

Depreciation Breaks Have Saved 20 Major Corporations \$26.5 Billion Over Past Two Years

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The Trump administration and its congressional allies have proposed making permanent the expensing provision in the Trump tax law. Expensing is the most extreme form of accelerated depreciation, which allows businesses to deduct the cost of purchasing equipment more quickly than it wears out. But expensing and other types of accelerated depreciation already account for a very large share of corporate tax breaks and allows many companies to pay nothing at all.

The table below provides examples of 20 major corporations that together received \$26.5 billion in tax breaks for accelerated depreciation in 2018 through 2019. The data are from 10-K reports that publicly traded corporations file with the Securities and Exchange Commission (SEC) to make information available to the public and to investors.

As a group, these companies paid an average effective federal corporate income tax rate of just 6.7 percent over this two-year period, which is less than a third of the statutory corporate income tax rate of 21 percent.

Depreciation breaks accounted for 52 percent of their total income tax breaks during these two years.

Proponents of the expensing provision claim that making it permanent will help counter the current economic downturn.¹ But the tax break is already fully in effect through 2022. Making it permanent probably will not result in new investment. Even if it did, it would have no effect until years after 2022. This is clearly about securing a permanent tax break for business, not addressing the current economic crisis.

See Table 1 on next page.

TABLE 1

20 Corporations with Large Accelerated Depreciation Tax Benefits, 2018-2019*Amounts in millions of dollars*

Company	Accelerated Depreciation Tax Breaks			Profits, Taxes and Effective Tax Rate 2018-2019			Federal Income Tax Breaks 2018-2019	
	2019	2018	2018-2019	U.S. Profits	Current Federal Income Tax	Effective Current Federal Income Tax Rate	Total Federal Income Tax Breaks	% Due to Accelerated Depreciation
Google	\$416	\$831	\$1,247	\$31,940	\$4,577	14.3%	\$2,130	59%
Amazon.com	\$1,928	\$1,011	\$2,939	\$23,844	\$33	0.1%	\$4,974	59%
Bank of America Corp.	\$401	\$264	\$665	\$60,325	\$1,952	3.2%	\$10,716	6%
Centurylink	\$478	\$76	\$554	\$2,766	-\$569	-20.6%	\$1,150	48%
Delta Air Lines	\$1,005	\$338	\$1,343	\$11,271	-\$281	-2.5%	\$2,648	51%
EOG Resources	\$694	\$924	\$1,618	\$7,523	-\$456	-6.1%	\$2,036	79%
FedEx	\$0	\$1,130	\$1,130	\$2,312	-\$107	-4.6%	\$593	100%
General Motors	\$467	\$680	\$1,147	\$8,044	-\$62	-0.8%	\$1,751	65%
Intel	\$929	\$878	\$1,807	\$28,456	\$4,377	15.4%	\$1,599	100%
JPMorgan Chase & Co.	\$319	\$234	\$553	\$66,306	\$6,138	9.3%	\$7,786	7%
Marathon Oil	\$843	\$1,018	\$1,861	\$686	-\$110	-16.0%	\$254	100%
Molson Coors	\$8	\$276	\$284	\$2,452	\$46	1.9%	\$469	61%
Norfolk Southern	\$292	\$210	\$502	\$6,746	\$855	12.7%	\$562	89%
Pioneer Natural Resources	\$380	\$534	\$914	\$2,236	-\$8	-0.4%	\$478	100%
Union Pacific	\$594	\$328	\$922	\$15,201	\$2,144	14.1%	\$1,048	88%
United Airlines Holdings	\$1,082	\$1,082	\$1,580	\$6,373	\$32	0.5%	\$1,306	100%
United Parcel Service	\$710	\$722	\$1,432	\$9,616	\$659	6.9%	\$1,360	100%
Verizon Communications	\$1,222	\$895	\$2,117	\$40,204	\$2,705	6.7%	\$5,738	37%
Walt Disney	\$3,969	-\$2,014	\$1,955	\$24,586	\$1,854	7.5%	\$3,309	59%
Williams	-\$396	\$2,317	\$1,921	\$2,897	-\$124	-4.3%	\$732	100%
TOTAL	\$15,341	\$11,151	\$26,492	\$353,784	\$23,655	6.7%	\$50,640	52%

Source: Institute on Taxation and Economic Policy analysis of 10-K filings

BACKGROUND

The nation's tax system is built on the simple principle of taxing income. In the case of a business, income is any increase in a company's net worth. When a business buys equipment to manufacture a product, that purchase does not immediately change the company's net worth. For example, the purchase of a \$5 million machine is just an exchange of \$5 million in cash for a machine that is worth \$5 million.

