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Fortune 500 Corporations Used Stock Option Loophole to Avoid \$64.6 Billion in Taxes Over the Past Five Years

Apple & Facebook Biggest Beneficiaries

One of the most egregious loopholes in the tax code, known as the stock option loophole, allows companies to deduct millions or billions from their taxable income for compensating executives in the form of stock options. Corporations can take these deductions even though stock options cost them nothing. CTJ has reviewed five years of corporate filings and found this loophole has allowed companies to annually avoid an average \$13 billion in taxes. It should be noted that the annual average sum corporations are avoiding could be understated because not all corporations report this information. . This report sheds light on how corporations are able to provide sizable compensation to their CEOs and other executives and concurrently use tax code loopholes to reduce their tax bill. It presents data for 315 Fortune 500 corporations that disclose a portion of the tax benefits they receive from this tax break. HIGHLIGHTS:

- 315 corporations reduced their federal and state corporate income taxes by a combined total of \$64.6 billion over the last five years by using the excess stock option tax break.
- In 2015, the tax break cut Fortune 500 income taxes by \$14.8 billion.
- Just 25 companies received half of the total excess stock option tax benefits accruing to Fortune 500 corporations over the past five years.

Stock Option Tax Benefits of 25 Major Corporations, 2011–15

\$-millions

Facebook	\$ 5,665
Apple	4,673
Google	1,951
Goldman Sachs Group	1,775
J.P. Morgan Chase & Co.	1,666
Gilead Sciences	1,501
Wells Fargo	1,482
Microsoft	1,178
Oracle	1,047
Walt Disney	1,018
Qualcomm	965
Comcast	934
EMC	895
Celgene	801
Starbucks	779
HCA Holdings	719
Amazon.com	694
Caterpillar	683
CBS	654
Time Warner	614
Nike	601
eBay	600
Exxon Mobil	575
PepsiCo	558
3M	528
Total, these 25 Companies	\$ 32,556
Remaining 255 Companies	32,018
Total Tax Benefits, Fortune 500	\$ 64,574

Source: CTJ analysis of corporate 10-K annual reports

- Facebook and Apple received about 9 percent and 7 percent of the total excess stock option tax benefits during this period, enjoying \$5.7 and \$4.7 billion in stock option tax breaks respectively over the past five years. Financial giants, JP Morgan, Goldman Sachs and Wells Fargo collectively received about 8 percent of the total.
- Over the past five years, Facebook slashed its federal and state income taxes by 70 percent using this single tax break.

How It Works: Companies Deduct Costs They Don't Incur

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 employees exercise these 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 (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 a 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 to take account of options. But the book write-offs are usually much less than what the companies take as tax deductions. This is 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 as a "cost" 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 continues to reduce the effectiveness of the corporate income tax. A February 2014 CTJ report assessing taxes paid by Fortune 500 corporations consistently profitable from 2008 through 2012 identified the excess stock option tax break as a major reason for the low effective tax rates paid by many of the nation's biggest companies.¹

In recent years, some members of Congress have taken aim at this tax break. For example, former Michigan 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 stock option loophole essentially allows profitable corporations to underwrite executive compensation on average taxpayers' dime. Executives are able to cash out when their stock becomes more valuable, and corporations are able to deduct an imaginary cost.

During a time when the nation is failing to raise enough revenue to adequately fund its priorities, lawmakers should move to close the stock option loophole to make the tax system fairer and raise much-needed revenue.

The appendix includes the full list of 315 corporations and the size of their reported federal and state tax break for excess stock options in the five year period between 2011 and 2015.

