Large, Profitable Corporations Not Paying Their Fair Share

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Eighty-two (82) of America's largest and most profitable corporations—including twelve (12) New York-based corporations and many other corporations that generate a substantial portion of their profits in New York State— paid no federal income tax at all in at least one year during the first three years of the George W. Bush administration, a period when federal corporate tax collections fell to their lowest sustained level in six decades.

This is one of many startling findings of a major new report on corporate tax avoidance by Citizens for Tax Justice (CTJ) and the Institute on Taxation and Economic Policy (ITEP). The report covered 275 Fortune 500 corporations that were profitable in each of the three years studied: 2001, 2002, and 2003. These 275 corporations had total U.S. profits of $1.1 trillion over the three-year period. The CTJ/ITEP report was based on a detailed analysis of the tax information that these publicly-traded corporations are required to disclose pursuant to long-standing requirements of the U.S. Securities and Exchange Commission (SEC)

"The sharp increase in the number of tax-avoiding companies reflects the results of aggressive corporate lobbying and a White House and a Congress eager to do the lobbyists' bidding," said Robert S. McIntyre, director of CTJ and co-author of the report.

But the SEC rules that require publicly-traded companies to disclose federal tax information do not require the release of information about the state corporate income taxes paid to specific states. These firms are only required to disclose the aggregate amount of their corporate income tax payments to all state and local governments added together. So it's impossible to know how much, if anything at all, profitable corporations doing business in New York are paying in New York corporate taxes. "Only greater disclosure of state corporate income tax payments can allow state policymakers to know how seriously their state tax bases are being compromised," said Frank Mauro, director of the Latham-NY based Fiscal Policy Institute.

Among the key revelations of the CTJ/ITEP study, the full text of which is available on the CTJ website at **http://www.ctj.org/corpfed04an.pdf** , are as follows:

- **82 of the 275 companies studied, almost a third of the total, paid zero or less in federal income taxes in a least one year from 2001 to 2003**. In those tax-free years, these 82 companies reported a total of $102 billion in pretax U.S. profits. But instead of paying $35.6 billion in federal income taxes at the statutory 35 percent corporate tax rate, these companies generated so many excess tax breaks that they received outright tax rebate checks from the U.S. Treasury, totaling $12.6 billion.

- **These 82 "no-tax corporations" included the following 12 New York-based firms: JPMorgan Chase, Verizon, Lehman Brothers, Bank of New York, Pfizer, Consolidated Edison, American Express, MetLife, Time Warner, KeySpan, Cendant and ITT Industries; and many other businesses that generate substantial profits in New York.**
    - ITT was one of nine (9) companies nationally that paid negative taxes in all three of the years studied. In those years, it reported $821 million in preetax profits—and got tax rebates of $183 million, for a tax rate of a ***negative*** 22.3 percent.
    - Three other New York-based companies (Time Warner, KeySpan, and Cendant) paid negative taxes in two of the three years studied. Against 3-year total pre-tax profits of $6.23 billion (Time Warner), $1.86 billion (KeySpan) and $3.62 billion (Cendant), only Cendant had a positive tax rate for the three year period – but it was only 1.5%.
    - Time Warner and KeySpan did even better than Cendant, generating negative tax rates of -7.3% and -1.6% for the 3-year period.
    - One other New York-based company, JPMorgan Chase, also had a negative tax rate for the three year period (-1.1%) despite having pretax profits of $10.89 billion for this period.

- **Some of the "no-tax corporations" that are headquartered in other states but which generate substantial profits in New York are General Electric, Marriott International, Entergy (owner of the FitzPatrick and Indian point nuclear power plants), Toys "R" Us, Nucor (a significant beneficiary of New York's Empire Zones program), Sysco, Pitney Bowes, CSX, AT&T, and Prudential Financial.**

- **In 2003 alone, 46 companies paid zero or less in federal income taxes**. These 46 companies, almost one out of six of the companies in the study, reported U.S. pretax profits in 2003 of $42.6 billion, yet received tax rebates totaling $5.4 billion. In 2002, almost as many companies, 42, paid no tax, reporting $43.5 billion in pretax profits, but $4.9 billion in tax rebates. From 2001 to 2003, the number of no-tax companies jumped from 33 to 46, an increase of 40 percent.

