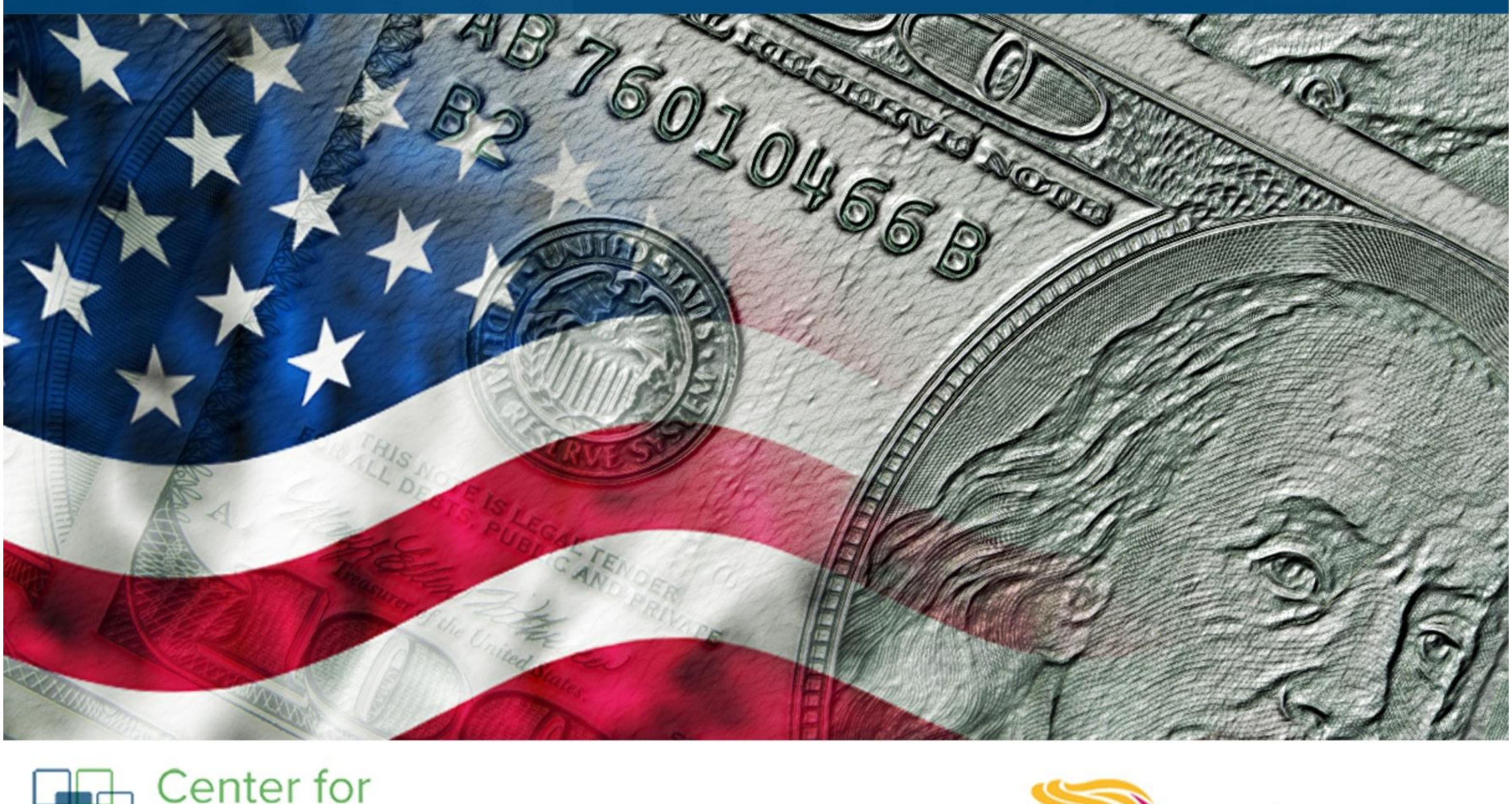
Fleecing Uncle Sam:

A growing number of corporations spend more on executive compensation than federal income taxes



Center for Effective Government

Institute for Policy Studies

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Key findings

As Congress appears set to prioritize the renewal of corporate tax breaks in the lame-duck session, this report reveals stark indicators of the extent to which large corporations are avoiding their fair share of taxes.

Of America's 30 largest corporations, seven (23 percent) paid their CEOs more than they paid in federal income taxes last year.

- All seven of these firms were highly profitable, collectively reporting more than $74 billion in U.S. pre-tax profits. However, they received a combined total of $1.9 billion in refunds from the IRS, giving them an effective tax rate of negative 2.5 percent.[1]
- The seven CEOs leading these tax-dodging corporations were paid $17.3 million on average in 2013. Boeing and Ford Motors both paid their CEOs more than $23 million last year while receiving large tax refunds.

Of America's 100 highest-paid CEOs, 29 received more in pay last year than their company paid in federal income taxes—up from 25 out of the top 100 in our 2010 and 2011 surveys.

- These 29 CEOs made $32 million on average last year. Their corporations reported $24 billion in U.S. pre-tax profits and yet, as a group, claimed $238 million in tax refunds, an effective tax rate of negative 1 percent.
- Combined, the 29 companies operate 237 subsidiaries in tax havens. The company with the most subsidiaries in tax havens was Abbott Laboratories, with 79. The pharmaceutical firm's CEO paycheck was $4 million larger than its IRS bill in 2013.
- Of the 29 firms, only 12 reported U.S. losses in 2013. At these 12 unprofitable firms, CEO pay averaged $36.6 million—more than three times the $11.7 million national average for large company CEOs.[2]
- The company that received the largest tax refund was Citigroup, which owes its existence to taxpayer bailouts. In 2013, Citi paid its CEO $18 million while pocketing an IRS refund of $260 million.
- Three firms have made the list in all three years surveyed. Boeing, Chesapeake Energy, and Ford Motors paid their CEO more than Uncle Sam in 2010, 2011, and 2013.

For corporations to reward one individual, no matter how talented, more than they are contributing to the cost of all the public services needed for business success reflects the deep flaws in our corporate tax system. Rather than more tax breaks, Congress should focus on addressing these deep flaws by cracking down on the use of tax havens, eliminating wasteful corporate subsidies, and closing loopholes that encourage excessive executive compensation.

