EXECUTIVE SUMMARY

This study provides a comprehensive overview of profitable corporations' effective tax rates in 2018, the first year that companies were subject to the Tax Cuts and Jobs Act (TCJA), the tax law signed by President Donald Trump at the end of 2017. The law lowered the statutory federal corporate income tax rate to 21 percent (a 40 percent decrease from the previous 35 percent rate) and made other changes affecting what companies pay.

ITEP's examination of Fortune 500 companies' financial filings identifies 379 companies that were profitable in 2018 and that provided enough information to calculate effective federal income tax rates, which is the share of 2018 pretax profits they paid in federal income taxes in that year. This report only includes companies that were profitable in 2018 and would thus be expected to owe income tax for that year. (The corporate income tax is a tax on profits.)

For most of these companies, their effective federal income tax rate was much lower than the statutory corporate tax rate of 21 percent. This is by design.

When drafting the tax law, lawmakers could have eliminated special breaks and loopholes in the corporate tax to offset the cost of reducing the statutory rate. Instead, the new law introduced many new breaks and loopholes, though it eliminated some old ones. The unsurprising result: Profitable American corporations in 2018 collectively paid an average effective federal income tax rate of 11.3 percent on their 2018 income, barely more than half the 21 percent statutory tax rate.

Key Findings:

- **The 379 profitable corporations identified in this study paid an effective federal income tax rate of 11.3 percent on their 2018 income**, slightly more than half the statutory 21 percent tax rate.
- **91 corporations did not pay federal income taxes on their 2018 U.S. income**. These corporations include Amazon, Chevron, Halliburton and IBM. An ITEP study released in April 2019 examined 2018 Fortune 500 filings released to date and found 60 companies paid zero in federal income taxes. Now, all companies have released their 2018 financial filings, and this report reflects that.
- **Another 56 companies paid effective tax rates between 0 percent and 5 percent on their 2018 income**. Their average effective tax rate was 2.2 percent.

Other Findings:

- Fully half of the companies in our sample (195 out of 379) paid effective tax rates that were less than half the new statutory rate.
- The sectors with the lowest effective corporate tax rates in 2018 were industrial machinery (-0.6%), utilities, gas and electric (-0.5 percent), motor vehicles & parts (1.5%), oil, gas & pipelines (3.6%), chemicals (4.4%), transportation (8.0%), engineering and construction (8.0%), miscellaneous services (8.3%), publishing and printing (9.8%), and financial (10.2%). Each of these industries paid, as a group, less than half the statutory 21 percent tax rate on their 2018 U.S. income.
- The tax breaks identified in this report are highly concentrated among a few very large corporations. Just 25 companies claimed $37.1 billion in tax breaks in 2018. That's almost exactly half the $73.9 billion in tax subsidies claimed by all 379 companies in our study.
- Just five companies—Bank of America, J.P. Morgan Chase, Wells Fargo, Amazon, and Verizon—collectively enjoyed more than $16 billion in tax breaks in 2018.
- The 11.3 percent average effective tax rate paid by profitable corporations is the lowest average effective rate identified by ITEP since it began publishing these studies in 1984.

Recommendations for Reform:

- Repeal the full expensing of capital investments that was enacted as part of the Tax Cuts and Jobs Act and pare back permanent provisions that allow accelerated depreciation.
- Limit the ability of tech and other companies to use executive stock options to reduce their taxes by generating "costs" that far exceed what companies actually incur.
- Repeal the new "territorial" tax system and instead move toward a worldwide tax regime that would remove the tax incentive to shift profits and jobs overseas.
- Reinstate a strong corporate Alternative Minimum Tax to act as a backstop to ensure all profitable corporations pay a meaningful corporate income tax bill each year.
- Increase transparency by requiring country-by-country public disclosure of company financial information, including corporate income and tax payments, through filings to the Securities and Exchange Commission.