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Corporate Tax Avoidance Remains Rampant Under New Tax Law

60 Profitable Fortune 500 Companies Avoided All Federal Income Taxes in 2018

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For decades, profitable Fortune 500 companies have manipulated the tax system to avoid paying even a dime in tax on billions of dollars in U.S. profits. This ITEP report provides the first comprehensive look at how corporate tax changes under the 2017 Tax Cuts and Jobs Act affect the scale of corporate tax avoidance. The report finds that in 2018, 60 of America's biggest corporations zeroed out their federal income taxes on $79 billion in U.S. pretax income. Instead of paying $16.4 billion in taxes at the 21 percent statutory corporate tax rate, these companies enjoyed a net corporate tax rebate of $4.3 billion.

COMPANIES REPRESENT DIVERSE ECONOMIC SECTORS

The companies avoiding income taxes in 2018 represent a range of segments of the U.S. economy:

- Computer maker **International Business Machines (IBM)** earned $500 million in U.S. income and received a federal income tax rebate of $342 million.
- The retail giant **Amazon** reported $11 billion of U.S. income and claimed a federal income tax rebate of $129 million.
- The streaming service **Netflix** paid no federal income tax on $856 million of U.S. income.
- Beer maker **Molson Coors** enjoyed $1.3 billion of U.S. income in 2018 and received a federal income tax rebate of $22.9 million.
- Automaker **General Motors** reported a negative tax rate on $4.3 billion of income.

All 60 companies' effective federal income tax rates for 2018 are in the table on the following pages.

Table 1

60 Companies Avoiding All Federal Income Taxes in 2018

Company	U.S. Income	Federal Tax	Effective Tax Rate	Industry
	(in millions $)			
Activision Blizzard	447	–228	–51%	Computers, office equip, software, data
AECOM Technology	238	–122	–51%	Engineering & construction
Alaska Air Group	576	–5	–1%	Transportation
Amazon.com	10,835	–129	–1%	Retail & wholesale trade
Ameren	1,035	–10	–1%	Utilities, gas and electric
American Electric Power	1,943	–32	–2%	Utilities, gas and electric
Aramark	315	–48	–15%	Miscellaneous Services
Arrow Electronics	167	–12	–7%	Retail & wholesale trade
Arthur Gallagher	322	—	—	Financial
Atmos Energy	600	–10	–2%	Utilities, gas and electric
Avis Budget Group	78	–7	–9%	Motor vehicles and parts
Celanese	480	–142	–30%	Chemicals
Chevron	4,547	–181	–4%	Oil, gas & pipelines
Cliffs Natural Resources	563	–1	—	Oil, gas & pipelines
CMS Energy	774	–67	–9%	Utilities, gas and electric
Deere	2,152	–268	–12%	Industrial machinery
Delta Air Lines	5,073	–187	–4%	Transportation
Devon Energy	1,297	–14	–1%	Oil, gas & pipelines
Dominion Resources	3,021	–45	–1%	Utilities, gas and electric
DTE Energy	1,215	–17	–1%	Utilities, gas and electric
Duke Energy	3,029	–647	–21%	Utilities, gas and electric
Eli Lilly	598	–54	–9%	Pharmaceuticals & medical products
EOG Resources	4,067	–304	–7%	Oil, gas & pipelines
FirstEnergy	1,495	–16	–1%	Utilities, gas and electric
Gannett	7	–11	–164%	Publishing, printing
General Motors	4,320	–104	–2%	Motor vehicles and parts
Goodyear Tire & Rubber	440	–15	–3%	Motor vehicles and parts
Halliburton	1,082	–19	–2%	Oil, gas & pipelines
Honeywell International	2,830	–21	–1%	Industrial machinery
International Business Machines (IBM)	500	–342	–68%	Computers, office equip, software, data
JetBlue Airways	219	–60	–27%	Transportation
Kinder Morgan	1,784	–22	–1%	Oil, gas & pipelines
MDU Resources	314	–16	–5%	Oil, gas & pipelines
MGM Resorts International	648	–12	–2%	Miscellaneous services
Molson Coors	1,325	–23	–2%	
Netflix	856	–22	–3%	Retail & wholesale trade
Occidental Petroleum	3,379	–23	–1%	Oil, gas & pipelines