Introduction

As the 113th Congress prepares to adjourn at the end of the year, much unfinished business remains before our legislators. Nearly three million Americans who've been out of work for more than six months continue to be denied emergency long-term unemployment benefits. Safeguards to prevent pay discrimination against women have yet to be voted on, and comprehensive immigration reform remains stuck in committees.

Yet all of these remain lower priorities for congressional leadership than renewing a package of 55 tax cuts known in Washington, DC as the "tax extenders." Eighty percent of these tax cuts are for business. The extenders cover a broad range of tax breaks, from widely popular items like the research and experimentation tax credit to narrow special interest perks like subsidies for NASCAR track owners and Puerto Rican rum producers. This collection of bills is routinely renewed every year or two, and generally without debate. While deficit hawks often call for programs benefitting ordinary American families to be fully paid for with cuts to other social programs or new revenue offsets, they do not place the same demands on corporate tax cuts.

The House and Senate have different approaches to renewing these tax breaks for America's most prosperous corporations. The House seeks to make many of them permanent, while the Senate is aiming for another two–year extension of the entire package of tax extenders. The House has already passed a permanent extension of five tax breaks for businesses, which will cost more than $500 billion over the next decade. The two-year Senate package will cost $85 billion, more than 80 percent of which will go to corporate tax breaks.

The trickle-down theory of corporate tax cuts is alive and well in America

The theory holds that if we cut corporate taxes, corporations will have more money to invest in new jobs. Related to this theory are widely held fears that unless we give in to CEO demands for more tax breaks and direct subsidies, they will close up shop and move their jobs somewhere else.

It is a nice theory, but it hasn't worked. Corporations are quick to complain that the U.S. tax rate – 35 percent – is the highest among industrialized nations, but they neglect to mention that the average large corporation paid only slightly more than half that rate—just 19.4 percent—between 2008-2012. Corporate taxes as a share of GDP remain near all-time lows, while corporate profits set another record last year. And yet job creation remains anemic, with more than nine million Americans out of work, more than three million of these for more than six months.

If all of those profits are not going to pay taxes or hire workers, where are they going?

Rather than reinvesting their profits in expanding operations and hiring more workers, U.S. corporations are instead engaging in record levels of repurchasing their stock and in buying out competitors through mergers.

Professor William Lazonick of the University of Massachusetts at Lowell has documented the striking shift between the "retain and reinvest" approach of U.S. corporations that led to steady job growth between the end of World War II and the 1970s and the "downsize and distribute" ethos that has prevailed over the last four decades. According to Lazonick, from 2003 to 2012, S&P 500 corporations used 54 percent of their earnings to buy back their own stock, almost all through purchases on the open market, and another 37 percent to pay dividends.

Corporate stock repurchases have the effect of boosting earnings per share. Higher earnings per share in turn boost stock prices. And since CEO pay is largely dependent on stock price, this pathway leads to soaring levels of CEO pay, even while average worker pay continues to stagnate. In 2012, CEOs running the largest 500 firms received 42 percent of their compensation from stock options and 41 percent from stock awards, according to Lazonick.

Merging with competitors also boosts corporate profits, but rather than leading to more jobs, mergers commonly lead to layoffs as redundant employees are cast off and join the army of unemployed Americans facing an uncertain future.

Corporations have fought for – and won – lucrative loopholes and tax credits that have taxpayers picking up the normal costs of business that corporations used to pay for themselves.

- Taxpayers provide tens of billions of dollars in annual subsidies for everything from company research and development expenses to normal equipment purchases.

- Taxpayers pick up part of the tab for exorbitant CEO pay since the tax code allows corporations to deduct unlimited amounts of compensation so long as that pay is deemed to be linked to company performance.

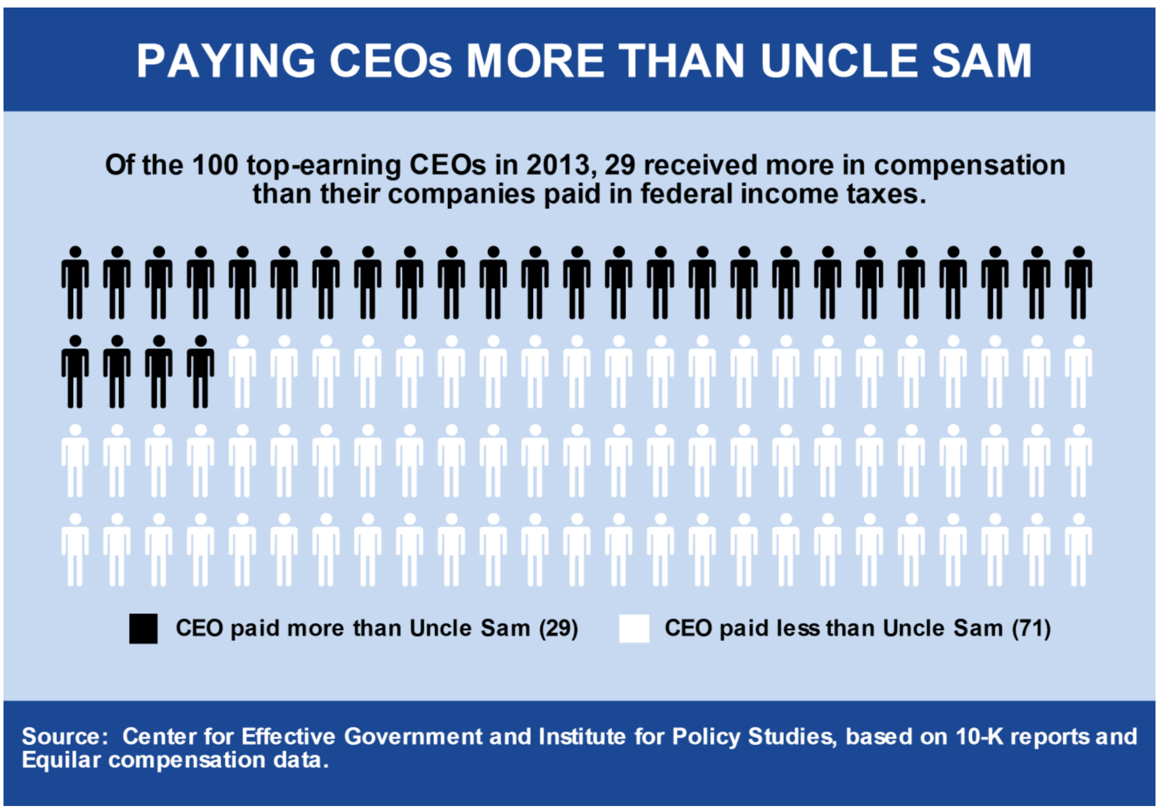
- When these deductions, credits, and loopholes combine to allow hugely profitable firms to pay little or no taxes, corporations are given a "free ride" in not having to pay for the vital taxpayer-funded services on which they all depend.

