CHARTBOOK

Offshore Corporate Taxes, Corporate Profits & the Competitiveness of the U.S. Tax System

AMERICANS FOR TaxFairness

September 2015

KEY FINDINGS

1. **U.S. corporations have $2.1 trillion in untaxed profits offshore.** These profits have increased nearly five-fold over 10 years – from $434 billion in 2005 to $2.1 trillion today – in anticipation of a tax holiday.

2. **Just 50 companies hold 75% of the $2.1 trillion in untaxed offshore profits.** Ten companies hold 36% of these profits.

3. **Just two industries – high-tech and pharmaceutical/healthcare – hold half the $2.1 trillion in untaxed offshore profits.**

4. **55% of the $2.1 trillion in U.S. corporate offshore profits are in tax-haven countries.** Corporations are paying an average tax rate of just 3%-6.5% on profits in tax havens.

5. **Corporations pay very low tax rates – 6% to 10% – on *all* of their offshore profits due to deferral.** This permits them to delay indefinitely paying U.S. taxes until they are repatriated, but corporations are required to pay taxes to foreign governments.

6. **Corporations owe up to $600 billion in U.S. taxes on the $2.1 trillion in offshore profits.** Having paid just 6% to 10% in taxes to foreign governments, they owe between 29% and 25% in U.S. taxes, based on a 35% tax rate. Credit Suisse and Citizens for Tax Justice estimate that corporations owe $533-$600 billion, respectively, on offshore profits.

7. **President Obama has proposed taxing offshore profits at 14% (less foreign taxes paid), which could give corporations a tax cut of nearly $400 billion on the $2.1 trillion in offshore profits.** (Republicans propose an even bigger tax break.) A 14% tax rate would raise just $217 billion – nearly $400 billion *less* than the $600 billion they owe. That's a tax cut of up to 60% for the country's worst tax dodgers.

8. **Some large multinationals adept at tax dodging would get huge tax breaks under Obama's plan.** Apple would get a tax break of $52 billion, Microsoft $30 billion and Citigroup $12 billion.

9. **Corporate profits are way up, and corporate taxes are way down.** In 1952, corporate profits and taxes were both about 5.6% of the economy (GDP). Today, corporate profits are 9.8% of the economy and corporate taxes are just 1.9% of GDP.

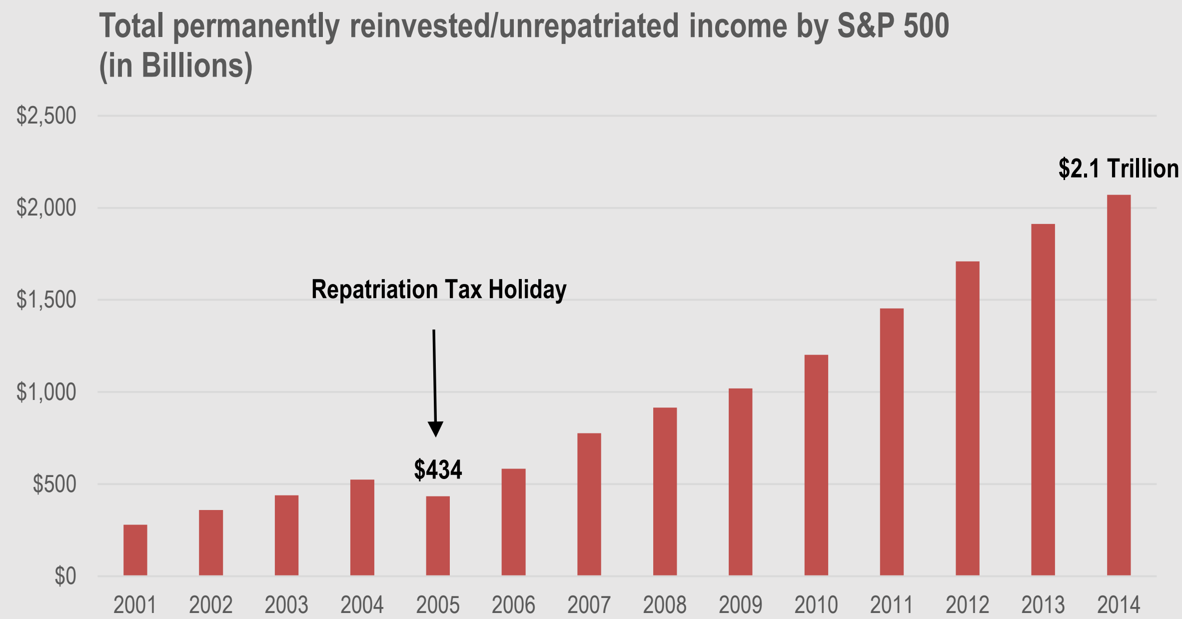
10. **Many U.S. corporate offshore profits are not "trapped" overseas.** Companies can invest these untaxed profits in any U.S. firm, deposit them in any U.S. bank or use them to purchase any government security as long as it is not directly invested in the U.S. parent. A Congressional study found that 46% of the offshore profits of 27 companies were invested in the U.S. in 2010.

11. **Corporations used to contribute $1 out of every $3 in federal revenue. Today it is $1 out of every $10.**

12. **The U.S. Treasury loses about $90 billion a year in revenue due to the deferral of taxes on offshore profits.** That's the biggest corporate tax loophole there is.

FIGURE 1

U.S. Corporations Have $2.1 Trillion in Untaxed Profits Offshore



Source: Credit Suisse (March 2015)

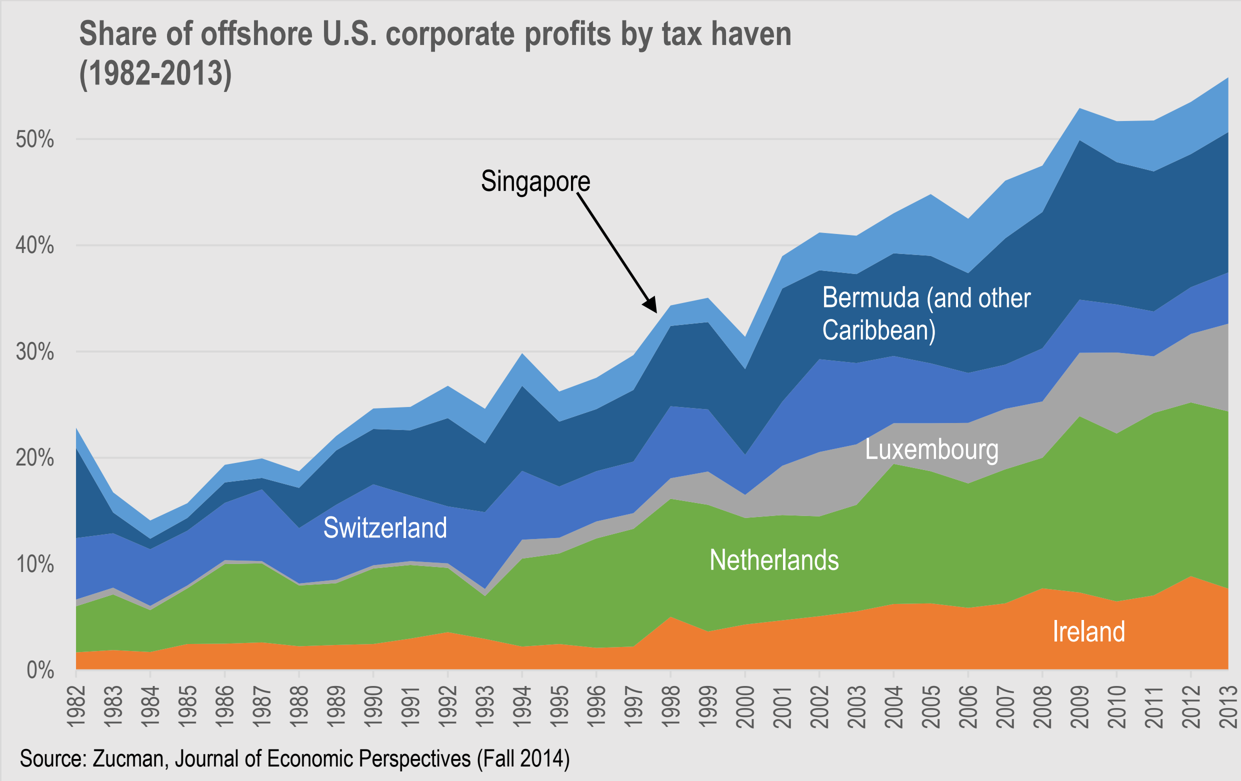
Corporations have not paid any U.S. taxes on the $2.1 trillion in profits booked offshore because our tax system lets them defer paying taxes until that income is brought back to the U.S. parent, or repatriated. The U.S. Treasury loses $900 billion over 10 years – $90 billion a year – due to the deferral loophole, according to the Joint Committee on Taxation [Figure 15].

