SUMMARY OF RESEARCH ON U.S. EFFECTIVE CORPORATE TAX RATES

The following is excerpted from a Sept. 25, 2015 letter to Congress by 24 international tax experts.

Below is summarized some of the best scholarly research showing how the current system ensures that U.S. firms, especially multinationals, pay relatively low effective tax rates, compared with their competitors, many of which have territorial tax systems:

Effective Tax Rates for All U.S. Corporations

- U.S. Government Accountability Office: Profitable U.S. corporations paid U.S. federal income taxes of about 13% of their pretax worldwide income in 2010, the most recent year for which data are available. The effective tax rate was about 17% when foreign and state and local income taxes are included.[1]
- Gabriel Zucman (University of California at Berkeley): In 2013, the effective U.S. corporate tax rate was 15% for taxes paid to the U.S. government and 19% for taxes paid to U.S. and foreign governments. Out of the roughly 10-point decline in effective tax rates between 1998 and 2013, about two-thirds or more of the decline is attributable to increased profit-shifting to low-tax jurisdictions.[2]
- Citizens for Tax Justice: A survey of 288 U.S. corporations, which included most of the Fortune 500 corporations that were profitable each year from 2008 through 2012, found that they paid an average effective federal tax rate of just 19.4% over that period. Of 125 U.S. corporations that had significant foreign profits, two-thirds (82) paid a higher effective rate to foreign governments than they paid to the United States on their U.S. profits. Moreover, 26 profitable corporations – including General Electric, Boeing, Priceline.com, and Verizon – paid no federal income taxes over the five-year period.[3]

Effective Tax Rates for U.S. Multinational Corporations, including in Tax Havens

- Harry Grubert, U.S. Department of the Treasury: About 80% of all the foreign income of U.S.-based multinationals was taxed at a 15.9% rate in 2004, down from a rate of 21.3% in 1996.[4]
- IRS and Congressional Budget Office researchers: The average effective tax rate of all U.S. corporate offshore subsidiaries, known as controlled foreign corporations (CFCs), was just 15.6% in 2006. By comparison, the average tax rate on taxable income for all U.S. corporations was 27.3%. Two industries – Information and Finance and Insurance – that are pushing the hardest for international tax reform had effective tax rates on offshore profits of just 15.3% and 11.2%, respectively.[5]
- Harry Grubert (Treasury Department) and Rosanne Altshuler (Rutgers University): 54% of earnings of known U.S. CFCs were taxed at an effective foreign rate of 15% or less in 2006; 46.3% of earnings of U.S. CFCs were taxed at an effective foreign rate of 10% or less in 2006.[6]

- Reuven Avi-Yonah (University of Michigan) and Yaron Lahav (Ben Gurion University): The effective tax rate paid by the 100 largest U.S. multinational corporations was about 30% on average from 2000 to 2010, whereas the 100 largest European multinational firms paid an effective tax rate of about 34%. This study's findings are in stark contrast to a study by PricewaterhouseCoopers that was funded by and is heavily promoted by industry.[7]
- Gabriel Zucman (University of California at Berkeley): In 2013, 55% of the $2.1 trillion in U.S. profits that are offshore were in tax-haven countries. Firms paid just a 3% tax rate on these profits.[8]
- Kimberly Clausing (Reed College): In 2011, nearly half of all U.S. foreign profits (46.5%) were held in just seven tax-haven countries with effective tax rates averaging less than 6.5%.[9]
- Citizens for Tax Justice: In 2010, U.S. corporations reported to the IRS that the effective tax rate they paid on their profits in 12 tax havens was only 7%.[10]
- Credit Suisse: In 2015, 69 disclosing U.S. corporations out of the 310 Fortune 500 companies holding $2.1 trillion in unrepatriated offshore profits have paid an average tax rate of 10% on their share of those profits, which means most of the earnings are likely in tax havens. Moreover, just 43 companies hold 70% of those offshore profits.[11]
- Citizens for Tax Justice: In 2015, 57 disclosing U.S. corporations out of the 304 Fortune 500 companies holding $2.1 trillion in profits offshore have paid an average tax rate of just 6.3% on their share of those profits, which means most of the money is likely in tax havens.[12]

Lower Tax Rates Have Little Relationship to Companies Being More Internationally Competitive or Increasing Growth