Executives who make more than their companies pay in federal income taxes

America's 100 highest-paid CEOs

This year, for the third time, we have analyzed the compensation of America's 100 highest-paid CEOs to determine how many of them were paid more than their company paid in federal income taxes.[3] Our basic finding: 29 U.S. corporations gave their CEO more last year than they paid in taxes to Uncle Sam. This is up from 25 companies in our 2010 and 2011 surveys.

The 29 CEOs who pocketed more than their company paid in federal income taxes in 2013 collectively raked in $920 million last year, or $32 million per CEO on average. Three firms made the list in all three years surveyed. Boeing, Chesapeake Energy, and Ford Motors paid their CEO more than Uncle Sam in 2010, 2011, and 2013. (See details on the 29 firms and methodology in Appendices 1-2.)



What explains the small sums these 29 companies paid in taxes — or the large tax refunds they received? Not low profits. The 29 firms reported $24 billion in U.S. profits last year and yet collected $238 million in tax refunds. On average, the 29 firms reported $817 million in U.S. pre-tax income while claiming an $8 million tax refund.

All but 12 of the 29 companies on this year's list reported profits last year. The low IRS bills of the remaining 17 profitable companies reflect tax avoidance, pure and simple.

Of the 29 companies, 20 have a presence in tax havens like Bermuda and the Cayman Islands. Combined, these firms have 237 subsidiaries in such low- or no-tax jurisdictions.[4] The company with the most subsidiaries in tax havens was Abbott Laboratories, with 79. The pharmaceutical firm's CEO paycheck was $4 million larger than its IRS bill in 2013.

For the firms that were unprofitable in 2013, it's hard to imagine why they had a CEO on the top 100 highest-paid list. The CEOs from these money-losing firms collectively received $439.3 million in compensation last year, an average of $36.6 million per executive, which is more than three times the $11.7 million national average for large company CEOs.

Another Look: America's Largest Companies

In addition to the 100 firms with the highest-paid CEOs, we also looked at the relationship between CEO pay and corporate taxes at America's 30 largest corporations. Twenty-three percent (7 of 30) of these giant firms paid their CEOs more last year than their firms paid in taxes. Unlike the pay leader universe, all seven of these mega-firms were very profitable, reporting $74 billion in U.S. pre-tax profits in 2013. Despite these enormous profits, they managed to find credits, deductions, and loopholes that reduced their taxes to below zero. They collected $1.9 billion in refunds from the IRS, giving them an effective tax rate of *negative* 2.5 percent.

The seven CEOs leading these tax dodging corporations collectively received $121 million in pay last year, an average of $17.3 million per CEO.

Three of these CEOs, Boeing's W. James McNerney, Jr., Ford's Alan Mulally, and Chevron's John Watson, each reaped pay in excess of $20 million last year. Boeing is a top government contractor, receiving $20 billion in government contracts in fiscal 2013 and $603 million more in subsidies between 2008 and 2012 to help pay for the company's research and development costs. Another firm, Verizon, has relied heavily on public assistance (in the form of bonus depreciation deductions) to build new cell phone towers.

Companies among the 30 largest that paid their CEO more than Uncle Sam

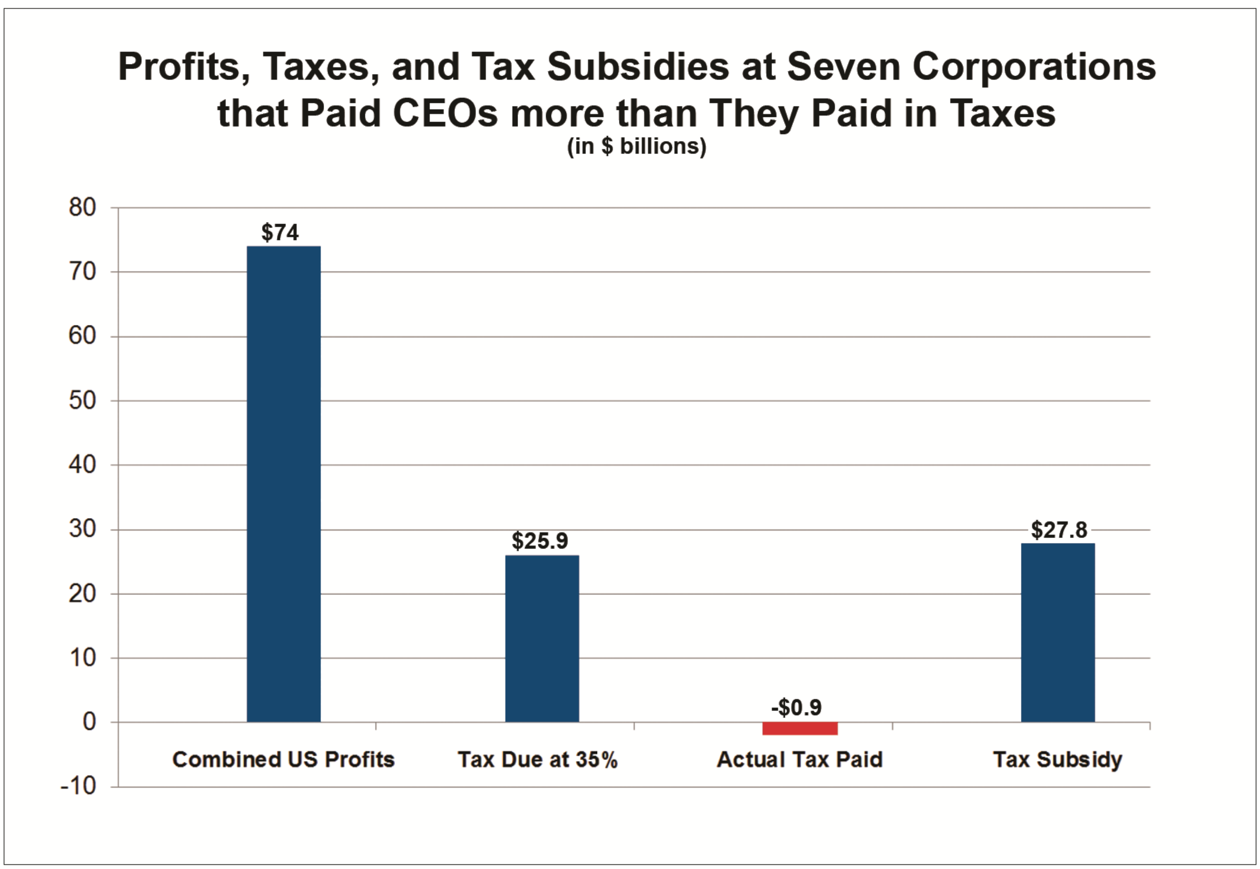
Company	CEO	U.S. pre-tax income, 2013 ($mill)	U.S. corporate income tax payment or refund, 2013 ($mill)	Effective tax rate	Total executive compensation, 2013 ($mill)
Boeing	W. James McNerney, Jr.	$5,946	-$82	-1.4%	$23.3
Ford Motors	Alan Mulally	$6,523	-$19	-0.3%	$23.2
Chevron	John Watson	$4,672	$15	0.3%	$20.2
Citigroup	Michael Corbat	$6,397	-$260	-4.2%	$17.6
Verizon	Lowell McAdam	$28,833	-$197	-0.7%	$15.8
J.P. Morgan	Jamie Dimon	$17,229	-$1,316	-7.6%	$11.8
General Motors	Daniel Ackerson	$4,880	-$34	-0.7%	$9.1
TOTAL		**$74,480**	**-$1,893**		**$121.0**
Average		**$10,640**	**-$270**	**-2.5%**	**$17.3**