The amount of untaxed offshore profits has increased nearly five-fold over 10 years – from $434 billion in 2005 to $2.1 trillion today. Congress established a one-time repatriation tax holiday in 2004 with a tax rate of just 5.25%, which took effect in 2005. Offshore profits have increased dramatically since then in anticipation of another tax holiday.

Source: Credit Suisse, *Parking A-Lot Overseas* (March 17, 2015), Exhibit 5, p. 8. http://bit.ly/1dzsUSj

FIGURE 2

55% of U.S. Corporate Offshore Profits Are in Tax-Haven Countries

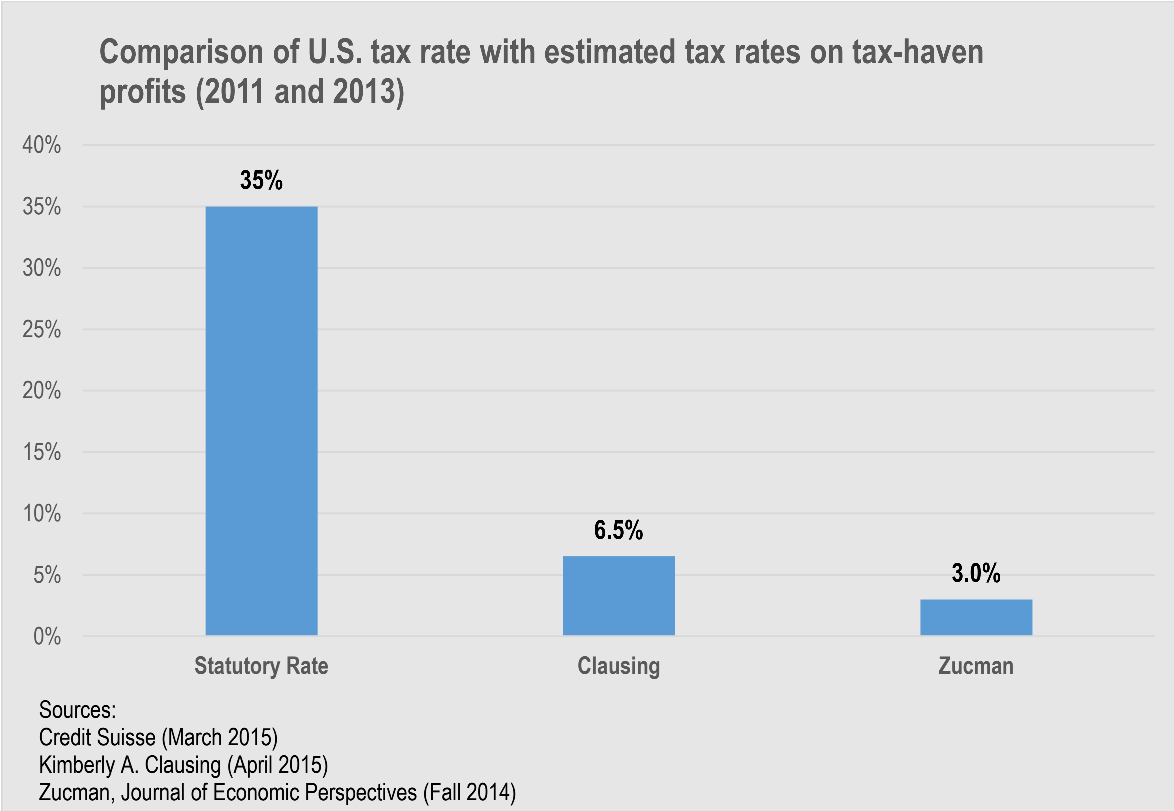


The amount of U.S. corporate profits that are in tax havens has increased dramatically since 1982 – from about 23% of the total to 55% in 2013. Corporations shift profits to these low-tax jurisdictions to dodge paying their fair share of taxes.

Source: Gabriel Zucman, Journal of Economic Perspectives, *Taxing Across Borders: Tracking Personal Wealth and Corporate Profits* (Fall 2014), Figure 2, p. 128 and p. 130. http://gabriel-zucman.eu/files/Zucman2014JEP.pdf

FIGURE 3

Corporations Pay Very Low Tax Rates on Tax-Haven Profits



The official, or statutory, U.S. corporate tax rate is 35%. But that is not what most companies pay, especially multinational corporations that are able to shift profits to tax havens. Two major studies show that the average effective tax rates on profits in tax havens range from just 3% to 6.5%. Such a low rate for multinationals requires the rest of us to make up the difference. It also gives them an unfair advantage over domestic firms, many of which pay close to the statutory rate.

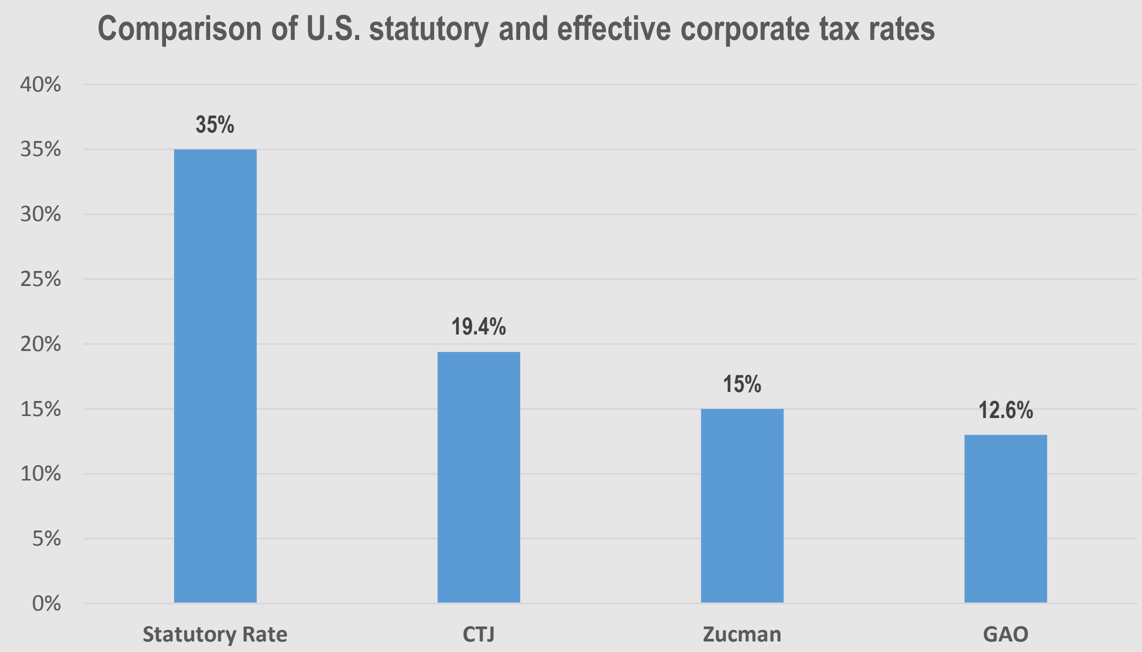
Sources:

