

Should Big Corporations Be Exempt from Helping Pay for the War on Terrorism?

Astonishingly, a number of congressional leaders are trying to take advantage of the horrible events of September 11 and our nation's current economic woes to promote a variety of big corporate tax cuts. One of the most egregious proposals being discussed would repeal the corporate alternative minimum tax. Proponents seem to believe that allowing some very large, profitable companies to pay little or nothing in income taxes would be beneficial to our economy. This is an indefensible position.

The corporate alternative minimum tax (AMT) was established in 1986 to try to assure that profitable corporations pay at least something in income taxes no matter how many tax breaks they otherwise take advantage of. At the time, there was general agreement that it was grossly unfair to permit major corporations to shift most or all of their tax obligations onto ordinary American taxpayers.

The AMT did its job well for a number of years, but unfortunately, laws enacted in 1993 and 1997 have sharply weakened it. In 1998, the IRS reports that corporations paid only \$3.3 billion in AMT—compared to \$8.1 billion in corporate AMT paid in 1990. All told, only 18,360 corporations made AMT payments in 1998, out of 4.8 million corporate tax returns filed that year.

A recent study of 250 of the nation's largest corporations found that in 1998, 23 of those companies reported AMT payments.¹ (The \$1.1 billion in AMT these companies paid represented more than a third of total AMT payments for all corporations in 1998.)

Including the AMT, these 23 companies paid only 10.1 percent of their \$20.5 billion in pretax U.S. profits in income taxes in 1998. Without the AMT, the tax rate on these companies would have been a minuscule 4.5 percent.

- For example, General Electric reported \$9.7 billion in pretax U.S. profits in 1998. Including \$549 million it paid in AMT, GE's total federal income tax amounted to only 8 percent of those profits. Without the AMT, GE's tax rate would have been only 2.3 percent.
- Texaco reported a *negative* federal income tax of \$68 million in 1998. That's bad enough, but without the AMT, Texaco's tax rebates would have totaled \$199 million.

The point is that the AMT is hardly a serious burden on American business. Instead, it simply asks large corporations to contribute at least something to support the government that defends them and provides them with a wide range of other essential services (including the tens of billions now being devoted to aid to industries hardest

¹Institute on Taxation and Economic Policy, *Corporate Income Taxes in the 1990s*, Oct. 2000.

hit by the terrorist attacks). In fact, rather than eliminating the AMT, Congress should take steps to make the AMT better serve its original goal of making sure that all large, profitable corporations pay a reasonable amount in taxes.

In the upcoming months and years, our country will spend vast amounts of money and perhaps lives in the war against terrorism. The general public is willing to make the sacrifices that this effort will entail because of its obvious great importance. Repealing the corporate AMT and thus eliminating taxes on some of our wealthiest corporations would be both unfair and gross insulting to America's hardworking, taxpaying families.

23 Large Companies Paying the Alternative Minimum Tax in 1998 (Out of a sample of 250 of America's largest corporations; \$-millions)

Company	1998 US Profit	AMT paid	Total tax with AMT	Tax Rate with AMT	Tax w/o AMT	Tax Rate w/o AMT
General Electric	\$ 9,656.5	\$ 549.0	\$ 771.5	8.0%	\$ 222.5	2.3%
Texaco	182.0	131.0	-67.7	-37.2%	-198.7	-109.2%
Phillips Petroleum	145.0	96.0	-1.1	-0.7%	-97.1	-67.0%
IBM	2,821.0	77.0	752.0	26.7%	675.0	23.9%
UAL	1,247.0	61.0	107.8	8.6%	46.8	3.8%
Amerisource Health	82.0	27.1	8.5	10.4%	-18.6	-22.6%
Alaska Air Group	196.6	27.0	41.3	21.0%	14.3	7.3%
Sprint	977.4	27.0	166.4	17.0%	139.4	14.3%
Praxair	263.7	26.0	47.4	18.0%	21.4	8.1%
Ryder	227.5	18.1	-16.4	-7.2%	-34.5	-15.2%
General Motors	952.0	17.0	-19.0	-2.0%	-36.0	-3.8%
AFLAC	216.2	12.0	24.0	11.1%	12.0	5.5%
Comdisco	181.0	12.0	11.0	6.1%	-1.0	-0.6%
IMC Global	254.0	10.3	26.6	10.5%	16.3	6.4%
Tosco	227.4	10.0	-46.7	-20.6%	-56.7	-25.0%
KN Energy	93.9	9.8	9.2	9.8%	-0.6	-0.7%
State Street	562.0	9.0	15.0	2.7%	6.0	1.1%
Telephone and Data Systems	134.8	7.6	9.8	7.3%	2.2	1.6%
Engelhard	175.4	6.0	39.0	22.2%	33.0	18.8%
Weyerhaeuser	405.0	6.0	-9.5	-2.3%	-15.5	-3.8%
Navistar	400.0	4.0	4.0	1.0%	—	—
Texas Utilities Company	934.0	4.0	174.0	18.6%	170.0	18.2%
Johns Manville	210.9	0.5	24.2	11.5%	23.7	11.2%
23 Corporations with AMT payments	\$ 20,545.4	\$ 1,147.5	\$ 2,071.4	10.1%	\$ 923.9	4.5%

Addendum (IRS data):

Total corporate AMT in 1998	\$ 3,324.8
Number of companies with AMT	18,360

Sources: Institute on Taxation and Economic Policy, *Corporate Income Taxes in the 1990s* (supplement), Oct. 2000; Internal Revenue Service, SOI Bulletin, Spring 2001.