three-year figures for 2009 through 2011.

Source: CTJ analysis of corporate 10-K annual reports