¹ Citizens for Tax Justice, *The Sorry State of Corporate Taxes*, February 25, 2014.
<http://ctj.org/corporatetaxdodgers/>

Excess Stock Option Tax Breaks of 315 Major Corporations, 2011–2015

Company (\$-millions)	2015	2014	2013	2012	2011	2011-15
Facebook	\$ 1,721	\$ 1,869	\$ 609	\$ 1,033	\$ 433	\$ 5,665
Apple	749	739	701	1,351	1,133	4,673
Google	548	648	481	188	86	1,951
Goldman Sachs Group	407	782	98	130	358	1,775
J.P. Morgan Chase & Co.	—	407	137	255	867	1,666
Gilead Sciences	585	482	279	114	41	1,501
Wells Fargo	453	453	271	226	79	1,482
Microsoft	588	271	209	93	17	1,178
Oracle	244	250	241	97	215	1,047
Walt Disney	313	255	204	122	124	1,018
Qualcomm	103	280	231	168	183	965
Comcast	282	267	205	134	46	934
EMC	55	102	116	261	362	895
Celgene	301	251	169	49	31	801
Starbucks	132	114	258	170	104	779
HCA Holdings	235	134	113	174	63	719
Amazon.com	119	6	78	429	62	694
Caterpillar	24	182	96	192	189	683
CBS	88	243	148	103	72	654
Time Warner	151	179	179	83	22	614
Nike	218	132	72	115	64	601
eBay	74	115	201	130	80	600
Exxon Mobil	2	115	48	130	280	575
PepsiCo	133	114	117	124	70	558
3M	154	167	92	62	53	528
Bristol-Myers Squibb	147	131	129	71	47	525
Ameriprise Financial	81	162	120	64	90	517
Intel	159	122	49	142	37	509
Boeing	157	114	128	45	36	480
McDonald's	51	71	93	142	113	469
Cisco Systems	128	118	92	60	71	469
Time Warner Cable	92	141	93	81	48	455
Union Pacific	62	118	76	100	83	439
United Technologies	64	103	115	67	81	430
NetApp	55	53	73	113	128	422
General Mills	75	69	103	63	106	416
Honeywell International	81	102	132	56	42	413
Hewlett-Packard	145	58	2	12	163	380
Yahoo	58	150	64	36	71	379
Chevron	17	58	79	98	121	373
Allergan	76	168	38	46	38	365
Morgan Stanley	211	101	10	42	—	364
Biogen Idec	78	96	73	55	51	353
BlackRock	105	106	41	74	27	353
TJX	65	95	83	62	46	351
CVS Caremark	127	106	62	28	21	344
Costco Wholesale	86	84	61	64	45	340
Visa	84	90	74	71	18	337
Texas Instruments	83	100	80	38	31	332
Sherwin-Williams	90	69	48	105	13	324

Excess Stock Option Tax Breaks of 315 Major Corporations, 2011–2015

Company (\$-millions)	2015	2014	2013	2012	2011	2011-15
Marriott International	34	92	121	71	—	318
Limited Brands	70	43	36	116	48	313
Netflix	80	89	82	5	46	302
McGraw-Hill	69	128	43	42	19	301
Yum Brands	50	42	44	98	66	300
Northrop Grumman	103	81	43	45	17	289
Danaher	88	50	49	70	25	282
Monsanto	44	72	79	50	36	281
Viacom	43	84	97	37	13	274
Aetna	53	41	83	50	39	267
American Express	18	54	84	45	60	261
Colgate-Palmolive	55	63	51	60	32	261
Express Scripts	58	94	31	45	28	257
VF	57	64	48	47	33	250
Estée Lauder	48	40	54	58	50	249
EOG Resources	26	99	56	67	0	248
WellPoint	96	46	30	29	42	243
AmerisourceBergen	88	46	41	26	40	241
Expedia	91	58	40	41	7	237
AutoZone	48	24	67	63	35	236
General Dynamics	77	83	23	29	24	236
W.W. Grainger	28	34	60	58	52	231
Travelers Cos.	55	57	51	38	18	219
Ecolab	58	56	37	50	14	214
Omnicom Group	27	30	38	85	30	210
Thermo Fisher Scientific	64	65	47	19	15	209
Praxair	19	31	46	60	53	209
Western Digital	19	60	45	82	—	206
Dow Chemical	41	42	23	76	23	205
O'Reilly Automotive	63	49	31	39	23	205
Deere	19	31	51	30	70	200
Broadcom	125	39	17	9	8	198
DaVita	28	45	36	62	21	192
Kimberly-Clark	37	37	50	50	15	189
Valero Energy	44	47	47	27	23	188
State Street Corp.	70	72	50	–6	—	186
Liberty Media	19	3	6	146	9	183
Parker Hannifin	23	34	66	16	43	182
Kroger	97	52	32	—	—	181
Macy's	31	43	51	36	20	181
Dollar General	14	12	31	88	33	178
Air Products & Chemicals	32	28	38	31	48	177
Norfolk Southern	14	37	38	42	45	176
Cognizant Technology Solutions	34	24	31	48	39	175
Hershey	25	53	48	34	14	175
MasterCard	42	54	19	47	12	174
Gap	28	38	56	34	13	169
Priceline.com	102	23	18	5	21	169
FedEx	51	44	23	18	23	159
Abbvie	61	56	38	—	—	155