Corporate Tax Rates vs. Corporate Tax Reality

If the seven giant, highly profitable corporations that paid their CEOs more than Uncle Sam had paid the full statutory corporate tax rate of 35 percent, they would've owed $25.9 billion in federal taxes. Instead they received $1.9 billion in refunds, for a total difference of $27.8 billion.

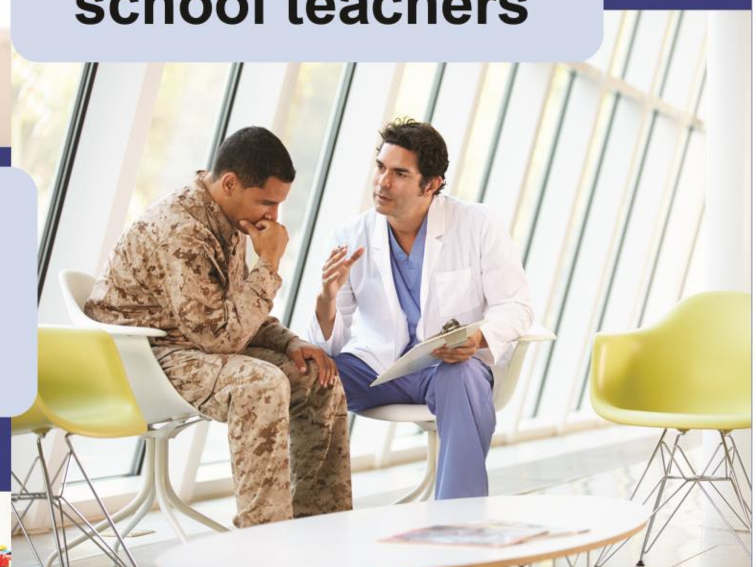
Tradeoffs: What could $27.8 billion pay for?

- **Restoring elementary and high school teaching jobs lost to recession and austerity budget cuts.** The Economic Policy Institute estimates that if education funding had continued at pre-recession levels, there would be 377,000 more public school teachers on the job today. The $27.8 billion would pay for 370,667 teachers (at $75,000 a year including benefits).
- **Resurfacing 22,240 miles of four-lane roads.** America has almost 48,000 miles of Interstate Highways.
- **Running the U.S. Department of Veterans Affairs for two months.** Each year, the VA spends $164 billion to provide health and other services to America's 21 million military veterans.
- **Making pre-K universal.** States currently spend about $9 billion on pre-K programs. An additional $10-15 billion in annual funding could extend pre-K to every 4-year old in America, according to the New America Foundation. Every dollar invested in pre-K generates $7 of economic value over the life of the student.



7 Corporations Receive $27 Billion in Subsidies from U.S. Taxpayers. This would Pay For:

377,000
more public school teachers



Two months of healthcare and services for veterans

Universal pre-K for every 4-year-old

Resurfacing of 22,240 miles of four-lane roads

Company-specific examples

Michael Corbat, Citigroup

2013 CEO compensation: $18 million
2013 Citigroup federal income tax bottom line: $260 million refund

Citigroup's story is one of continuing bailouts and handouts. Six years after the bailout that saved the firm from ruin, Citigroup is still benefitting from taxpayer largesse. The firm, which tallied more than $6 billion in U.S. pre-tax profits last year, nevertheless obtained a $260 million tax refund from the IRS.

This refund is at least partly the result of a special IRS tax waiver the bank received. Companies undergoing significant changes in ownership normally have to forfeit tax benefits associated with past losses, a rule designed to prevent profitable companies from buying up unprofitable ones for tax avoidance purposes. Under this tax code rule, Citigroup should have been required to give up its "deferred tax assets" in 2009 when federal officials sold the government's one-third bailout ownership stake in the banking behemoth. But Citigroup lobbied hard and won a special exemption. Accounting experts estimate the long-term value of the waiver at several billion dollars.