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Company	U.S. Income (in millions $)	Federal Tax (in millions $)	Effective Tax Rate	Industry
Owens Corning	405	–10	–2%	Miscellaneous manufacturing
Penske Automotive Group	393	–16	–4%	Motor vehicles and parts
Performance Food Group	192	–9	–4%	Retail & wholesale trade
Pioneer Natural Resources	1,249	—	—	Oil, gas & pipelines
Pitney Bowes	125	–50	–40%	Computers, office equip, software, data
PPL	1,110	–19	–2%	Utilities, gas and electric
Principal Financial	1,641	–49	–3%	Financial
Prudential Financial	1,440	–346	–24%	Financial
Public Service Enterprise Group	1,772	–97	–5%	Utilities, gas and electric
PulteGroup	1,340	–44	–3%	Miscellaneous manufacturing
Realogy	199	–13	–7%	Miscellaneous services
Rockwell Collins	719	–16	–2%	Aerospace & defense
Ryder System	350	–23	–7%	Transportation
Salesforce.com	800	—	—	Computers, office equip, software, data
SpartanNash	40	–2	–4%	Retail & wholesale trade
SPX	66	–5	–8%	Industrial machinery
Tech Data	203	–10	–5%	Retail & wholesale trade
Trinity Industries	138	–19	–14%	Miscellaneous manufacturing
UGI	550	–3	–0%	Utilities, gas and electric
United States Steel	432	–40	–9%	Metals & metal products
Whirlpool	717	–70	–10%	Electronics, electrical equipment
Wisconsin Energy	1,139	–218	–19%	Utilities, gas and electric
Xcel Energy	1,434	–34	–2%	Utilities, gas and electric

COMPANIES' LOW TAXES STEM FROM A VARIETY OF LEGAL TAX BREAKS

Companies profiled in this report appear to be using a diverse array of legal tax breaks to zero out their federal income taxes:

Accelerated Depreciation

Chevron, Delta Airlines, Duke Energy, Halliburton, Dominion Resources, Jetblue, Ryder, Owens Corning, Devon Energy and **Ameren** used accelerated depreciation, a tax break that allows companies to write off the cost of their capital investments much faster than these investments wear out, to dramatically reduce their tax rates. **Chevron** reported $290 million of depreciation-related tax breaks in 2018, and **Halliburton** reduced its taxes by $320 million. As a group, these companies reduced their taxes by $8 billion using depreciation-related tax breaks. Accelerated depreciation is supposed to encourage business investment, but a recent ITEP report explains why it is unlikely to achieve that goal.[1] The new tax law expands this break to allow corporations to deduct the entire cost of a capital investment during the first year.

Stock Options

Amazon reduced its income taxes by more than $1 billion in 2018 using a tax break for stock options. A June 2016 Citizens for Tax Justice report found that 315 companies in the Fortune 500 disclosed receiving benefits from this tax break, which allows companies to write off stock-option related expenses in excess of the cost they reported to shareholders and the public.[2] **Netflix** reduced its income taxes by $191 million using this tax break. **Salesforce.com** reported $137 million of stock option tax benefits. **Activision Blizzard** reported $58 million of stock option tax breaks, with Honeywell close behind at $52 million. **Deere, Rockwell Collins** and **Performance Food Group** each reduced their income taxes by $20 million using stock options in 2018, and half a dozen other companies on this list reported smaller stock option tax breaks.

Fossil Fuel Tax Subsidies

Oil and gas tax breaks including depreciation and percentage depletion helped **Pioneer Natural Resources** zero out its federal income taxes on $1.2 billion of U.S. income in 2018. **Occidental Petroleum** used the enhanced oil recovery credit to reduce its taxes by $158 million last year.

Alternative Energy Tax Subsidies

A number of companies took advantage of alternative-energy tax breaks as well. **Duke Energy** enjoyed $129 million in renewable energy production tax credits in 2018. The so-called Bipartisan Budget Act of 2018 expanded these credits. **DTE Energy** reduced its taxes by $223 million using production tax credits. **WEC Energy** reported $12 million in production tax credits, and **Xcel Energy** claimed $75 million in wind production tax credits. **CMS Energy** also reported renewable electricity production tax credits of $14 million, and **Dominion Energy** claimed $21 million.

Tax Credits

US Steel used percentage depletion to cut its taxes by $48 million in 2018. **Dominion Energy** claimed about $59 million of investment tax credits.

Rockwell Collins enjoyed $60 million in research and development tax breaks in 2018. **Netflix** reported $140 million in R&D credits, **Activision Blizzard** enjoyed $46 million, and **Deere** reported $43 million. **CMS Energy** also reported R&E credits. The R&E tax credit has been criticized for rewarding companies for "research" they would have done anyway, as well as rewarding research in areas such as fast food packaging and, in the case of Activision, video games.[3]

Prudential Financial reduced its income taxes by $111 million using low-income housing and other credits in 2018, and **Eli Lilly** claimed $87 million of various business credits.