Kimberly A. Clausing, *The Nature and Practice of Capital Tax Competition (*April 5, 2015), p. 10. 6.5% is the maximum tax rate; it is much lower than that for some countries. This is 2011 data. http://ssrn.com/abstract=2489224

Gabriel Zucman, Journal of Economic Perspectives, *Taxing Across Borders: Tracking Personal Wealth and Corporate Profits* (Fall 2014), Figure 2, p. 130. http://gabriel-zucman.eu/files/Zucman2014JEP.pdf

FIGURE 4

U.S. Corporate Tax Rates Are About Half the 35% Tax Rate



Sources:
Citizens for Tax Justice (February 2014)
Zucman, Journal of Economic Perspectives (Fall 2014)
Government Accountability Office (May 2013)

Many corporations do not pay the official 35% tax rate on all of their profits – domestic and offshore combined. Citizens for Tax Justice found that Fortune 500 companies that were profitable over five years paid a 19.4% tax rate. Gabriel Zucman found that the effective U.S. corporate tax rate is 15% – down from 45% in the 1950s. He attributed about two-thirds of the reason for this decline to increased profit-shifting to low-tax jurisdictions. The Government Accountability Office (GAO) found that profitable U.S. corporations paid an effective tax rate of just 12.6% on their worldwide income in 2010.

Sources:

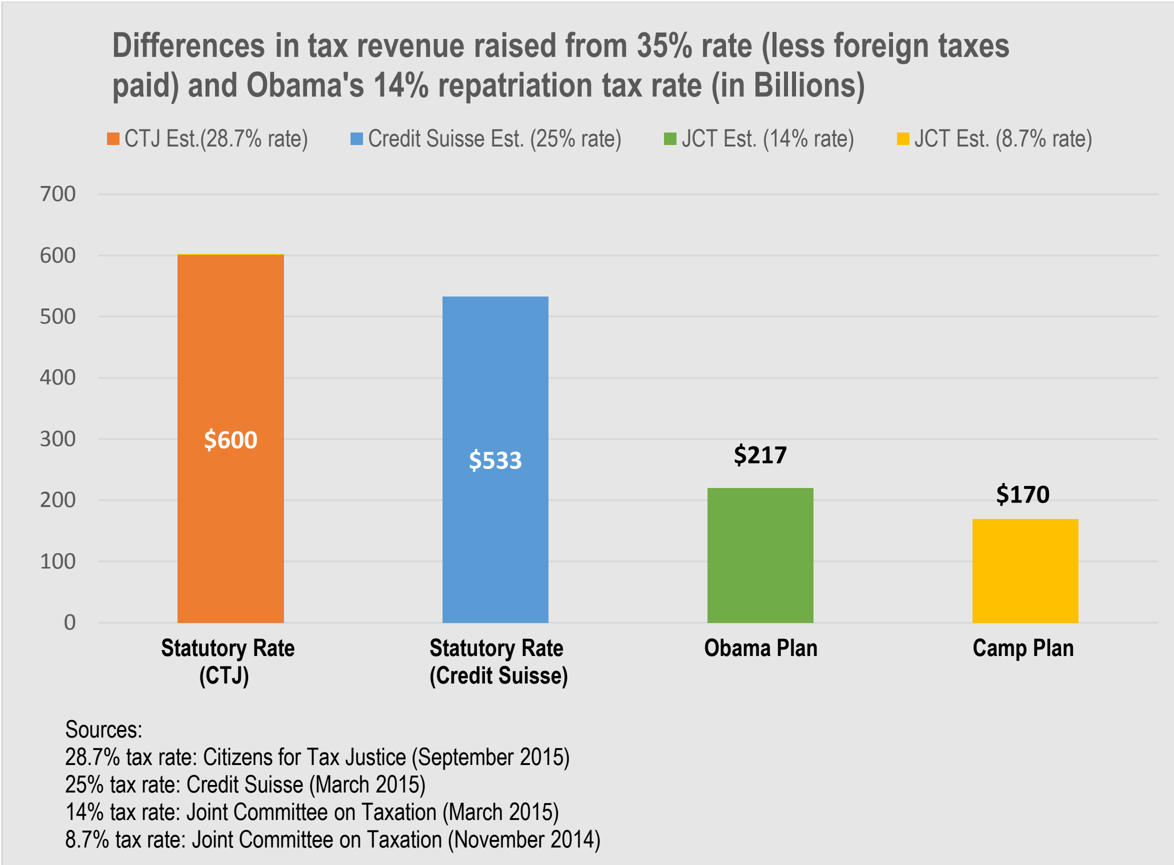
Citizens for Tax Justice, *The Sorry State of Corporate Taxes* (February 2014).
http://bit.ly/1ehTehk

Gabriel Zucman, Journal of Economic Perspectives, *Taxing Across Borders: Tracking Personal Wealth and Corporate Profits* (Fall 2014), Figure 5, pp. 132-133.
http://gabriel-zucman.eu/files/Zucman2014JEP.pdf.

Government Accountability Office, *Corporate Income Tax: Effective Tax Rates Can Differ Significantly from the Statutory Rate,* GAO publication 13-520 (May 30, 2015), p. 14.
http://gao.gov/products/GAO-13-520

FIGURE 5

Corporations Owe up to $600 Billion in U.S. Taxes on Offshore Profits



Citizens for Tax Justice and Credit Suisse estimate that corporations have paid 6.3% and 10%, respectively, in taxes to foreign governments on their $2.1 trillion in offshore profits. That means U.S. corporations will owe to the Treasury between 28.7% and 25% in U.S. taxes when their profits are repatriated, based on a 35% tax rate (less deductions for foreign taxes paid). Credit Suisse and Citizens for Tax Justice estimate that corporations owe $533 billion and $600 billion, respectively, on those offshore profits.

President Obama has proposed as part of corporate tax reform that a mandatory 14% tax be assessed on the $2.1 trillion in offshore profits (less credits for foreign taxes paid). Many in Congress want the tax rate to be less than 10%. Former House Ways and Means Committee chairman Dave Camp proposed an 8.7% rate. A 14% tax rate would raise $217 billion, which would be a tax break of roughly $300 billion to $400 billion from the $600 billion that is owed.

Sources:

28.7% tax rate: Citizens for Tax Justice, *Fortune 500 Corporations Are Likely Avoiding $600 Billion in Corporate Tax Using Offshore Tax Havens* (September 3, 2015). http://bit.ly/1NKgyFl