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Company (\$-millions)	2015	2014	2013	2012	2011	2011-15
Discovery Communications, Inc.	12	30	44	38	28	152
Becton Dickinson	48	27	23	15	37	150
Booz Allen Hamilton Holding	51	38	27	16	16	148
Prudential Financial	19	26	32	51	20	148
Fidelity National Information Services	29	40	40	31	8	147
Ross Stores	42	29	27	29	18	146
Starwood Hotels & Resorts	13	9	26	72	22	142
Automatic Data Processing	68	50	16	6	1	141
Liberty Interactive Corporation	33	21	23	64	—	141
CarMax	32	50	23	24	10	139
Raytheon	47	47	16	13	14	137
Pioneer Natural Resources	7	19	18	58	31	133
Tractor Supply Company	27	19	44	26	17	133
Dick's Sporting Goods	7	12	27	65	21	132
Rockwell Automation	12	30	32	19	38	131
Whole Foods Market	11	9	37	50	23	130
Allstate	45	41	38	10	-5	129
Mattel	-3	21	50	36	24	129
SanDisk	12	45	27	16	25	125
Universal Health Services	47	34	20	16	8	125
Polo Ralph Lauren	—	8	34	41	40	123
Jarden	26	38	12	43	—	119
Bank of America Corp.	16	34	12	13	42	117
Wyndham Worldwide Corporation	17	34	15	33	18	117
Aramark	66	41	5	5	1	117
Hanesbrands	45	40	27	1	2	115
Baxter International	7	24	34	24	21	110
Applied Materials	56	30	23	—	—	109
Bank of New York Mellon Corp.	76	17	15	—	—	108
CF Industries Holdings	2	9	14	36	47	107
Nordstrom	15	22	23	24	22	106
Motorola Solutions	5	11	25	20	42	103
DirecTV	—	23	24	30	25	102
Coach, Inc.	—	-6	12	27	68	101
Cigna	33	19	23	15	10	100
PNC Financial Services Group	29	28	23	18	2	100
Amphenol	16	32	21	22	6	97
Salesforce.com	59	8	8	15	6	96
Huntington Ingalls Industries	33	39	24	—	—	96
Hormel Foods	23	25	23	9	15	95
CSX	4	3	13	37	35	92
Precision Castparts	5	—	22	35	30	92
Fidelity National Financial	21	16	17	31	6	91
Tesoro	38	20	12	8	13	91
Illinois Tool Works	33	24	16	8	9	90
Masco	75	13	—	—	—	88
J.B. Hunt Transport Services	17	22	20	16	12	86
Airgas	—	16	14	36	18	83
Reynolds American	17	12	14	39	1	83
PetSmart	—	—	25	43	14	82