VAGUE FINANCIAL DISCLOSURES SOMETIMES PREVENT FULL DIAGNOSIS OF CORPORATE TAX AVOIDANCE STRATEGIES

All data cited in this report come from the 10-K annual financial filings published by these companies. In many cases, the company's disclosures don't fully clarify which tax breaks were used. For example, **Chevron's** annual report for 2018 discloses that unspecified "tax credits" reduced the company's income taxes by $163 million. **General Motors'** disclosure of $695 million of "general business credits and manufacturing incentives" leaves unclear what fraction of those tax breaks apply to U.S. income taxes. **Salesforce.com** disclosed $132 million of "tax credits." **International Business Machines** tells us that "domestic incentives" reduced their income taxes by about $110 million in 2018. **US Steel** discloses using $71 million of "tax credits" last year, while **Amazon** discloses $419 million of "tax credits." And **Principal Financial** discloses that "tax credits" reduced its worldwide income tax rate by 3 percentage points in 2018. None of these disclosures are sufficiently clear to allow analysts, policymakers or the public to understand which features of the tax law are responsible for these companies' tax avoidance.

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There is, to be clear, nothing obviously illegal about the vague language these companies use to describe their tax provisions. Giving the public a clear sense of how companies are reducing taxes has never been a central goal of the annual financial reports published by these companies, nor has it been a priority of the Securities and Exchange Commission, which mandates publicly traded companies publish these reports. Achieving a full understanding of how companies are avoiding taxes would require that Congress, or the SEC, require a higher standard of tax disclosure by publicly traded firms.

TRUE CORPORATE TAX REFORM SHOULD START WITH THE HARD QUESTIONS: WHICH TAX LOOPHOLES WILL BE REPEALED?

In the runup to the tax reform debate of late 2017, the basic outline of U.S. tax avoidance was well known to federal lawmakers. Reports from ITEP, as well as various government agencies, had documented how Fortune 500 companies were using legal tax breaks to shelter close to half of their income from federal taxes, meaning that even with a 35 percent tax rate the yield of our corporate tax was low and getting lower. But when Congress and the Trump Administration pushed through a technically flawed set of corporate tax changes as part of the Tax Cuts and Jobs Act (TCJA) in December of 2017, the new law cut the statutory tax rate to 21 percent, while leaving intact most of the tax breaks that allowed profitable companies to zero out their income taxes. The result, unsurprisingly, has been a continued decline in our already-low corporate tax revenues: in fiscal 2018, U.S. corporate tax revenues fell by 31 percent, according to U.S. Treasury data. This was a more precipitous decline than in any year of normal economic growth in U.S. history.

As this report demonstrates, it's easy to see which tax breaks are responsible for allowing our biggest and most profitable corporations to avoid income taxes. Lawmakers interested in enacting true tax reform should critically assess the costs of each of existing tax break—including those discussed in this report—and take steps to ensure that profitable corporations pay their fair share of U.S. taxes.

At a time when the public's confidence in our elected officials and our institutions is especially low, the specter of big corporations avoiding all income taxes on billions in profits sends a strong and corrosive signal to Americans: that the tax system is stacked against them, in favor of corporations and the wealthiest Americans. Sustainable corporate tax reform that focuses on eliminating tax loopholes and shoring up revenues could help allay these fears and can be a vital tool for addressing our nation's fiscal priorities and making critically needed public investments in our nation's future.

ENDNOTES

1 Steve Wamhoff and Richard Phillips, The Failure of Expensing and Other Depreciation Tax Breaks, Institute on Taxation and Economic Policy, November 19, 2018. **https://itep.org/the-failure-of-expensing-and-other-depreciation-tax-breaks/**

2 Citizens for Tax Justice, "Fortune 500 Corporations Used Stock Option Loophole to Avoid $64.6 Billion in Taxes Over the Past Five Years," June 9, 2016. **https://www.ctj.org/fortune-500-corporations-used-stock-option-loophole-to-avoid-64-6-billion-in-taxes-over-the-past-five-years/**

3 Citizens for Tax Justice, "Reform the Research Tax Credit -- Or Let It Die," December 4, 2013. **https://www.ctj.org/new-ctj-report-reform-the-research-tax-credit-or-let-it-die/**