Michael Corbat, who took over the CEO reins in 2012, made $17.6 million in compensation last year. He has spent his entire career at Citigroup, the "too-big-too-fail" bank that gleaned more in bailout funds than any other after the 2008 crash, hauling in nearly half a trillion dollars in TARP, FDIC, and Fed liquidity assistance.

Miles White, Abbott Laboratories

2013 CEO compensation: $21 million
2013 Abbott Laboratories federal income tax bottom line: $16 million payment

Abbott Labs operates in the largest and most lucrative pharmaceutical market in the world, and yet seldom reports a profit in the United States. Last year, the company reported 29 percent of its sales in the United States. Over the last six years, Abbott reported $433 million in U.S. losses, and reported profits in just two of the six years. This appears to be because Abbott Labs uses legal tax loopholes to shift much of the profits earned in the U.S. to offshore tax havens where they are lightly taxed, if at all.

Ireland is one of Abbott Lab's preferred tax havens, but it has used the "Double Irish" tax scheme to avoid reporting profits there, as well. In 2011, Abbott Labs reported €2.9 billion in profits from two Irish subsidiaries but paid no Irish taxes on those profits after claiming that the subsidiaries were tax residents of Bermuda, not Ireland. The company reported it would have been liable for €235 million in Irish taxes were it not exempt due to the tax loophole.

Abbott Labs operates 79 subsidiaries in tax haven nations, according to *Offshore Shell Games*, published by the U.S. PIRG Education Fund and Citizens for Tax Justice. Abbott Labs held $24 billion in profits offshore at the end of last year, all of it untaxed in the

United States. Abbott Labs increased its pool of offshore profits by $8.1 billion in 2013, the sixth-largest increase among U.S. corporations, according to Citizens for Tax Justice.

W. James McNerney, Jr., Boeing

2013 CEO compensation: $23 million
2013 Boeing federal income tax bottom line: $82 million refund

Few companies are as dependent on U.S. taxpayers as Boeing. The aircraft giant is the nation's second-largest federal contractor, hauling in more than $20 billion in contracts last year. As the largest beneficiary of the federal Export-Import Bank, Boeing relies on taxpayers to help finance its overseas sales. In 2013, the Ex-Im financed $37 billion in export deals, $8 billion of which went to customers of Boeing.

Federal taxpayers also help Boeing pay for research and development costs. The company hauled in $145 million in R&D tax credits in 2012.

Taxpayers have received little in return for all this largesse. Last year, the firm had nearly $6 billion in pre-tax U.S. profits and yet received $82 million in tax refunds from Uncle Sam. Over the last dozen years, Boeing reported $43 billion in profits to shareholders while claiming $1.6 billion in refunds from the IRS. Boeing CEO W. James McNerney, Jr., a regular on the highest-paid lists, took home $23.3 million last year.

Boeing saved more than $200 million in federal and state taxes between 2008 and 2012 thanks to a loophole that allows corporations to report different values for employee stock options to shareholders and tax authorities. McNerney was also personally able to avoid income taxes on $123,000 of his 2013 compensation that he placed in his Boeing deferred compensation retirement account. Unlike ordinary workers who face a $24,000 annual limit on contributions to company retirement plans, CEOs face no such limits.

Daniel Ackerson, General Motors

2013 CEO compensation: $9 million
2013 General Motors federal income tax bottom line: $34 million refund

Like Citigroup, General Motors (GM) was bailed out by the federal Troubled Asset Recovery Program (TARP) and allowed to retain its losses so that it could reduce future tax bills. But unlike Citigroup, GM never fully repaid its loan from taxpayers: U.S taxpayers failed to recoup $11.2 billion of their investment in GM. One of the conditions of receiving a TARP loan was that executive compensation be reviewed by federal regulators and cash compensation capped at $500,000 per executive. A recent report from the Inspector General overseeing pay at TARP companies found that Treasury officials have failed to properly control pay at GM. Last year, Treasury regulators approved at least $1 million in pay for each of GM's 25 highest-paid employees, in violation of the law's intent to limit cash compensation to no more than $500,000.

How do corporations avoid taxes?

Some tax breaks do have a redeeming social value. Many don't. In fact, most reward companies for things they would have done anyway or reward corporate behaviors that deserve no encouragement from taxpayers. Here we highlight six tax-dodging opportunities that stand out.

Corporate Tax Extenders

Fifty-five tax breaks are extended every year or two by Congress, generally without significant debate. About 80 percent of these tax breaks benefit corporations. Congress is expected to once again renew these tax breaks before the end of the year. Here are three of the extenders most used by corporations to avoid paying taxes.

- ### Accelerated Depreciation Provisions of the 2009 Economic Stimulus Plan

Our tax code lets companies write off the value of their investments in buildings and equipment more quickly than the useful life of the asset. The 2009 Economic Stimulus Act enormously expanded this accelerated depreciation with a "bonus depreciation" provision that allows corporations to write off 50 percent of the price of new equipment in the year they purchase it. The 2009 legislation aimed to help get a Great Recession economy moving again. It made some sense then, but it makes no sense now, given that corporations are once again prospering and the economy is no longer on the brink of collapse. Aggressive lobbying by corporations has turned an emergency measure into expensive corporate welfare that is draining the Treasury and forcing taxpayers to pay for things that businesses should pay for themselves. Earlier this year, the House voted 258-160 to make bonus depreciation permanent, at a cost over the next ten years alone of $287 billion.

Since 2009, in effect, American taxpayers have been footing 17 percent of the cost of corporate purchases on everything from new machines to corporate aircraft and office redecoration. When Verizon builds a new cellphone tower, or Federal Express buys a new aircraft, they are allowed to immediately write off 50 percent of their purchase on their taxes, instead of deducting these long-lived assets much more slowly. The effect is they pay far less taxes today and a little bit more each year into the future

- ### Research and Experimentation Tax Credit

The Research and Experimentation Tax Credit allows companies to deduct from their federal tax bills 14 percent of what they shell out for research and development.

This tax credit has helped develop breakthrough technologies, but more typically underwrites far more mundane corporate R&D that would have been conducted anyway as a part of normal business. In May 2014, the House voted to make the R&E tax credit permanent at a cost of $156 billion over the next decade.