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Company (\$-millions)	2015	2014	2013	2012	2011	2011-15
National Oilwell Varco	-1	15	20	25	22	81
Phillips-Van Heusen	6	11	38	15	12	81
AutoNation	18	18	10	11	23	79
Noble Energy, Inc.	-1	19	20	25	15	78
Franklin Resources	11	12	20	20	15	78
Ball	21	18	12	21	6	78
Anadarko Petroleum	6	22	11	51	-15	75
LKQ Corporation	18	18	16	8	15	75
Clorox	—	42	11	11	10	74
Dover	1	15	26	23	9	73
ConAgra Foods	—	24	19	21	9	73
Advance Auto Parts	13	10	16	23	10	73
Foot Locker	35	12	9	11	5	72
Humana	15	12	8	22	15	72
C.H. Robinson Worldwide	9	8	27	12	15	71
St. Jude Medical	24	21	15	1	9	70
Xerox	19	18	16	10	6	69
Tyson Foods	19	24	18	3	5	69
AECOM Technology	4	1	2	1	61	69
Fiserv	38	18	11	—	—	67
Newell Rubbermaid	27	11	16	13	—	66
Dr Pepper Snapple Group	23	11	6	16	10	66
Kellogg	14	11	24	6	11	66
Centene	25	19	6	11	4	66
Stanley Black & Decker	7	15	15	14	11	63
Darden Restaurants	—	18	11	14	18	61
Dillard's	—	—	—	50	10	60
Stryker	26	21	6	1	6	60
Dollar Tree	5	10	21	14	8	57
Harley-Davidson	3	12	20	13	6	54
Rock-Tenn	23	15	6	10	—	54
Genuine Parts	7	18	13	11	5	54
Progressive	17	13	10	6	6	52
Sempra Energy	52	—	—	—	—	52
L-3 Communications	26	17	4	3	2	52
FMC Technologies	2	8	27	9	6	52
Interpublic Group	10	17	—	15	8	50
Campbell Soup	6	13	12	8	11	50
Trinity Industries	13	24	9	1	3	50
Ashland	9	12	12	12	4	49
Waste Management	15	5	10	11	8	49
Laboratory Corp. of America	13	6	11	8	10	49
Principal Financial	16	10	10	11	2	48
Symantec	—	10	17	11	8	46
Rockwell Collins	13	6	9	9	7	44
Henry Schein	2	6	8	18	9	43
Flowserve	7	9	10	11	6	42
Edison International	15	15	5	-6	13	42
Jones Lang LaSalle	7	10	4	3	18	41
Electronic Arts	22	13	—	4	1	40

Excess Stock Option Tax Breaks of 315 Major Corporations, 2011–2015

Company (\$-millions)	2015	2014	2013	2012	2011	2011-15
Joy Global	0	2	2	21	15	40
Timken	2	7	11	10	10	39
Wynn Resorts	1	9	12	5	11	39
Apache	1	0	1	4	32	38
Cummins	1	5	13	14	5	38
Cameron International	2	6	9	11	9	38
Family Dollar Stores	—	6	13	12	5	37
ITT	3	10	9	6	7	36
Corn Products International	8	6	5	11	6	36
Lorillard, Inc.	—	9	13	10	4	36
UGI	8	13	9	2	4	36
Bed Bath & Beyond	10	7	7	5	5	35
Freeport-McMoRan Copper & Gold	-1	6	-1	8	23	35
Gannett	2	12	10	9	1	34
Weyerhaeuser	4	10	13	5	2	34
Arrow Electronics	6	7	7	5	8	33
Tenneco	6	12	6	4	4	32
Occidental Petroleum	—	4	6	8	14	32
CB Richard Ellis Group	2	1	10	3	15	31
Computer Sciences	—	18	8	3	2	31
CH2M Hill	-7	8	6	11	13	31
Sysco	—	15	8	5	0	29
Lennar Corporation	7	10	11	—	—	28
Fluor	—	4	7	4	13	28
D.R. Horton	12	1	7	5	3	28
Wesco International	2	6	4	11	5	28
SPX	1	10	6	4	7	27
Packaging Corp. of America	12	8	4	1	1	26
Synnex	8	6	5	3	4	26
First American	10	7	6	2	1	26
Emcor Group	2	8	5	7	4	25
GameStop	4	6	12	1	1	25
Alcoa	9	9	—	1	6	25
Northeast Utilities	10	10	-6	9	1	23
Consol Energy	0	3	3	9	8	23
Ingram Micro	5	6	2	6	3	22
J.C. Penney	—	—	—	12	10	22
Kohl's	10	3	3	4	2	22
Republic Services	9	4	4	2	3	21
Manpower	7	5	7	0	1	21
CA	—	3	6	8	3	20
Coventry Health Care	—	—	—	12	8	20
Anixter International	1	6	2	3	7	18
Molina Healthcare	8	3	2	4	2	18
H.J. Heinz	—	—	—	10	8	18
Quest Diagnostics	5	—	4	4	4	17
Cliffs Natural Resources	—	—	—	13	5	17
Huntsman	1	1	1	4	10	17
Omnicare	—	9	0	3	5	17
Jabil Circuit	0	1	15	1	0	17

