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# WE ARE THE 22.8 PERCENT:

Analysis of tax rates paid by the S&P 500.

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**Complete data set also available for download**

"In this world nothing can be said to be certain, except death and taxes."

*— Benjamin Franklin*

"That still leaves a lot of wiggle room for how much taxes we're talking about. Let's put some numbers around it."

*— Calcbench*

## Introduction

The United States is known for having one of the highest statutory corporate income tax rates (that is, the official tax rate set by law) in the world: 35 percent.

In reality, most large U.S. companies pay taxes at a rate substantially lower than the statutory rate. That's thanks to various exemptions and credits in the federal tax code that companies claim; as well as by companies keeping overseas earnings held in overseas accounts, rather than bringing that income back to the United States, where it would face higher tax rates.

The art of claiming credits, holding income overseas, and paying lower taxes is known as *tax management.* All companies practice it, and the idea is nothing new. The challenge for financial analysts is that unraveling the details of tax management—to trace how companies go from a statutory tax rate of 35 percent, to the much lower rates they really pay—has been a complex, painstaking task.

This paper, a joint project of Calcbench and Radical Compliance, explores the tax management practices among most of the S&P 500 to see how those efforts lower tax rates and increase net income. We examined the various tax credits S&P 500 companies claim, how large those credits are in dollar terms, and how much those credits nudge profit growth to higher margins.

For example, we found that **the overall tax rate for the S&P 500 in 2012-2016 was 22.8 percent**—one-third lower than the statutory rate of 35 percent, and below the 25 percent rate often cited in Washington as a possible new statutory rate if tax reform is enacted. Dozens of firms had tax rates below 15 percent in 2016, lower than even what President Trump has suggested for a new statutory rate.

We also compared companies' earnings before taxes and income taxes actually paid, and **calculated an income tax deficit of $795.4 billion for the same five-year period:** taxes that would have been paid had the companies used the full 35 percent rate, but instead were adjusted away thanks to credits, deductions, and other tax management strategies.

## Overall Tax Rates

In our first analysis, we looked year by year, 2012-2016, at all S&P 500 firms that made a profit in that year. Companies that made no profit were excluded because typically they would pay no income tax in that year. (In rare instances, some companies with no profit still did pay income tax, due to extenuating circumstances.) In every year, however, the population of profit-making companies was at least 90 percent of the whole S&P 500, so we believe these trends to be valid.

We examined each company's earnings before taxes, and then multiplied that amount by 0.35 to determine the taxes the company would owe at the 35 percent statutory rate. We then examined each company's taxes actually paid, and divided that amount into earnings before taxes to calculate the company's true tax rate. We also calculated the difference between theoretical taxes owed and actual taxes paid, to calculate the "implied tax deficit"— the amount corporations would have paid, if they all paid at the full 35 percent rate.

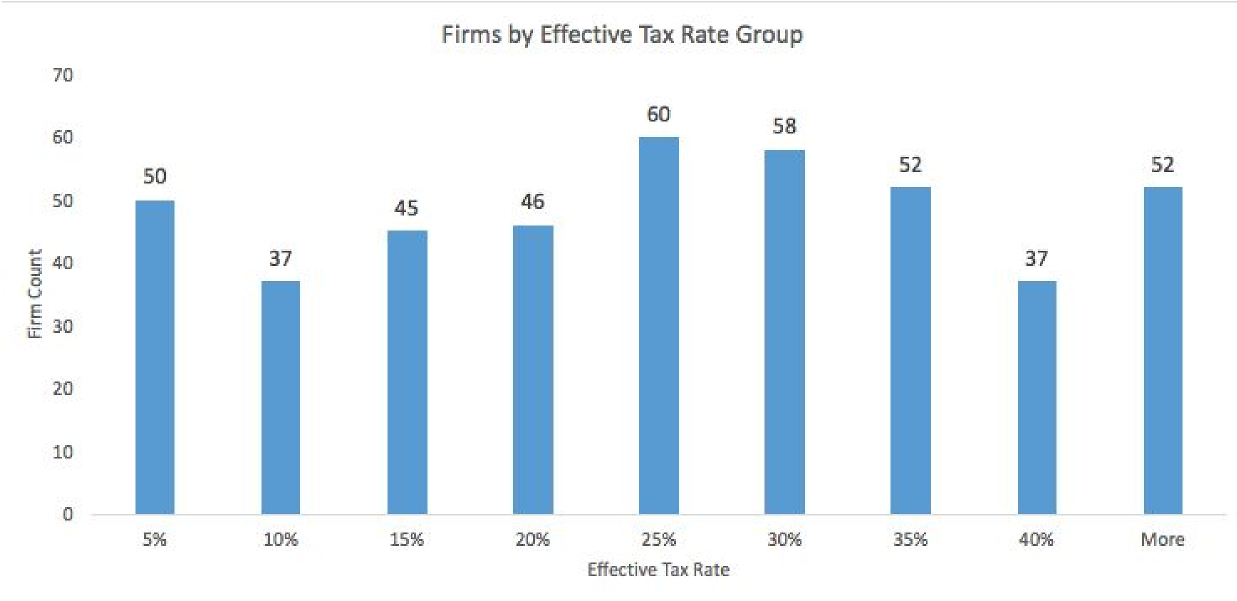
The results are as follows:

| Year | Cos. | Earnings Before Taxes | Theoretical Tax Owed | Income Tax Paid | Implied Tax Deficit | Tax Rate |
|---|---|---|---|---|---|---|
| 2012 | 462 | $1,214,295,432,000 | $425,003,401,200 | $285,656,794,000 | -$139,346,607,200 | 23.52% |
| 2013 | 472 | $1,336,082,712,000 | $467,628,949,200 | $302,259,566,000 | -$165,369,383,200 | 22.62% |
| 2014 | 487 | $1,335,453,220,000 | $467,408,627,000 | $328,277,287,000 | -$139,131,340,000 | 24.58% |
| 2015 | 465 | $1,325,146,843,000 | $463,801,395,050 | $304,212,437,000 | -$159,588,958,050 | 22.96% |
| 2016 | 451 | $1,308,869,656,000 | $458,104,379,600 | $266,068,080,000 | -$192,036,299,600 | 20.32% |
| **Overall** | | **$6,519,847,863,000** | **$2,281,946,752,050** | **$1,486,474,164,000** | **-$795,472,588,050** | **22.80%** |

In other words, if all companies in the sample paid the full 35 percent statutory rate, that would bring the federal treasury, on average, another $159.1 billion annually over the last five years. If they were a country unto themselves, their 22.8 percent rate would put them squarely in the middle of tax rates imposed by the countries in the Organization of Economic Cooperation and Development: 17th out of 35.

### Distribution of Tax Rates

Next we examined corporate taxes paid in 2016 in detail. Among 451 S&P 500 firms that earned a profit in 2016, they reported a wide range of tax rates—both well below and above the statutory 35 percent rate. See Fig. 1, on next page.




In other words, 40 percent of our sample population already paid taxes at rates below 25 percent—the figure often cited as a possible new statutory tax rate for tax reform. Conversely, 29.8 percent paid the full 35 percent or more.

Among the 10 firms ranked by largest pre-tax income (that is, earnings before taxes), **the average tax rate for 2016 was 17.5 percent.** Only one, Verizon Communications, paid taxes at a rate above the statutory 35 percent; three paid at rates below 10 percent. See Table 2, below.

| Company | Revenue | Pre-Tax Income | Income Taxes Paid | Tax Rate |
|---|---|---|---|---|
| Apple | $215,639,000,000 | $61,372,000,000 | $10,444,000,000 | 17.02% |
| JP Morgan Chase | $90,307,000,000 | $34,536,000,000 | $2,405,000,000 | 6.96% |
| Berkshire Hathaway | $223,604,000,000 | $32,744,000,000 | $4,719,000,000 | 14.41% |
| Wells Fargo | $84,497,000,000 | $32,120,000,000 | $8,446,000,000 | 26.30% |
| Bank Of America | $83,701,000,000 | $25,153,000,000 | $1,633,000,000 | 6.49% |
| Alphabet Inc. | $90,272,000,000 | $24,150,000,000 | $1,643,000,000 | 6.80% |
| Microsoft Corp | $89,950,000,000 | $23,149,000,000 | $2,400,000,000 | 10.37% |
| Altria Group | $25,744,000,000 | $21,852,000,000 | $4,664,000,000 | 21.34% |
| Citigroup | $62,893,000,000 | $21,477,000,000 | $4,359,000,000 | 20.30% |
| Verizon | $125,980,000,000 | $20,986,000,000 | $9,577,000,000 | 45.64% |
| **AVERAGE** | **$109,258,700,000** | **$29,753,900,000** | **$5,029,000,000** | **17.56%** |

**Lowest Rates**

Numerous firms paid taxes at *negative* rates in 2016. That situation arises when, for example, a company claims so many credits or deductions in one year, that the company can carry them back to a previous year and receive a rebate for taxes paid back then. Or a company might seek a tax position with the IRS but *not* include it in SEC filings, since a final ruling from the IRS is still pending. If the IRS later does grant the claim, the company can then apply it to the next year's SEC filings, which might result in a negative rate.