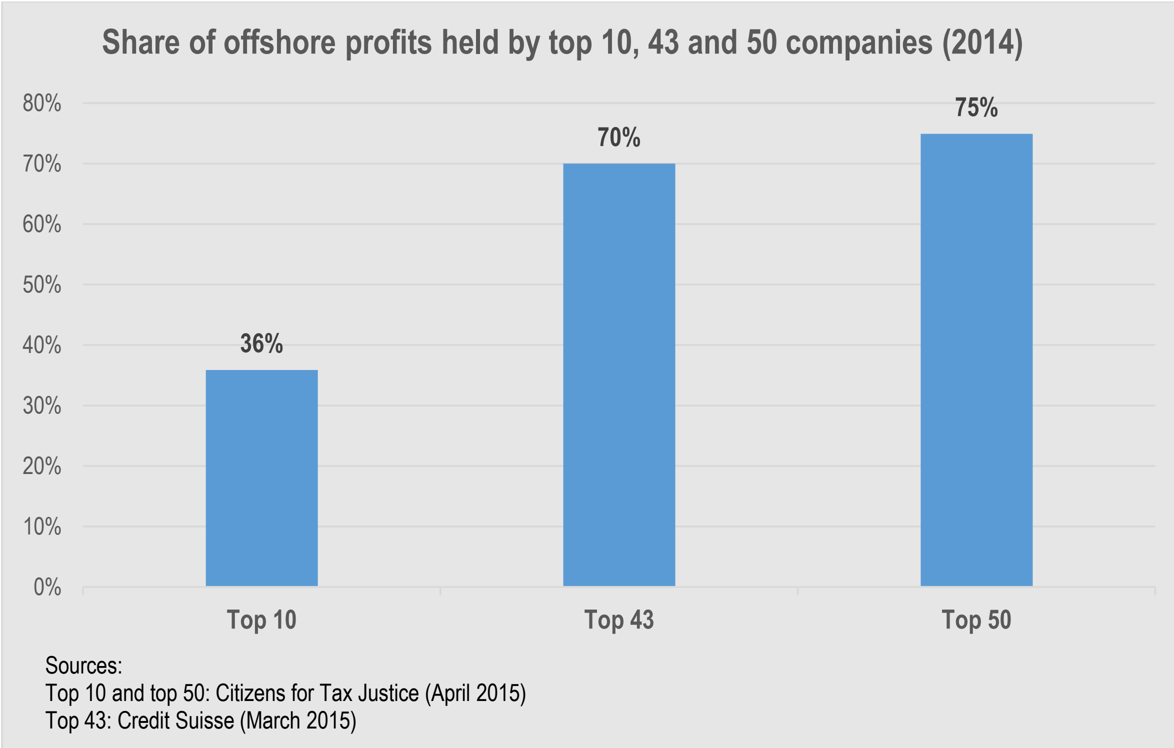
25% tax rate: Credit Suisse, *Parking A-Lot Overseas* (March 17, 2015), p. 4. http:/bit.ly/1dzsUSj

14% tax rate: Joint Committee on Taxation, *Estimated Budget Effects Of The Revenue Provisions Contained In The President's Fiscal Year 2016 Budget Proposal* (March 6, 2015), p. 1. https://www.jct.gov/publications.html?func=startdown&id=4739

8.7% tax rate: Joint Committee on Taxation, *Technical Explanation, Estimated Revenue Effects, Distribution Analysis, And Macroeconomic Analysis Of The Tax Reform Act Of 2014* (November 18, 2014), p. 651. https://www.jct.gov/publications.html?func=startdown&id=4674

FIGURE 6

50 Companies Hold 75% of $2.1 Trillion in Untaxed Offshore Profits



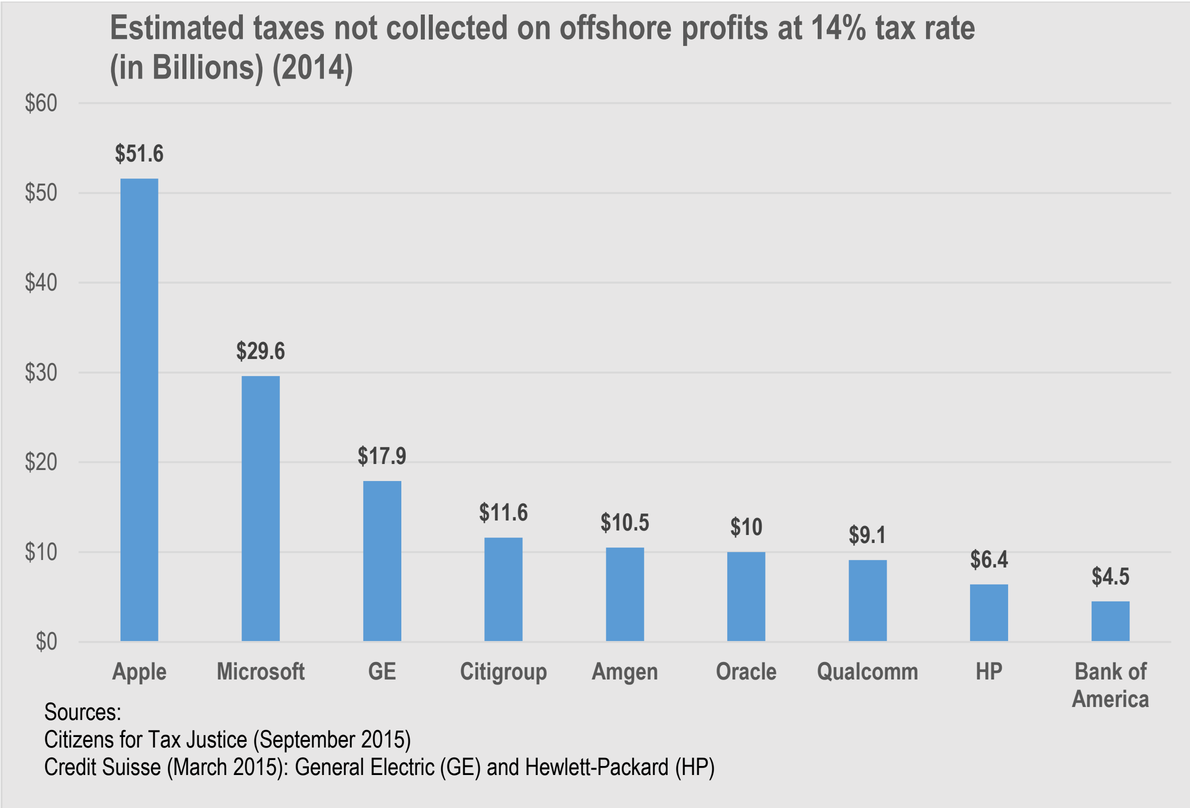
A few dozen companies hold three-quarters of the $2.1 trillion in untaxed offshore profits. Just 10 companies hold more than one-third of those profits. (See Appendix A for the list of all 50 companies.) These corporations are the most adept at dodging taxes because of their ability to shift profits offshore.

Sources:

Top 10 and top 50: Citizens for Tax Justice, *Dozens of Companies Admit Using Tax Havens* (April 1, 2015). http://bit.ly/1MFgDM3

Top 43: Credit Suisse, *Parking A-Lot Overseas* (March 17, 2015), Exhibit 13, p. 16. http://bit.ly/1dzsUSj

FIGURE 7
Major Corporations Would Get Multi-Billion Dollar Tax Breaks



Some very large multinational corporations would get huge tax breaks under President Obama's 14% tax rate. This assumes that if they repatriate their profits they would be taxed at either the 28.7% rate, estimated by Citizens for Tax Justice (CTJ), or in the case of General Electric and Hewlett-Packard the 25% rate estimated by Credit Suisse. Apple would get a tax break of $52 billion, Microsoft would save $30 billion and Citigroup would General Electric $18 billion.