But over time the machine wears out, which reduces the net worth of the company, and offsets some of the income created by the machine and other assets (and labor) of the company. For this reason, the cost of such a purchase is deducted over time under permanent tax rules.

Accelerated depreciation, however, allows these deductions to be taken more quickly than is justified economically. The permanent tax rules allow some accelerated depreciation. On top of that, for most years since 2002, Congress has provided "bonus" depreciation, which is even more accelerated.

The Trump tax law goes even further, allowing expensing, meaning it allows deductions for the full cost of such business purchases in the year they are made, through 2022. After 2022, the Trump tax law gradually phases out this treatment and reverts to the permanent depreciation rules in 2027.

An ITEP [report](#) argues that Congress should reverse course and repeal not just the full expensing provision but even some of the permanent accelerated depreciation breaks in the tax code.²

Accelerated depreciation encourages wasteful tax shelters and drains enormous amounts of revenue from the Treasury. The expensing provision is mostly irrelevant to small businesses, which effectively receive that treatment under section 179, a permanent provision of the tax code.

It is not clear that accelerated depreciation really increases investment in the long run. Some companies may expedite planned investments to take advantage of tax breaks before they expire, but they are not likely to be doing anything they would not have done in the absence of tax breaks.

For all these reasons, making expensing permanent is not likely to help our economy.

20 EXAMPLES OF CORPORATIONS BENEFITING FROM ACCELERATED DEPRECIATION

The table on page two provides each corporation's tax breaks resulting from accelerated depreciation, meaning taxes saved by claiming depreciation deductions earlier than allowed under the permanent tax rules, in 2018 and 2019. (In this sense the table could understate accelerated depreciation because it does not account for ways in which the permanent rules themselves allow accelerated depreciation.)

The corporations on the list with the largest accelerated depreciation tax breaks in dollar terms are Amazon and Verizon, followed by Walt Disney and Williams Companies, an energy company. As explained, the 20 corporations saved \$26.5 billion from 2018 through 2019 due to accelerated depreciation.



These companies made investments of some sort to qualify for depreciation breaks, and in some cases these companies have increased investments after the passage of the Trump tax law. But after several years of recovery from the last recession, companies may have simply accelerated long-planned investments to take advantage of the expensing provision before it expires. There is, therefore, no evidence that the law has resulted in a permanent increase in investment.

Table 1 also provides each corporation's "current" federal income tax. The tax reported by publicly traded corporations on the 10-K filed with the SEC reports their "current" tax, which is the tax they actually pay in a given year, and tax that is "deferred" due to accelerated depreciation or other provisions, meaning tax that will be paid at some point in the future. Corporate spokespersons sometimes claim their employers pay an effective tax rate that is the sum of current and deferred taxes. Thinking of effective tax rates as including both current and deferred taxes might make sense for accounting purposes, but anyone who wants to simply understand what a corporation paid in a given year should look to the current tax reported by the company.

The table then provides the federal income tax breaks for each company, meaning the difference between their effective income tax rate and the statutory income tax rate of 21 percent. The table shows that depreciation breaks made up 100 percent of the total tax breaks for several corporations, including FedEx, Intel, Marathon Oil, Pioneer Natural Resources, United Airlines Holdings, UPS and William Companies.

As already explained, accelerated depreciation accounted for 52 percent of the total federal corporate income tax breaks the 20 companies enjoyed as a group from 2018 through 2019.

Several corporations on the list had a negative effective income tax rate over the two-year period, meaning they received refunds from the IRS rather than paying income taxes. But in some cases, accelerated depreciation accounted for only part of their tax breaks. For example, Delta Airlines had an effective income tax rate of negative 2.5 percent from 2018 through 2019, and 51 percent of its tax breaks were the result of accelerated depreciation.

The expensing provision is in effect through 2022, so making it permanent would change nothing at all until 2023. At that point it would simply continue to type of tax avoidance demonstrated by these 20 companies.



END NOTES

1 Alan Ota, "Rep. Neal Open To GOP Biz Expensing Plan For COVID-19 Bill," Law 360, April 24, 2020. <https://www.law360.com/articles/1267310/rep-neal-open-to-gop-biz-expensing-plan-for-covid-19-bill>

2 Steve Wamhoff and Richard Phillips, "The Failure of Expensing and Other Depreciation Tax Breaks," Institute on Taxation and Economic Policy, November 19, 2020. <https://itep.org/the-failure-of-expensing-and-other-depreciation-tax-breaks/>