- Harry Grubert (Treasury Department): An analysis of nearly 800 large nonfinancial U.S.-based multinational corporations found that "[L]ower effective foreign tax rates do not seem to be important contributors to worldwide growth. The importance of low tax burdens on foreign income for U.S. worldwide 'competitiveness' does not seem to have much empirical support."[13]
- Congressional Research Service: "Because of the factors that constrain capital flows, estimates for a [corporate tax] rate cut from 35% to 25% suggest a modest positive effect on wages and output: an eventual one-time increase of less than *two-tenths of 1% of output*. Most of this output gain is not an increase in national income because returns to capital imported from abroad belong to foreigners and the returns to U.S. investment abroad that comes back to the United States are already owned by U.S. firms."[14] [Emphasis added]

Endnotes

[1] Government Accountability Office, *Corporate Income Tax: Effective Tax Rates Can Differ Significantly from the Statutory Rate*, GAO publication 13-520 (May 30, 2013) at 1. http://gao.gov/products/GAO-13-520
[2] Gabriel Zucman (Zucman), Journal of Economic Perspectives, *Taxing Across Borders: Tracking Personal Wealth and Corporate Profits* (Fall 2014), Figure 5 at 132-133. http://gabriel-zucman.eu/files/Zucman2014JEP.pdf

[3] Citizens for Tax Justice, *The Sorry State of Corporate Taxes: What Fortune 500 Firms Pay (or Don't Pay) in the USA And What they Pay Abroad — 2008 to 2012* (February 2014). http://ctj.org/ctjreports/2014/02/the_sorry_state_of_corporate_taxes.php#.VeX4W_lViko

[4] Harry Grubert, Office of Tax Analysis, Department of the Treasury, Working Paper 103, *Foreign Taxes and the Growing Share of U.S. Multinational Company Income Abroad: Profits, Not Sales, are Being Globalized* (February 2012) Appendix B, Table B1, at 51. http://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/OTA-W2012-103-Multinational-Income-Globalized-Feb-2012.pdf

[5] Melissa Costa (IRS) & Jennifer Gravelle (Congressional Budget Office), *Taxing Multinational Corporations: Average Tax Rates*, 65 Tax L. Rev. 391 (2012), Table 1 at 4. http://www.americantaxpolicyinstitute.org/pdf/Costa-Gravelle%20paper.pdf

[6] Harry Grubert and Rosanne Altshuler, *Fixing the System: An Analysis of Alternative Proposals for the Reform of International Tax*, 66 Nat'l Tax J. 671, Table 3 at 699 (Sept. 2013). https://www.law.upenn.edu/live/files/3076-grubert-international-taxation

[7] Reuven S. Avi-Yonah (University of Michigan Law School) and Yaron Lahav (Ben Gurion University of the Negev), *The Effective Tax Rate of the Largest US and EU Multinationals* (October 24, 2011), Table 1 at 381. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1949226

[8] Zucman, Figure 2 at 128-130.

[9] Kimberly A. Clausing (Clausing), *The Nature and Practice of Capital Tax Competition* (April 5, 2015), at 10. http://ssrn.com/abstract=2489224

[10] Citizens for Tax Justice, "American Corporations Tell IRS the Majority of Their Offshore Profits Are in 12 Tax Havens" (March 27, 2014). http://ctj.org/ctjreports/2014/05/american_corporations_tell_irs_the_majority_of_their_offshore_profits_are_in_12_tax_havens.php#.VgHjit9Viko

[11] Credit Suisse, *Parking A-Lot Overseas* (March 17, 2015), Exhibit 13 at 16. https://doc.research-and-analytics.csfb.com/docView?language=ENG&format=PDF&source_id=em&document_id=1045617491&serialid=jHde13PmaivwZHRANjglDIKxoEiA4WVARdLQREk1A7g%3D

[12] Citizens for Tax Justice, "Dozens of Companies Admit Using Tax Havens." CTJ calculates that the average implied tax rate of these 57 companies if they repatriated their profits would be 28.7%, which means their average reported tax rate paid on offshore profits to foreign governments was 6.3% (out of 35%). http://ctj.org/ctjreports/2015/04/dozens_of_companies_admit_using_tax_havens_1.php#.VeCvZPlViko

[13] Harry Grubert, Office of Tax Analysis, The Department of the Treasury, Working Paper 103, *Foreign Taxes and the Growing Share of U.S. Multinational Company Income Abroad: Profits, Not Sales, are Being Globalized* (February 2012), at 25. http://www.treasury.gov/resource-center/tax-policy/tax-analysis/Documents/OTA-W2012-103-Multinational-Income-Globalized-Feb-2012.pdf

[14] Jane G. Gravelle, Congressional Research Service, *International Corporate Tax Rate Comparisons and Policy Implications* (January 6, 2014), Summary. http://www.fas.org/sgp/crs/misc/R41743.pdf