- **Active Financing Exception**

Like the name implies, the Active Financing Exception creates an exception to normal tax rules that ban corporations from moving passive income (such as income from leasing and lending activities) offshore. The Active Financing Exception was originally adopted with the intent of making U.S. banks more competitive overseas, but with a 2013 price tag of $1.8 billion, the Active Financing Exception was the third-most costly of all the extenders. This tax break is one of the reasons banks like Citigroup and J.P. Morgan pay so little in federal corporate income taxes.

Tax Havens

The Cayman Islands, Switzerland, and other popular tax havens allow corporations to shift profits around, avoid accountability, and reduce tax obligations. Offshoring corporate activities and transactions to low- or no-tax jurisdictions offers CEOs a lucrative tax dodge. Among Fortune 500 companies, 372 operate 7,827 tax haven subsidiaries, according to *Offshore Shell Games*, published by U.S. Public Interest Research Group and Citizens for Tax Justice. Citizens for Tax Justice estimates that corporate tax avoidance cuts revenue by $90 billion per year.[5]

Corporations can easily shift profits earned in the United States offshore through a common corporate accounting technique known as "transfer pricing." Technology and drug companies, for instance, have shell companies in tax havens hold their patents and other intellectual property rights. The shells then charge their U.S.-based operations inflated amounts to use a logo, a brand name, or a product formula. The company keeps all of its management, marketing, and other costs in the United States while shifting much of its profits to an offshore tax haven where they pay only light taxes, if any at all.

Energy Development Tax Subsidies

Many energy tax incentives date back nearly a century to a time when exploring for oil and gas involved substantial financial risks. Modern technologies have greatly reduced the risk of drilling a dry hole, but energy tax rules remain largely unchanged.

These energy tax credits form the keystone of the tax-dodging strategies that three top energy companies, Cheniere Energy, Chevron, and Chesapeake Energy, use to minimize their federal income tax expenses. U.S. taxpayers spent $18.5 billion on fossil fuel subsidies last year.

Corporate Inversions

Corporations renouncing their U.S. incorporation and reincorporating offshore in order to avoid taxes is not new (the first company did so in 1983). It became front-page news this year after several large corporations announced their intent to move their incorporation offshore, even while promising that their headquarters would remain in the United States. The Joint Committee on Taxation estimated that these corporate inversions would cost the U.S. Treasury $20 billion over the next decade.

In 2004, Congress passed a law to prohibit CEOs from windfall personal gains that might arise from successful tax dodging after moving offshore. The law imposes a 15 percent penalty on executive's gains from stock options and restricted stock in order to reduce the incentive to boost stock prices by accomplishing a tax-dodging inversion. But according to Bloomberg, at least seven of the firms that deserted the United States skirted these rules by taking steps to accelerate their executive's stock-based pay to avoid triggering the tax.

Three companies that have reincorporated offshore had CEOs who received more than $20 million in compensation last year. These firms have focused their cost-cutting efforts on reducing their corporate taxes but have had no similar successes reducing costs in the corner office.

Highest-paid CEOs of companies that have reincorporated offshore

Company	CEO	Year U.S. incorporation renounced	Country of incorporation	2013 total CEO compensation
Liberty Global	Michael Fries	2013	England	$46,562,558
Helen of Troy	Gerald Rubin*	1994	Bermuda	$31,331,964
Eaton	A.M. Cutler	2012	Ireland	$23,087,809

*Retired Jan. 15, 2014.

What can we do to prevent corporate tax dodging?

The specific corporate tax dodges we discuss in this report are all legal. Closing corporate tax loopholes, as a result, will mean changing current tax laws. Legislation introduced in Congress would do just that.

Cut Unjustified Tax (CUT) Loopholes Act (S. 268)[6]

Introduced by Sen. Carl Levin (D-MI), the CUT Loopholes Act would close a variety of loopholes that facilitate tax dodging through offshoring. This bill would treat the foreign subsidiaries of U.S. corporations, whose management and control occur primarily in the United States, as U.S. domestic corporations for income tax purposes. It would also force corporations to take the same expense for stock option grants on their tax returns as they report on their shareholder books. Under current rules, companies can get away with reporting to shareholders the value of the grant when issued, and reporting to the IRS the often much higher value when the stock option is cashed in. Passing this legislation would reduce the incentive to shift profits and jobs overseas and could raise an additional $189 billion over ten years without raising corporate tax rates, according to the Congressional Joint Committee on Taxation.

Corporate Tax Fairness Act (S. 250 and H.R. 694)

Introduced by Sen. Bernie Sanders (I-VT) and Rep. Jan Schakowsky (D-IL), this proposal would eliminate the ability of corporations to defer tax payments on their offshore profits. Instead, all worldwide profits earned by U.S. corporations would be immediately taxable in the United States. Firms would receive a dollar-for-dollar tax credit for any taxes paid to foreign governments. Corporations earning their profits in places like the United Kingdom, Germany, or France, where effective corporate tax rates are similar to U.S. rates, would pay little if any additional tax to the U.S. government. But firms stashing their profits in offshore tax havens would be forced to pay up for their years of tax haven abuse. The bill would raise an estimated $590 billion over ten years.

Bills to Stop Inversions

Several bills have been introduced to block corporations from renouncing their U.S. incorporation and reincorporating offshore to save on U.S. taxes. The Stop Corporate Inversions Act (S. 2360), introduced by Sen. Carl Levin (D-MI), and H.R. 4679, a bill by the same name introduced by his brother, Rep. Sander Levin (D-MI), would raise an extra $20 billion over the next decade. Rep. Rosa DeLauro (D-CT) and Rep. Lloyd Doggett (D-TX) have introduced The No Federal Contracts for Corporate Deserters Act (H.R. 5278), which would bar inverted companies from competing for lucrative federal contracts. Sen. Dick Durbin (D-IL) has announced his intent to introduce similar legislation in the Senate.