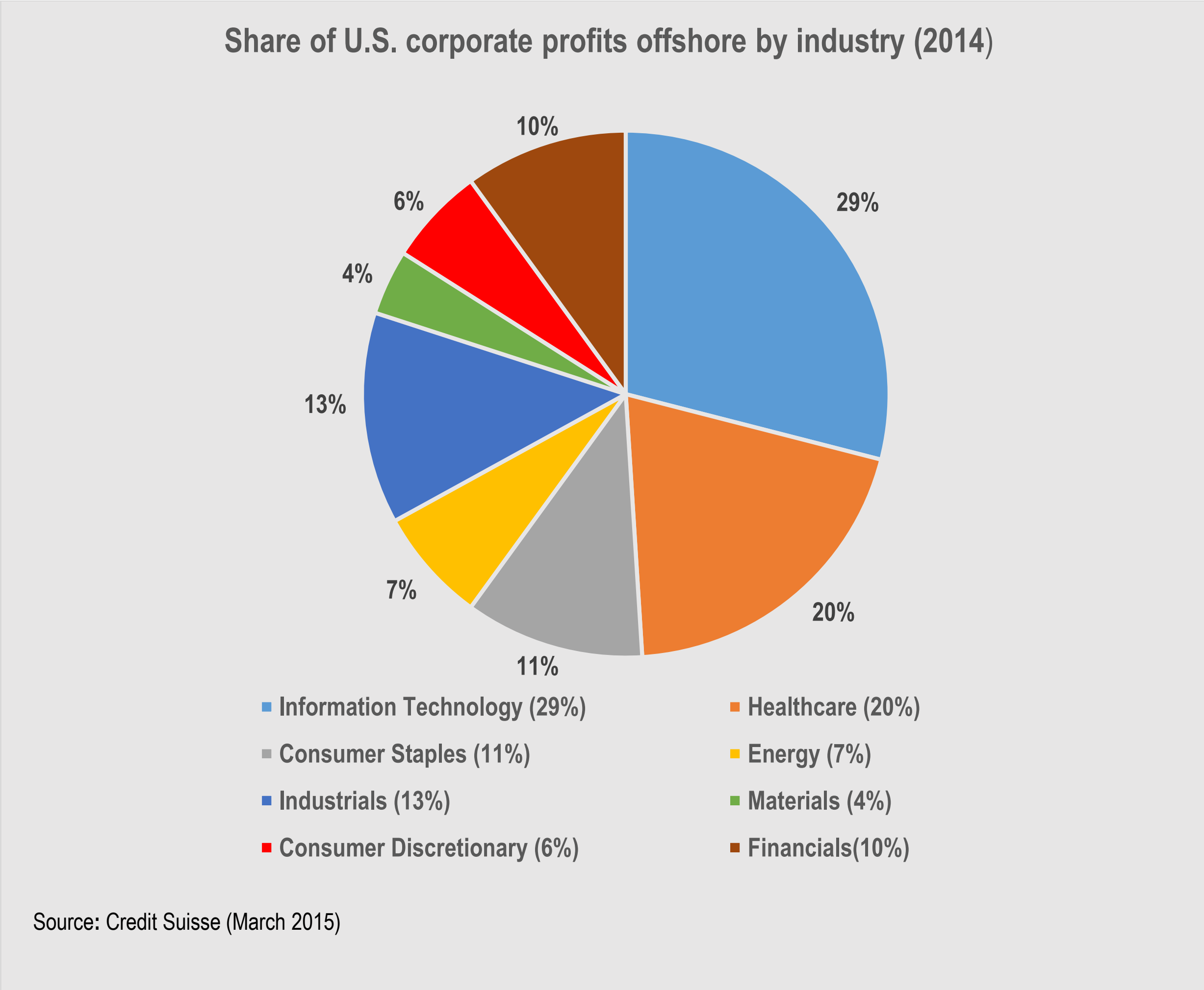
Sources:

General Electric and Hewlett-Packard from Credit Suisse, *Parking A-Lot Overseas* (March 17, 2015), p. 4. http:/bit.ly/1dzsUSj

All other companies from Citizens for Tax Justice, *Fortune 500 Corporations Are Likely Avoiding $600 Billion in Corporate Tax Using Offshore Tax Havens* (September 3, 2015). http://bit.ly/1MFgDM3

FIGURE 8

High Tech & Pharma/Healthcare Hold Half of Offshore Profits



Just two industries – high-tech/information technology and pharmaceutical/healthcare – hold half the $2.1 trillion in offshore profits**.** Information technology firms hold 29% of the profits. Healthcare companies, primarily pharmaceuticals, hold 20% of the profits. Companies that earn their profits from intellectual property, such as patents, are best able to shift their profits to tax havens.

Source: Credit Suisse, *Parking A-Lot Overseas* (March 17, 2015), Exhibit 12, p. 15. http://bit.ly/1dzsUSj

FIGURE 9

U.S. Corporate Offshore Profits Are Not "Trapped" Overseas

Share of undistributed accumulated foreign earnings held in U.S. bank accounts or U.S. investments (2010)

0 - 25%	26 - 50%	51 - 75%	76 - 100%
Bristol-Myers Squibb	Coca-Cola	Oracle	Adobe*
CA Technologies	Devon Energy	Motorola	Apple*
Duke Energy	DuPont*	PepsiCo*	Broadcom
Eli Lilly	Intel		Cisco
Hewlett-Packard			Google
Honeywell			EMC
IBM			Microsoft
Eastman Kodak			Johnson & Johnson
Merck			Qualcomm*
Pfizer			
Procter & Gamble			

* Figures reflect their U.S. dollars and investments as a percentage of their foreign cash.

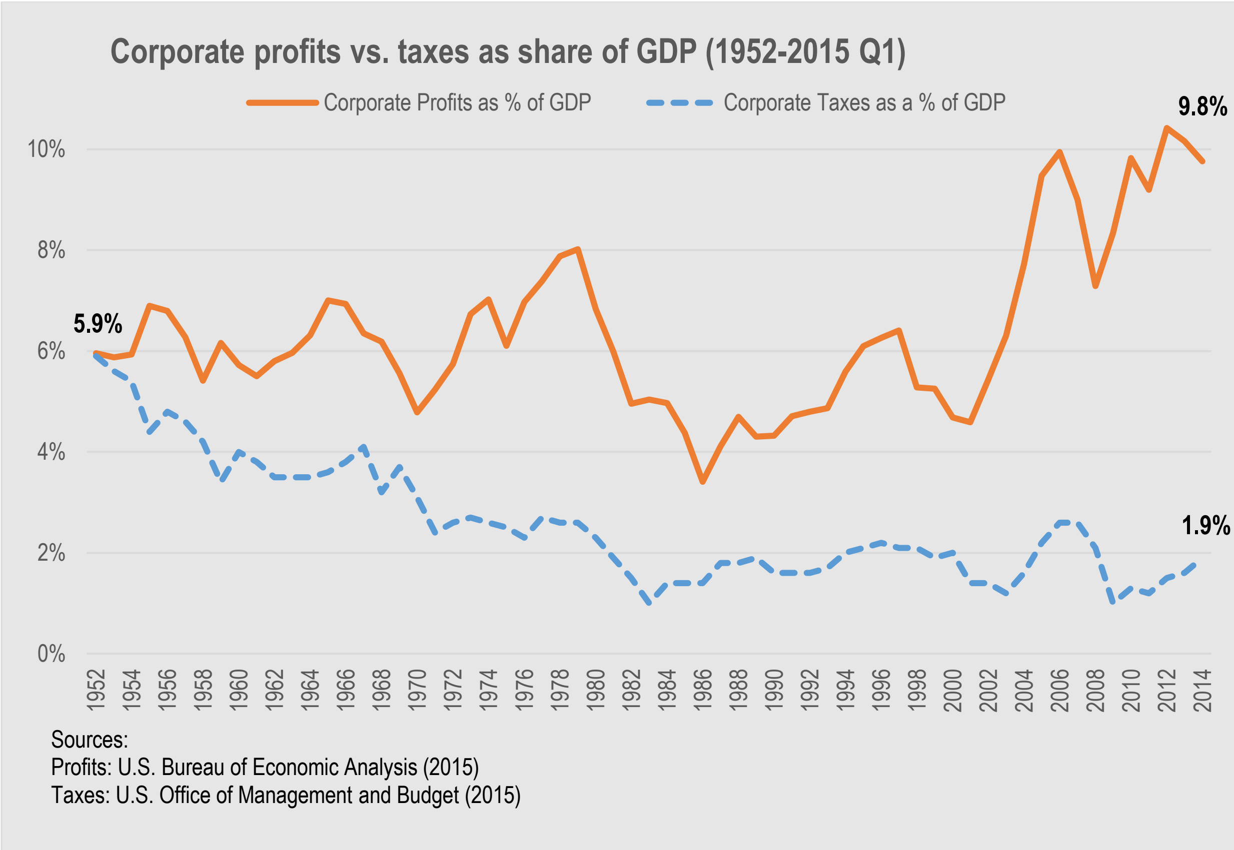
Source: U.S. Senate Permanent Subcommittee on Investigations (December 2011)

Corporations say they want Congress to cut the tax rate on the $2.1 trillion in profits that have accumulated offshore in order to encourage companies to bring the money home to make investments. That is not necessary. Corporations are free to invest these untaxed profits in any U.S. firm, deposit them in any U.S. bank or use them to purchase any federal, state or local government security as long as it is not directly returned to the U.S. parent in the form of dividends. A congressional study found that 46% of the offshore profits of 27 companies were invested in the United States in 2010.