We have excluded companies with negative rates in our discussion here, since they often arise under unusual, one-time circumstances. A company might have a negative rate one year thanks to a favorable IRS ruling, but in no other years; or the causes of negative rates might differ from one year to the next.

Real estate investment trusts also have low tax rates relative to other industries, because by law they are required to pay out at least 90 percent of their income to shareholders. On a practical basis, that means REITs are over-represented in any list of lowest tax rates. In 2016, for example, five of the 10 firms with the lowest tax rates above 0 percent were REITs. (See Table 3, below; REITs in bold.)

| Firm | Revenue | Pre-Tax Income | Income Taxes Paid | Tax Rate |
|---|---:|---:|---:|---:|
| Oneok Inc. | $8,920,934,000 | $957,956,000 | $361,000 | 0.04% |
| **Federal Realty Trust** | $801,591,000 | $226,425,000 | $296,000 | 0.13% |
| **Duke Realty Corp** | $902,244,000 | $312,682,000 | $600,000 | 0.19% |
| **Realty Income Corp** | $1,103,172,000 | $1,838,413,000 | $3,600,000 | 0.20% |
| Kinder Morgan Inc. | $13,058,000,000 | $1,638,000,000 | $4,000,000 | 0.24% |
| Pultegroup Inc. | $7,668,476,000 | $859,829,000 | $2,743,000 | 0.32% |
| **Equity Residential** | $2,425,800,000 | $416,612,000 | $1,494,000 | 0.36% |
| United Continental Holdings | $36,556,000,000 | $3,819,000,000 | $14,000,000 | 0.37% |
| American Airlines Group Inc. | $40,180,000,000 | $4,299,000,000 | $16,000,000 | 0.37% |
| **GGP Inc.** | $2,346,446,000 | $1,026,004,000 | $4,150,000 | 0.40% |
| **AVERAGE** | **$11,396,266,300** | **$1,539,392,100** | **$4,724,400** | **0.26%** |

If we strip out REITs from the list of lowest tax rates above zero, the 10 firms with the lowest rates are as show in Table 4, next page.

| Firm | Revenue | Pre-Tax Income | Income Taxes Paid | Tax Rate |
|---|---|---|---|---|
| Oneok Inc. | $8,920,934,000 | $957,956,000 | $361,000 | 0.04% |
| Kinder Morgan Inc. | $13,058,000,000 | $1,638,000,000 | $4,000,000 | 0.24% |
| Pultegroup Inc. | $7,668,476,000 | $859,829,000 | $2,743,000 | 0.32% |
| United Continental | $36,556,000,000 | $3,819,000,000 | $14,000,000 | 0.37% |
| American Airlines | $40,180,000,000 | $4,299,000,000 | $16,000,000 | 0.37% |
| Huntington Bancshares | $3,328,247,000 | $919,762,000 | $4,979,000 | 0.54% |
| Wynn Resorts Ltd. | $4,466,297,000 | $310,597,000 | $2,040,000 | 0.66% |
| E Trade Financial Corp. | $1,941,000,000 | $838,000,000 | $6,000,000 | 0.72% |
| Nvidia Corp. | $6,910,000,000 | $1,905,000,000 | $14,000,000 | 0.73% |
| Incyte Corp. | $1,105,719,000 | $107,404,000 | $927,000 | 0.86% |
| **AVERAGE** | **$12,413,467,300** | **$1,565,454,800** | **$6,505,000** | **0.49%** |

**CONCLUSION**

Overall, most large U.S. companies don't pay anywhere near the 35 percent statutory tax rate, the number cited in Washington as evidence that U.S. companies face the highest income taxes in the world. After accounting for various tax management strategies, most companies seem to pay taxes at rate between 20 and 25 percent. Many pay considerably lower than that.

Companies can only achieve those lower rates thanks to aggressive tax deductions, exemptions, and other financial maneuvers—and the art of claiming all those items does carry a cost in manpower and consulting. The question is whether those tax management costs, *plus* the lower taxes companies pay, equal what companies would pay at the full 35 percent statutory rate *without* any tax management, deductions, or other exemptions.

If Congress simply cuts statutory tax rates without reforming credits, deductions, and other tax management techniques, businesses will simply pay less in taxes, with unclear consequences for the federal deficit. If Congress cuts statutory rates to 20 or 25 percent, and does also eliminate various deductions and tax management techniques, that would simplify the tax code for corporations without any adverse risk of higher deficits.

Future papers will examine tax reconciliation practices more closely.

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