Stop Subsidizing Multimillion Dollar Corporate Bonuses Act (S. 1476 and H.R. 3970)

Another way that corporations avoid paying their fair share of taxes is through loopholes that allow unlimited deductions for executive compensation. In 1993, Congress capped the tax deductibility of executive compensation at no more than $1 million for each of a firm's top four executives, but with an exception for so-called "performance pay." Thanks to this loophole, corporations can simply declare the equity-based rewards they lavish on executives "performance-based" and then go on to deduct the many millions involved as a basic business expense. Sen. Jack Reed (D-RI) and Sen. Richard Blumenthal (D-CT) have introduced the Stop Subsidizing Multimillion Dollar Corporate Bonuses Act (S. 1476), legislation that would keep the $1 million deductibility cap but remove the "performance pay" loophole and cover all employees of a corporation. Rep. Lloyd Doggett (D-TX) has introduced a companion bill (H.R. 3970) in the House. These bills would save taxpayers $50 billion over 10 years. Senate Budget Committee Chair Patty Murray (D-WA) has introduced a similar bill (S. 2162) that would use the stricter deductibility limits to pay for expanding the Earned Income Tax Credit.

Conclusion

The American people increasingly understand that what's good for General Motors and its CEO is not necessarily best for them. They have experienced the disconnect between rising Wall Street stock prices and the economic insecurity they feel in their own lives and communities.

Corporations are turning to taxpayers as never before to fund basic business expenses that have previously been paid for by shareholders. Businesses have long known that they must engage in research and new product development in order to stay competitive. They must continue to invest in new equipment to keep their costs low and delivery reliable. And yet rather than paying these costs from shareholder funds, they fight hard for public subsidies to help pay these costs.

With taxpayers picking up a greater share of the everyday costs of running a business, corporations are not taking their freed-up cash to expand their operations and create much-needed jobs. Instead, they are using their profits to buy back their stock, which in turn boosts their stock prices and ultimately sends CEO pay soaring.

And in perhaps the greatest travesty of all, America's corporations then ask the nation's working families to pick up part of the cost of paying CEOs, most of whom earn more in a year than most of their low-level workers could earn in several lifetimes.

When corporations fight for—and win—tax breaks and lucrative loopholes that allow them to avoid paying taxes and instead direct those funds into the pockets of corporate executives, they sap our country's economic resources and contribute to extreme inequality.

Appendix 1

CEOs on the top 100 highest-paid list that made more than their company paid Uncle Sam

Company	CEO	U.S. corporate income tax payment or refund, 2013 ($mill)	U.S. Pre-tax Income, 2013 ($mill)	Total executive compensation, 2013 ($mill)	Subsid-iaries in tax havens
Citigroup	Michael Corbat	-260.0	6,397.0	17.6	21
Boeing	W. James McNerney, Jr.	-82.0	5,946.0	23.3	1
American Airlines Group	W. Douglas Parker	-22.0	-2,180.0	17.7	2
Ford	Alan Mulally	-19.0	6,523.0	23.2	4
Zynga	Don A. Mattrick	-12.2	-56.2	57.8	4
Salesforce.com	Marc Benioff	-10.4	-326.4	31.3	9
T-Mobile US	John J Legere	-10.0	-5.0	29.2	0
Goodyear Tire and Rubber	Richard Kramer	-6.0	396.0	18.7	12
Cheniere Energy	Charif Souki	0.0	-554.4	141.9	3
Chesapeake Energy	Robert Lawler	0.0	1,442.0	22.4	0
Cumulus Media	Lewis Dickey, Jr.	0.0	-24.9	20.0	0
MDC Partners	Miles Nadal	0.0	21.2	20.7	0
Mobile Mini	Erik Olsson	0.0	30.5	24.1	0
Nuance Communications	Paul Ricci	0.0	-208.6	29.2	11
Sirius	James E. Meyer	0.0	637.1	23.1	0
TRW Automotive	John C. Plant	0.0	331.0	17.8	10
Wynn Resorts	Stephen Wynn	0.1	-9.9	19.6	15
Zulily	Darrell Cavens	0.4	13.3	27.3	0
Tenet Healthcare	Trevor Fetter	2.0	-158.0	22.7	0
Verifone Systems	Paul Galant	2.2	-92.2	20.4	4
Realogy	Richard A Smith	4.0	192.0	24.0	4
Solera	Tony Aquila	6.0	-23.5	29.9	5
Hasbro	Brian Goldner	12.8	54.4	27.4	6
Chevron	John Watson	15.0	4,672.0	20.2	13
Office Depot	Roland Smith	15.0	-230.0	19.6	26
Abbott Laboratories	Miles White	16.0	529.0	20.5	79
Restoration Hardware	Gary G. Friedman	21.6	49.1	36.5	1
LinkedIn	Jeffrey Weiner	35.7	145.4	49.1	7
GAMCO Investors	Mario Gabelli	52.4	183.6	85.0	0
TOTAL		-238.4	23,693.5	920.2	237
AVERAGE		-8.2	817.0	31.7	

Appendix 2

Sources and methodology

Executive compensation: We used the pay data compiled by Equilar, a leading executive compensation analysis firm, and published by the *New York Times* on June 7, 2014. Equilar's methodology for calculating total executive compensation includes base salary, the estimated value of stock and options awards granted in 2013, cash bonus, perks, and other incentives. Two firms among the 30 largest companies —J.P. Morgan and General Motors—were not ranked in this survey, so we extracted the data from the companies' proxy statements.

U.S. pre-tax income: Domestic pre-tax profits are those reported by corporations in the tax footnote of their 10-K reports filed annually with the Securities and Exchange Commission. No attempt has been made to adjust for the domestic profits shifted to offshore subsidiaries through transfer pricing and other aggressive accounting techniques. Insufficient information is provided to accomplish this adjustment with any degree of certainty. It is, however, informative to compare the geographic breakdown of revenue, assets, employees, and reported domestic net profit for clues to companies' profit-shifting behavior.

U.S. corporate income tax payment or refund: The data in this report is based on the "current U.S. taxes paid" data reported in the tax footnote of corporate Form 10-Ks. The corporate provision for income taxes is comprised of two numbers: the current taxes paid in a given year and the deferred taxes that may or may not be paid in the future. "Current U.S. taxes paid" are the best approximation of the net result of what corporations actually paid in a given year. There are reasons why this number still may be overstated. One of the most significant of these is the tax deduction companies receive for excess executive compensation through the stock option accounting double standard. The deduction for excess executive compensation is reported in such a manner that it appears that some of the stock-based compensation paid to executives is taxes paid instead to the U.S. government.