Source: U.S. Senate Permanent Subcommittee on Investigations, Majority Staff Report Addendum, *Offshore Funds Located Onshore* (December 14, 2011), p. 5. http://1.usa.gov/1OOE3hu

FIGURE 10

Corporate Profits Way Up, Corporate Taxes Way Down



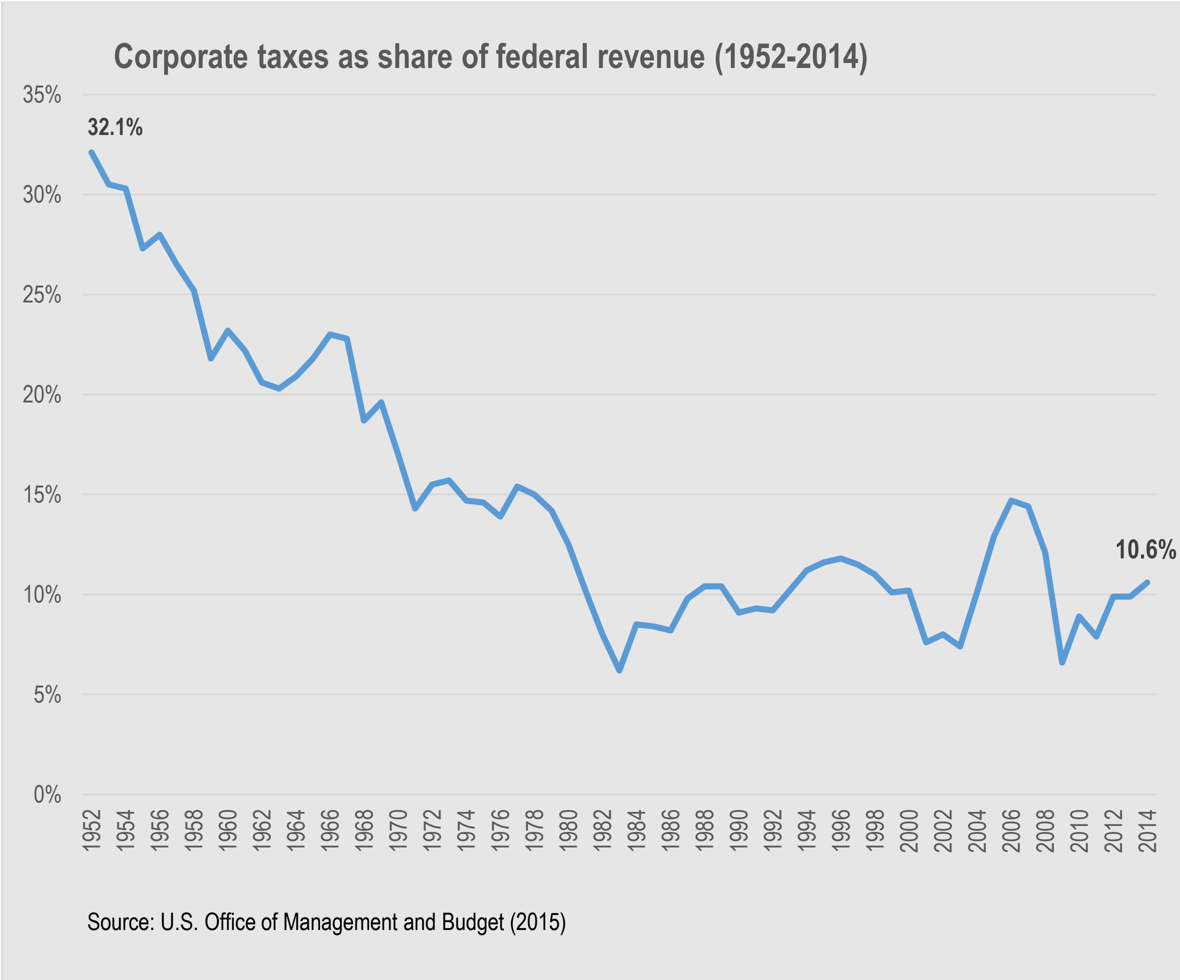
Corporations complain about high tax rates stifling economic growth and profitability. But, over the last six decades, corporate profits as a share of the economy (GDP) have risen dramatically while corporate taxes as a share of the economy have plummeted. In 1952, corporate profits and taxes were both 5.6% of the economy. Today, corporate profits are 9.8% of the economy and corporate taxes are just 1.9% of GDP. That is a 66% increase in profits and a 68% decrease in taxes.

Sources:
Profits: U.S. Bureau of Economic Analysis, "Corporate Profits After Tax (without IVA and CCAdj) [CP]/ Gross Domestic Product [GDP]," retrieved from FRED, Federal Reserve Bank of St. Louis. https://research.stlouisfed.org/fred2/graph/?g=1Pik

Taxes: U.S. Office of Management and Budget, "Historical Budget Tables, Table 2.3: Receipts by Source as Percentages of GDP." https://www.whitehouse.gov/omb/budget/Historicals.