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Company (\$-millions)	2015	2014	2013	2012	2011	2011-15
Peabody Energy	—	—	—	8	8	16
Sealed Air	13	—	—	0	3	16
Big Lots	1	4	0	8	3	16
Expeditors International of Washington	2	1	2	5	5	16
Community Health Systems	—	—	7	4	5	16
Lithia Motors	6	6	3	1	0	16
Health Net	5	2	1	6	1	15
Exelis	—	8	3	2	2	15
Dominion Resources	3	—	—	10	2	15
Nucor	2	3	3	5	1	14
World Fuel Services	—	1	3	4	6	14
Oshkosh	4	6	0	0	2	13
United Stationers	0	1	4	1	7	13
Apollo Group	1	0	1	4	7	13
United Parcel Service	—	—	3	6	4	13
Las Vegas Sands	9	4	—	—	—	12
Group 1 Automotive	2	2	3	3	3	12
United Natural Foods	3	3	2	3	2	12
Universal American	0	-1	0	4	8	11
Agilent Technologies	8	1	2	—	—	11
Devon Energy	-9	-3	4	5	13	10
Core-Mark Holding	2	3	2	1	2	10
Staples	5	1	2	0	2	10
Western Refining	1	1	8	-4	3	9
Tech Data	0	1	1	5	2	9
Casey's General Stores	—	4	2	2	1	9
Con-way	3	3	2	1	0	8
Murphy Oil	—	—	1	3	5	8
Assurant	-4	15	-1	2	-3	8
J.M. Smucker	—	—	—	3	5	8
Quanta Services	1	2	4	0	1	8
Jacobs Engineering Group	1	-1	-3	4	7	7
Cablevision Systems	6	0	1	—	—	7
KBR	—	—	—	4	3	7
TRW Automotive Holdings	—	2	1	1	3	7
Harman International Industries	—	4	2	—	—	6
Insight Enterprises	1	1	1	2	2	6
Ryder System	-3	1	5	1	2	6
Voya Financial	2	4	—	—	—	6
Shaw Group	—	—	—	2	3	6
Owens & Minor	1	1	1	1	2	6
Reinsurance Group of America	—	—	—	0	5	5
HollyFrontier	—	0	0	4	0	5
Bemis	2	1	—	1	1	5
Andersons	1	2	1	0	0	5
Health Management Associates	—	—	—	1	3	4
MDU Resources	-2	5	—	0	1	4
Levi Strauss	1	1	2	0	—	4
Public Service Enterprise Group	3	—	—	—	1	4
Lear	3	1	0	0	—	4

Excess Stock Option Tax Breaks of 315 Major Corporations, 2011–2015

Company (\$-millions)	2015	2014	2013	2012	2011	2011-15
Dean Foods	0	0	2	1	0	3
Safeway	—	—	—	1	2	3
Chesapeake Energy	—	3	1	2	-3	3
Exelon	—	—	—	2	1	3
SpartanNash	1	1	0	0	0	3
Ruddick	—	—	—	2	1	3
AT&T	—	—	—	—	2	2
Lincoln National	—	—	—	-1	3	2
Freddie Mac	—	—	—	1	1	2
AGL Resources	—	—	—	1	1	2
CVR Energy	-0	-0	-0	0	2	2
Aleris	—	—	—	—	2	2
CDW	1	0	1	—	—	2
R.R. Donnelley & Sons	0	0	0	0	0	1
Barnes & Noble	—	—	1	0	0	1
All 315 Companies	\$ 14,821	\$ 16,012	\$ 11,725	\$ 12,329	\$ 9,686	\$ 64,574

Note: Several companies with fiscal years ending after March have not yet released annual financial reports for 2015. For these companies, we report five-year figures for 2010 through 2014. Companies reporting less than \$1 million of tax benefits over five years are excluded.

Source: CTJ analysis of corporate 10-K annual reports