One more word here: even the current tax reported is an approximation. For companies with a fiscal year ending in December, tax filings are generally made in September, while 10-K reports with the SEC are filed in February or March. Thus, what makes its way into the 10-K report is the best guess at the time of the year's tax position. But in most (if not all) cases, adjustments continue to be made up until the tax form is filed with the IRS. For more details on corporate tax research, see Appendix 3.

Subsidiaries in tax havens: These were calculated by the report's authors based on significant subsidiaries reported in 10-K filings. We used a list of 50 tax haven countries compiled by Citizens for Tax Justice and U.S. PIRG from three sources: the Organization for Economic Cooperation and Development (OECD), the National Bureau of Economic Research, and a U.S. District Court order listing tax havens.

Appendix 3

Frequently asked questions about corporate tax research

1. Why don't you include deferred income taxes?

The corporate provision for income taxes in company 10-K reports is comprised of two numbers: the current taxes paid in a given year and deferred taxes. This report includes only current taxes. "Deferred taxes" are a form of tax break that allows companies to kick their tax obligations down the road to some future year. Some of these taxes are eventually paid, others can be deferred indefinitely. For instance, taxes on funds held offshore do not become due until those funds are brought home to the U.S. If these funds are never brought stateside, the taxes are never paid. At best, we can think of these funds as a non-interest loan from taxpayers to the company. A sweet deal we all would like.

Boeing is one company that complains loudly that it is not getting proper credit for its deferred taxes. Yet, over the last dozen years, Boeing reported more than $46 billion in U.S. profits, while claiming $1.6 billion in tax refunds from the IRS. That's an awful lot of taxes kicked down the road. Deferred taxes don't pay for more teachers. You can't pave a highway with deferred asphalt. And Boeing's shareholders probably wouldn't be too happy if the company delivered a shiny new airplane to the Air Force and were told by Uncle Sam, here's an IOU, which we might pay some day.

2. Why didn't you include taxes paid to states, cities, and foreign governments?

Our report comes at a time when there is heightened focus on the U.S. government's fiscal situation. Massive cuts to government programs are underway, including programs and government investments that benefit businesses. Our intent is to call into question whether corporations are paying their fair share toward the cost of national government.

3. Couldn't large tax refunds merely be the result of accounting adjustments and settlements?

Accounting adjustments and tax settlements are common elements of corporate tax reporting, and they do affect corporations year-to-year. In our report, we took a snapshot of a single year and did not attempt to adjust the numbers reported in the current tax provision for any of the companies in the study. We have noted in the report that all of the ways corporations reduce their taxes are legal and that in our opinion, some are legitimate while others are not. We have not attempted to explain the reasons behind the particular current tax number for any of the companies in the report.

4. Why do you use the term "tax refund"?

Throughout this report, we use the colloquial term "refund" to describe the more technical term "net tax benefit." As with individuals, corporations can wind up with the government owing them money after all tax credits are applied. Corporations have the choice of receiving that excess as a refund check or applying it to their estimated taxes for the following year. While some companies may in fact receive refund checks from the IRS, more choose to have their refunds applied to their account for future taxes due, much in the way that individual taxpayers can choose to have their refunds applied to the following year's estimated tax payments.

Clearer corporate tax reporting is in the interest of all

Our figures are the best available data on corporate income taxes. Corporations could provide precise figures for their tax bills by revealing one line from their annual tax returns: Line 31 (Total Tax) of IRS Form 1120 (Corporation Tax Return).[7]

Looking back on our 21 years of work on executive pay, we recall the disputes we now see about taxes happening around how CEO pay was calculated. The SEC stepped in and required that obtuse proxy statements, written in legalese, be rewritten in plain English. Many corporations complained it couldn't be done, but it has been accomplished and with great success. There remain today different ways of calculating CEO pay, but the differences are minor and the disputes over accurate numbers have all but disappeared.

We believe we are at the same point today with corporate tax disclosure that we were with executive pay a decade ago. There is obviously an enormous public appetite for more and clearer information on what corporations actually pay in taxes each year, and not just in this country, but in all of the world's taxing jurisdictions. For instance, it would be informative to know what share of profits and taxes are being paid in places like the Cayman Islands or Luxembourg.

While the public is demanding more and clearer disclosures, corporate tax reporting has, in fact, grown more opaque and indecipherable, even to those with advanced degrees in corporate tax law.

We are fortunate to have the work of the Extractive Industry Transparency Initiative (EITI), a cooperative effort between the activist community and energy and mining companies, which has established standards for reporting on taxes and other payments made on a country-by-country basis throughout the world. Country-by-country reporting has made a huge difference in understanding corporate activities and in cracking down on corruption in many nations. One of the changes we advocate is adopting country-by-country reporting standards for all corporations.

Endnotes

[1] Throughout this report, we use the colloquial term “refund” to describe the more technical term “net tax benefit.” As with individuals, corporations can wind up with the government owing them money after all tax credits are applied. Corporations have the choice of receiving that excess as a refund check or applying it to their estimated taxes for the following year.

[2] AFL-CIO, http://www.aflcio.org/Corporate-Watch/Paywatch-2014.

[3] For past surveys, see: *Executive Excess 2012*: http://www.ips-dc.org/wp-content/uploads/2012/08/Executive-Excess-2012-CEO-Hands-In-Uncle-Sams-Pocket.pdf and *Executive Excess 2011*: http://www.ips-dc.org/wp-content/uploads/2011/08/Executive-Excess-CEO-Rewards-for-Tax-Dodging.pdf.

[4] Calculated by the authors based on 10-K filings and tax haven countries identified by Citizens for Tax Justice and U.S. PIRG. For details, see Appendix 2.

[5] Citizens for Tax Justice, “Senator Rand Paul: Champion of Secret Swiss Bank Accounts,” May 2, 2012. http://www.ctj.org/taxjusticedigest/archive/2012/05/senator_rand_paul_champion_of.php.

[6] This bill builds on two pieces of legislation previously introduced by Sen. Levin: the Stop Tax Havens Abuse Act (S. 1533/H.R. 1554) and the Ending Excessive Corporate Deductions for Stock Option Act introduced in earlier Congresses.

[7] Department of the Treasury Internal Revenue Service, “U.S. Corporation Income Tax Return,” undated. http://www.irs.gov/pub/irs-pdf/f1120.pdf.