FIGURE 11

Corporations Now Paying Very Low Share of Federal Taxes

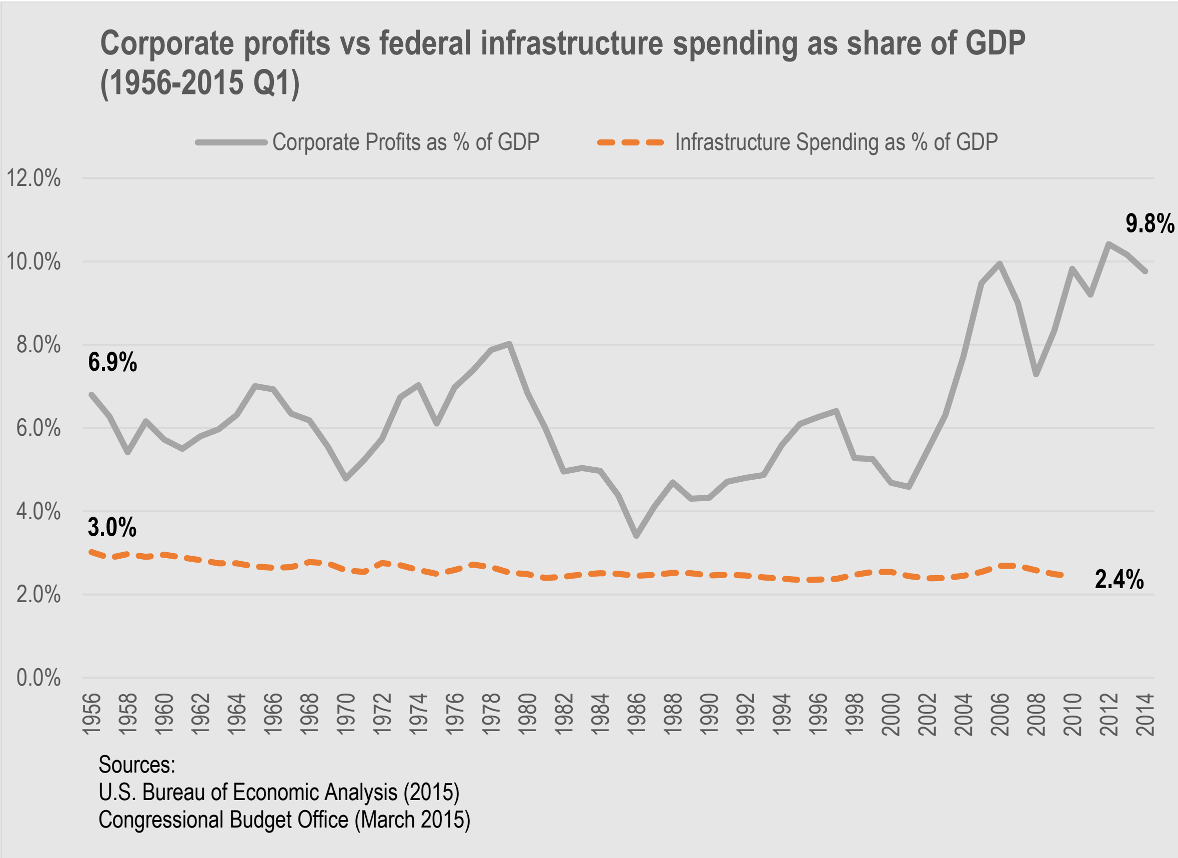


Federal revenue contributed by corporate taxes has dropped by two-thirds over the last six decades – from 32.1% in 1952 to 10.6% in 2014. Corporations used to contribute $1 out of every $3 in federal revenue. Today, they contribute just $1 out of every $10 – at a time when they have never been more profitable.

Source: U.S. Office of Management and Budget, Table 2.3: Receipts by Source as Percentages of GDP. https://www.whitehouse.gov/omb/budget/Historicals.

FIGURE 12

Corporate Profits Rise While Infrastructure Spending Declines



When corporations do not pay their fair share of taxes public investments can suffer. While there may not be a direct cause and effect, it is worth noting that corporate profits have risen by 40% as a share of the economy over the last six decades – from 6.9% in 1956 to 9.8% today. At the same time, federal spending on infrastructure as a share of the economy has declined by 20% -- from 3% in 1956 to 2.4% today.

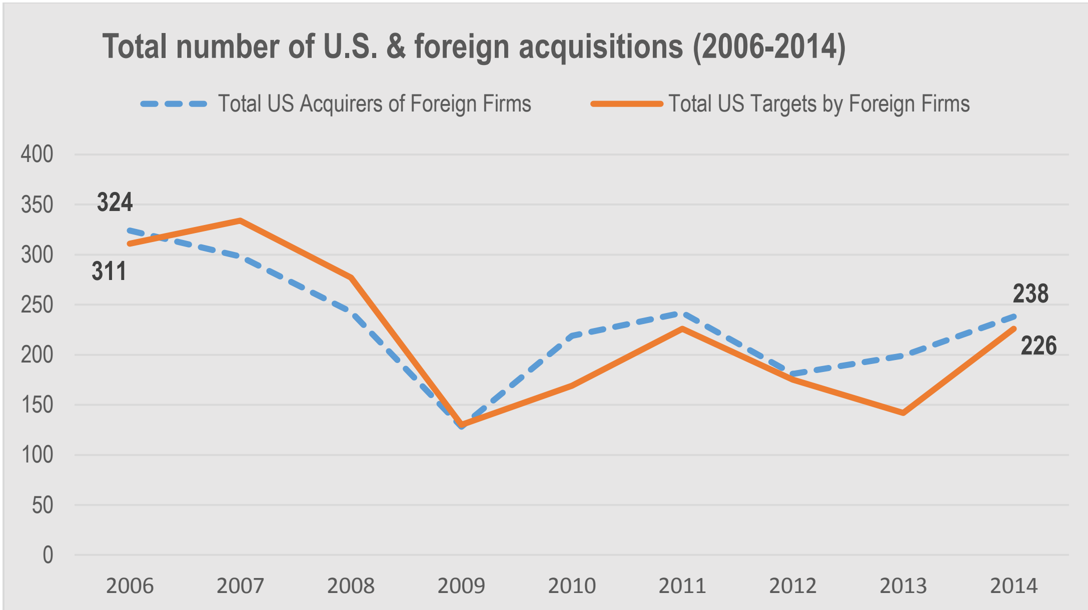
Sources:

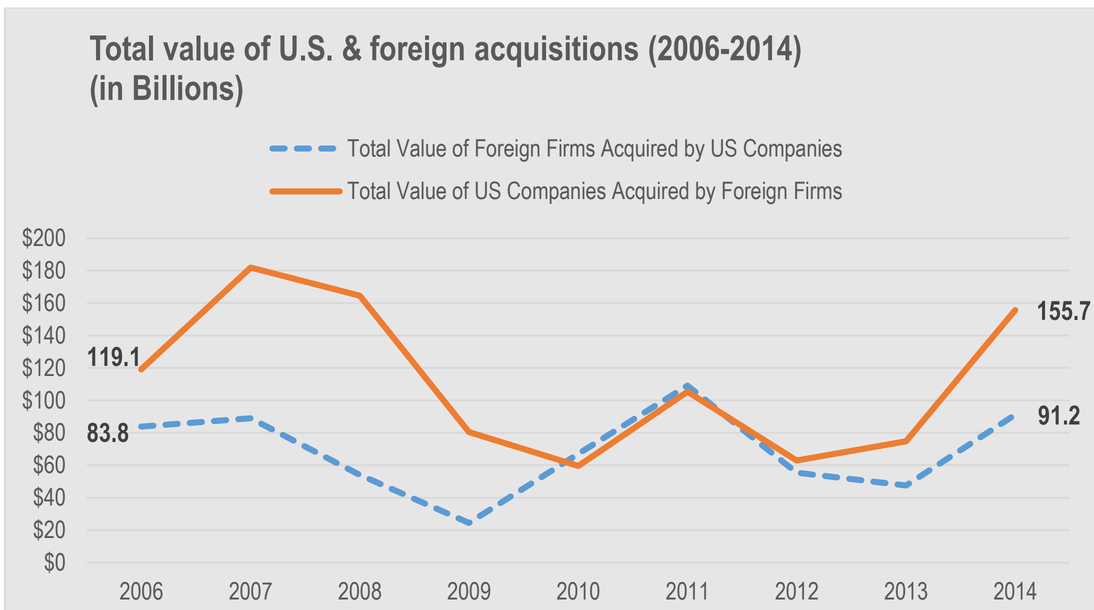
U.S. Bureau of Economic Analysis, “Corporate Profits After Tax (without IVA and CCAdj) [CP]/ Gross Domestic Product [GDP],” retrieved from FRED, Federal Reserve Bank of St. Louis. https://research.stlouisfed.org/fred2/graph/?g=1Pik

Congressional Budget Office, “Public Spending on Transportation and Water Infrastructure, 1956 to 2014,” Exhibit 3 (March 2, 2015). https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/49910-Infrastructure_FigureData_0.xlsx

FIGURES 13 + 14

No Evidence Foreign Companies Are Buying Up U.S. Firms





A major concern raised by U.S. corporations demanding lower tax rates is that they have become takeover targets by foreign companies that face a lower tax rate. But the number of U.S. acquisitions of foreign companies and the number of foreign acquisitions of U.S. companies have remained virtually the same for the last 12 years. The value of U.S. and foreign acquisitions have fluctuated but have also followed historical patterns.