- **After 2001, the average effective rate for all 275 companies dropped by a fifth, from 21.4 percent in 2001 to 17.2 percent in 2002**, less than half the statutory 35 percent corporate tax rate that corporations ostensibly are supposed to pay. Only 38 of the 275 companies studied had effective federal tax rates of 30% or greater for the 3-year period studied. This list of relatively responsible taxpayers included two New York-based companies: McGraw Hill with a 3-year effective federal tax rate of 30.3% and Liz Claiborne at 32.6%.

- **Twenty-eight corporations enjoyed negative federal income tax rates over the entire 2001-03 period.** These companies, whose pretax U.S. profits totaled $44.9 billion over the three years, were Pepco Holdings (-59.6%), Prudential Financial (-46.2%), ITT Industries (-22.3%), Boeing (- 18.8%), Unisys (-16.0%), Ingram Micro (-15.9%), Wesco International (-14.5%), Principal Group (-12.8%), Fluor (-9.2%), Reebok (-9.1%), CSX (-7.5%), Time Warner (-7.3%), Baxter (- 6.5%), Caremark RX (-6.2%), Fisher Scientific International (-5.9%), NCR (-5.8%), Timken (- 5.4%), Ryder (-3.1%), Pitney Bowes (-3.1%), Triad Hospitals (-3.1%), Computer Sciences (- 2.4%), CenterPoint Energy (-2.3%), Shaw Group (-2.2%), Saks (-2.2%), KeySpan (-1.6%), JPMorgan Chase (-1.1%), Valero Energy (-0.3%), and OGE Energy (-0.2%).

Loopholes and other tax subsidies cut taxes for the 275 companies by $43.4 billion in 2001, $60.8 billion in 2002 and $71.0 billion in 2003, for **a total of $175.2 billion in tax breaks over the three years.**

Half of the total tax-break dollars over the three years — $87.1 billion — went to just 25 companies, each with more than a billion-and-a-half dollars in tax breaks. $9.5 billion of these tax breaks went to just one company - General Electric - despite its profits of $36.8 billion over this 3-year period. Ten of these 25 companies are headquartered in New York, including Altria, American Express, Citigroup, IBM, JPMorgan Chase, Merrill Lynch, Pfizer, Time Warner, Verizon and Viacom.

Since the New York corporate income tax for such multi-state corporations is based on a prorated portion of the corporation's net income for federal income tax purposes, it seems likely that many large, profitable companies that are paying little or nothing in federal income taxes are also paying little or nothing in New York corporate income taxes as well. In addition, some firms with federal income tax liabilities might not have any New York State corporate income tax liability because of certain income-shifting techniques that have become more sophisticated in recent years and because of New York's own special tax credits, particularly it Empire Zone credits.

The Institute on Taxation and Economic Policy (ITEP) was founded in 1980 as a 501(c)(3) education and research group. ITEP's mission is to help American taxpayers better understand tax policy. ITEP collaborated with Citizens for Tax Justice on a series of corporate tax studies in the 1980s that have been widely cited for their key role in the enactment of the Tax Reform Act of 1986 path-breaking federal legislation that curbed tax shelters for corporations and the rich and cut taxes for poor and middle-income families. The Washington Post called the reports a "key turning point" in the tax reform debate that "had the effect of touching a spark to kindling" and "helped to raise public ire against corporate tax evaders." The Wall Street Journal said that the reports "helped propel the tax overhaul effort" and the Associated Press reported that the studies "assured that something would be done . . . to make profitable companies pay their share."

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