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Many Corporations Pay No Federal Income Tax

Ohio companies among those that pay little

Many of the country's biggest corporations are once again paying little or nothing in federal income taxes, according to a study by Citizens for Tax Justice and the Institute on Taxation and Economic Policy, which collaborated on a number of widely publicized analyses of corporate taxes in the 1980s. Among those paying little or nothing are several Ohio-based corporations.

ITEP's new report, released in Ohio today by Policy Matters Ohio, examines the U.S. profits and federal income taxes of 275 of the nation's largest and most profitable corporations over the three-year period from 2001 to 2003. Although big corporations are supposed to pay 35 percent of their profits in taxes according to federal statute, the 275 companies in ITEP's survey paid only 17.2 percent in 2003. That was down from 21.4 percent in 2001, and far below the 26.5 percent that a similar group of large companies paid back in 1988, soon after passage of the loophole-closing 1986 Tax Reform Act. The study's central findings include:

- **Eighty-two of the 275 companies actually paid zero or less than zero in federal income taxes in at 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 35 percent rate, these companies enjoyed so many tax breaks that they received $12.6 billion in rebate checks from the U.S. Treasury.
- **In 2003 alone, forty-six corporations got tax rebates.** These 46 companies—one out of six of the companies in the study—reported U.S. profits before taxes in 2003 of $42.6 billion, yet received tax rebates totaling $5.4 billion. The list of big-name companies getting tax rebates in 2003 included, among others, AT&T, CSX, Pfizer, Time Warner and Walt Disney.
- **These forty-six "no-tax corporations" in 2003 include two Ohio-based firms, NCR and Timken.** NCR made $103 million in pretax U.S. profits in 2003—and got a tax rebate of $39 million, for a tax rate of negative 38 percent. Timken made $52 million in pretax U.S. profits, and got a tax rebate of $1 million.
- **Twenty eight corporations enjoyed negative federal income tax rates over the entire 2001-2003 period.** Among these were NCR and Timken.

- **In each of the last two years, the overall effective tax rate for the 275 profitable corporations in the study was less than half the statutory 35 percent tax rate.** Ohio-based companies paying less than half the 35 percent rate at least once during the three-year period include American Financial Group, Cardinal Health, Cinergy, Kroger, NCR, Timken, Eaton, Fifth Third, Key Corp, Nationwide, and Parker Hannifin.
- **Over the 2001-03 period, aerospace was the lowest-taxed industry in America, with an effective tax rate of only 1.6 percent.** Three other industries—transportation, industrial and farm equipment, and telecommunications—paid less than ten percent. Only one industry, retail trade, paid an effective tax rate of more than 25 percent.

"Most of the loopholes and tax dodges that corporations use to slash their taxes may be technically 'legal' in the sense that the tax law allows them," said Robert S. McIntyre, director of CTJ and co-author of the report along with T.D. Coo Nguyen of ITEP. "But remember that these subsidies got into the tax code because corporations lobbied to put them there. Saying something is 'legal' doesn't mean that it's right."

One major reason for the low taxes is the use of "accelerated depreciation," which lets companies write off the costs of machinery and buildings faster than they actually wear out. Legislation adopted in 2002 and 2003 vastly increased such write-offs and made it easier for corporations to generate tax-rebate checks from the U.S. Treasury, at a three-year cost of $175 billion. Backers of those "incentives" said they would encourage new corporate investments in plant and equipment. But the study finds that the 25 companies that received the biggest tax savings from accelerated depreciation cut their total property, plant and equipment investments by 27 percent from 2001 to 2003.

Despite recent modest increases, Ohio also has seen a long-term decline in the state corporate franchise tax it collects. A 2003 study by the Ohio Department of Taxation showed that six of the 100 biggest nonfinancial companies in the state paid the minimum corporate franchise tax of $50 in taxable year 2000. It estimated separately that the state tax would bring in hundreds of millions of dollars a year in additional revenue if reporting requirements were strengthened to curb tax avoidance.

With some exceptions, the state tax is based on federal rules, so the weakening of the Ohio corporate franchise tax owes in part to the decline at the federal level. However, the Securities & Exchange Commission rules that require public companies to disclose federal tax information do not require the release of information about state taxes paid in specific states. It's impossible to learn the details of how well profitable corporations doing business in Ohio have succeeded in avoiding Ohio corporate taxes. "Only greater disclosure of Ohio corporate tax payments can allow our policymakers to know how seriously the Ohio tax base has been compromised," said Zach Schiller, research director of Policy Matters Ohio.

ITEP's analysis looked only at Fortune 500 companies that were profitable in all three years examined and that made enough data available to accurately compute their effective

tax rates. The sample of companies was pared to ensure a fairly even distribution of companies between various industries, leaving a total of 275 companies in the study.

ITEP made certain adjustments to profits for good accounting practice. It also subtracted from tax payments tax breaks that companies received, mostly those relating to stock options, which were not reported in the tax notes to their financial statements.

Citizens for Tax Justice and the Institute on Taxation and Economic Policy have analyzed corporate profits and corporate income taxes in a series of reports dating back to the 1980s. These reports are widely credited with helping persuade President Ronald Reagan and Congress to enact the loophole-closing Tax Reform Act of 1986. Policy Matters Ohio is nonprofit, nonpartisan institute that does research on issues that matter to low- and middle-income Ohioans.

A full copy of the report is available at: http://www.ctj.org/corpfed04an.pdf