Source: Joint Committee on Taxation, *Present Law and Selected Policy Issues in the US Taxation of Cross- Border Income* (March 17, 2015), Tables 3 and 4, pp. 74-75. http://1.usa.gov/1OOEhoA

FIGURE 15

Corporations Avoid $90 Billion a Year in U.S. Taxes Due to "Deferral"

TAX EXPENDITURE ESTIMATES FOR DEFERRAL & ACTIVE FINANCING EXCEPTION ($ BILLIONS)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-24	
JCT - Deferral	82.1	82.7	84.5	85.3	86.1	86.9	87.7	88.6	89.4	90.3	**863.6**	2019 on by previous trend
CBO - AFE*	4.5	10.0	7.1	7.1	7.2	7.3	7.4	7.7	8.0	8.2	74.5	assuming extension
Subtotal	86.6	92.7	91.6	92.4	93.3	94.2	95.1	96.3	97.4	98.5	**$938 billion**	
OMB 2015												
Deferral	64.6	67.8	71.2	74.7	78.5	82.4	86.5	90.8	95.4	100.2	**812.0**	
AFE*	4.0	4.1	7.0	7.4	7.7	8.1	8.5	8.9	9.4	9.9	**75.0**	assuming extension
Subtotal											**$887 billion**	
Average Total											**$913 billion**	

***AFE stands for Active Finance Exception which allows for deferral on the profits from offshore banking and finance.**

Sources

Joint Committee on Taxation (2014)

Congressional Budget Office (2015)

Office of Management and Budget (2015)

Corporations are able to accumulate offshore profits without paying U.S. taxes on them because of a loophole known as "deferral." It lets companies defer paying taxes on income earned overseas indefinitely, as long as they claim it is permanently reinvested offshore. Repealing deferral would raise about $900 billion over 10 years -- $90 billion a year. It would also eliminate some incentives to ship jobs offshore, end incentives to shift profits offshore and make the tax system more equitable so that multinational corporations no longer pay a tax rate that is much lower than the rate domestic firms pay.

Sources:

Joint Committee on Taxation, Estimates of Federal Tax Expenditures for FY 2014-2018, p. 22. The JCT estimate is for 2014 through 2018, which has been projected through 2024. https://www.jct.gov/publications.html?func=startdown&id=4663

Congressional Budget Office, An Update to the Budget and Economic Outlook: 2015 to 2025, See Tab 12: Expiring Provisions. http://1.usa.gov/1iuLxcF

Office of Management and Budget, FY2016 Analytical Perspectives of the U.S. Government https://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/spec.pdf

APPENDIX A

Unrepatriated Foreign Profits of Top 50 Corporations, 2014

($ Millions)

Company	2014	State Headquarters
Apple	157,800	California
General Electric	119,000	Connecticut
Microsoft	92,900	Washington
Pfizer	74,000	New York
International Business Machines	61,400	New York
Merck	60,000	New Jersey
Johnson & Johnson	53,400	New Jersey
Cisco Systems	52,700	California
Exxon Mobil	51,000	Texas
Google	47,400	California
Total Top 10	**771,614**	**36% of 2,149,307**
Procter & Gamble	44,000	Ohio
Citigroup	43,800	New York
Hewlett-Packard	42,900	California
PepsiCo	37,800	New York
Chevron	35,700	California
Coca-Cola	33,300	Georgia
Oracle	32,400	California
J.P. Morgan Chase & Co.	31,100	New York
Amgen	29,300	California
United Technologies	28,000	Connecticut
Eli Lilly	25,700	Indiana
Qualcomm	25,700	California
Goldman Sachs Group	24,880	New York
Bristol-Myers Squibb	24,000	New York
Intel	23,300	California
Abbvie	23,000	Illinois
Abbott Laboratories	23,000	Illinois
Wal-Mart Stores	21,400	Arkansas
Medtronic	20,529	Minnesota
Dow Chemical	18,037	Michigan
Caterpillar	18,000	Illinois
DuPont	17,226	Delaware
Bank of America Corp.	17,200	North Carolina
Gilead Sciences	15,600	California
McDonald's	15,400	Illinois
Honeywell International	15,000	New Jersey
Baxter International	13,900	Illinois
Kraft Foods	13,200	Illinois
Eaton	12,500	Ohio
Danaher	11,800	District of Columbia
EMC	11,800	Massachusetts
3M	11,200	Minnesota
Liberty Global	11,100	Colorado
Praxair	10,400	Connecticut
Corning	10,300	New York
Berkshire Hathaway	10,000	Nebraska
Occidental Petroleum	9,900	California
American Express	9,700	New York
Archer Daniels Midland	8,600	Illinois
Kimberly-Clark	8,600	Texas
Total Top 50	**1,610,886**	**75% of 2,149,307**

Source: Citizens for Tax Justice, *Dozens of Companies Admit Using Tax Havens* (April 1, 2015). http://ctj.org/ctjreports/2015/04/dozens_of_companies_admit_using_tax_havens_1.php#.Ven5KBHBzGc

APPENDIX B: Data for Figures 10 to 12

Fiscal Year	Corporate Taxes as a Percentage of Federal Revenue	Corporate Taxes as a Percentage of GDP	Corporate Profits as a Percentage of GDP
1952	32.1%	5.9%	6.0%
1953	30.5%	5.6%	5.9%
1954	30.3%	5.4%	5.9%
1955	27.3%	4.4%	6.9%
1956	28.0%	4.8%	6.8%
1957	26.5%	4.6%	6.3%
1958	25.2%	4.2%	5.4%
1959	21.8%	3.4%	6.2%
1960	23.2%	4.0%	5.7%
1961	22.2%	3.8%	5.5%
1962	20.6%	3.5%	5.8%
1963	20.3%	3.5%	6.0%
1964	20.9%	3.5%	6.3%
1965	21.8%	3.6%	7.0%
1966	23.0%	3.8%	6.9%
1967	22.8%	4.1%	6.3%
1968	18.7%	3.2%	6.2%
1969	19.6%	3.7%	5.6%
1970	17.0%	3.1%	4.8%
1971	14.3%	2.4%	5.2%
1972	15.5%	2.6%	5.7%
1973	15.7%	2.7%	6.7%
1974	14.7%	2.6%	7.0%
1975	14.6%	2.5%	6.1%
1976	13.9%	2.3%	7.0%
1977	15.4%	2.7%	7.4%
1978	15.0%	2.6%	7.9%
1979	14.2%	2.6%	8.0%
1980	12.5%	2.3%	6.8%
1981	10.2%	1.9%	6.0%
1982	8.0%	1.5%	5.0%
1983	6.2%	1.0%	5.0%
1984	8.5%	1.4%	5.0%
1985	8.4%	1.4%	4.4%
1986	8.2%	1.4%	3.4%
1987	9.8%	1.8%	4.1%
1988	10.4%	1.8%	4.7%
1989	10.4%	1.9%	4.3%
1990	9.1%	1.6%	4.3%

1991	9.3%	1.6%	4.7%
1992	9.2%	1.6%	4.8%
1993	10.2%	1.7%	4.9%
1994	11.2%	2.0%	5.6%
1995	11.6%	2.1%	6.1%
1996	11.8%	2.2%	6.3%
1997	11.5%	2.1%	6.4%
1998	11.0%	2.1%	5.3%
1999	10.1%	1.9%	5.3%
2000	10.2%	2.0%	4.7%
2001	7.6%	1.4%	4.6%
2002	8.0%	1.4%	5.4%
2003	7.4%	1.2%	6.3%
2004	10.1%	1.6%	7.7%
2005	12.9%	2.2%	9.5%
2006	14.7%	2.6%	9.9%
2007	14.4%	2.6%	9.0%
2008	12.1%	2.1%	7.3%
2009	6.6%	1.0%	8.3%
2010	8.9%	1.3%	9.8%
2011	7.9%	1.2%	9.2%
2012	9.9%	1.5%	10.4%
2013	9.9%	1.6%	10.2%
2014	10.6%	1.9%	9.8%

Sources:

Taxes: Office of Management and Budget, "Historical Budget Tables, Table 2.1: Receipts by Source 1930-2020, 2.2: Percentage Composition of Receipts by Source 1934-2020, and Table 2.3: Receipts by Source as Percentages of GDP." https://www.whitehouse.gov/omb/budget/Historicals.

Profits: U.S. Bureau of Economic Analysis, "Corporate Profits After Tax (without IVA and CCAdj) [CP]/Gross Domestic Product [GDP]," retrieved from FRED, Federal Reserve Bank of St. Louis. https://research.stlouisfed.org/fred2/graph/?g=1Pik