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Corporate Tax Avoidance In the States Even Worse Than Federal

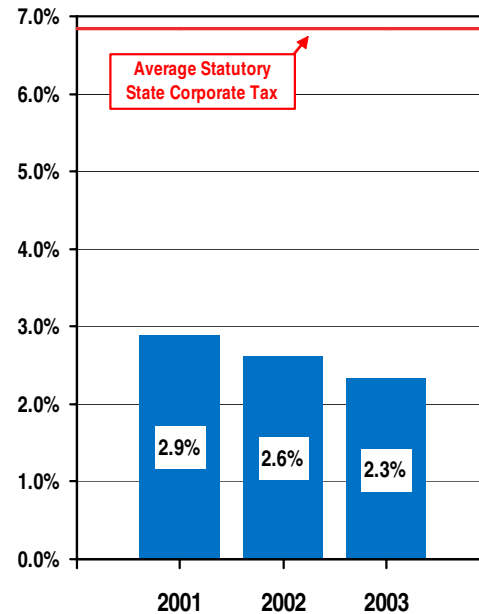
A new analysis of the state corporate income taxes paid by 252 of America's largest and most profitable corporations finds that by 2003, these companies on average failed to include two-thirds of their actual U.S. pretax profits on their state tax returns.

The report, released by Citizens for Tax Justice and the Institute on Taxation and Economic Policy, is a follow-up to the groups' September 2004 study of the federal income taxes paid—or not paid—by these same companies. The original report covered 275 *Fortune 500* corporations. Of those, 252 fully disclosed their state and local income tax payments.

All of the information on state corporate taxes for the companies came from corporate annual reports to shareholders. Here are some of the key facts that the 252 companies' annual reports reveal:

- By 2003, these 252 companies had slashed their state income tax payments to an average of only 2.3 percent of their U.S. profits. Since the average statutory state corporate tax rate is about 6.8 percent (weighted by gross state product), that means that in 2003, **two-thirds of their profits escaped state taxes entirely.**
- **A shocking 71 of the 252 companies managed to pay no state income tax at all in at least one year from 2001 through 2003**—despite telling their shareholders they made \$86 billion in pretax U.S. profits in those no-tax years. Twenty-five of these companies enjoyed multiple no-tax years.
- Some companies, such as Toys “R” Us, AT&T, Boeing, Eli Lilly, Merrill Lynch, and ITT Industries, paid no net state income tax over the full three-year period.
- In 2003 alone, 35 companies paid no state income tax. Another 138 of the companies paid less than half the statutory state corporate tax rate that year.
- Perhaps most striking, if these 252 corporations had paid the 6.8 percent average state corporate tax rate on the almost \$1 trillion in U.S. profits that they reported to their shareholders, they would have paid \$67.1 billion in state corporate income taxes over the 2001-03 period. Instead, they paid only \$25.4 billion. **Thus, these 252 companies avoided a total of \$41.7 billion in state corporate income taxes over the three years.**

Effective State Corporate Tax Rates on 252 Large Corporations, 2001–2003



State Corporate Income Taxes Paid and Avoided by 252 Major Corporations, 2001–2003

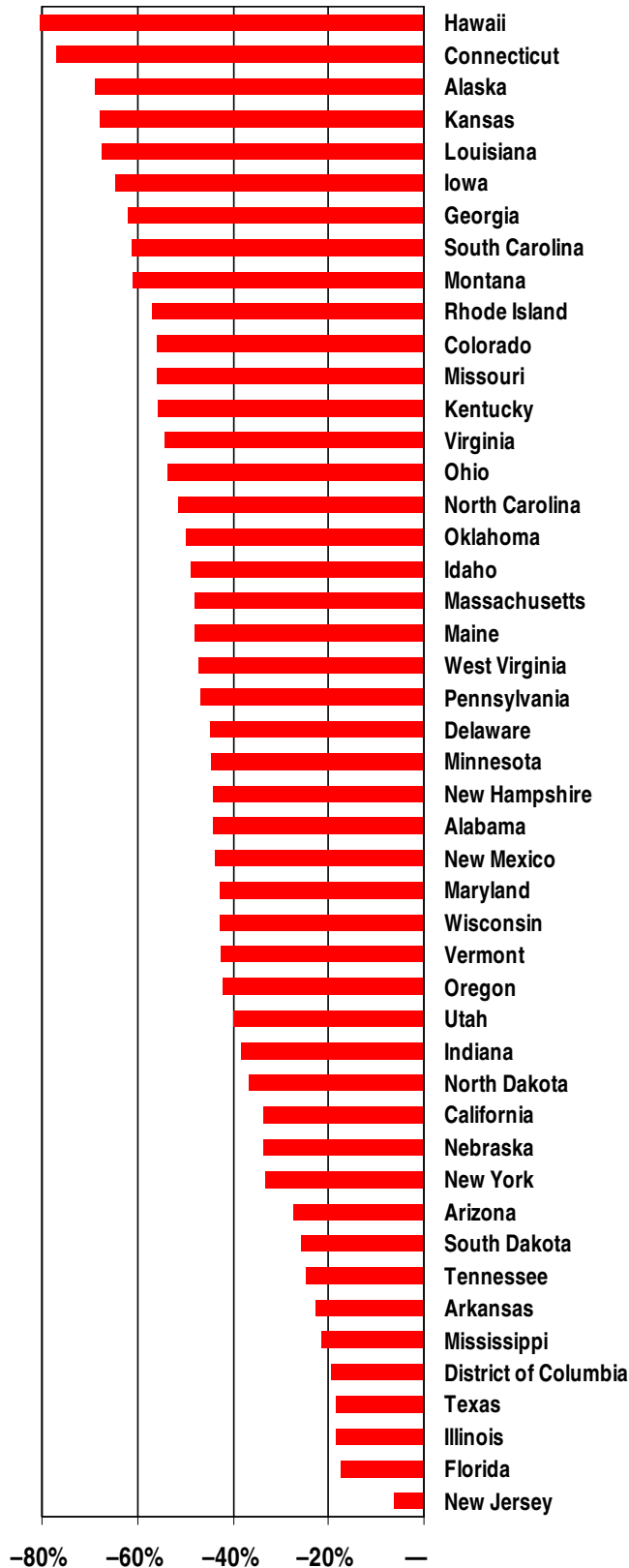
\$-billions	Pretax Profits	Tax Due at 6.8%	Actual Tax Paid	Taxes Avoided
2001	\$ 298.8	\$ 20.5	\$ 8.6	\$ 11.9
2002	314.6	21.5	8.2	13.3
2003	367.1	25.1	8.6	16.5
Three years	\$ 980.6	\$ 67.1	\$ 25.4	\$ 41.7

MORE . . .

71 Corporations Paying No State Income Tax in at Least One Year, 2001–2003 (\$-million)

Company	In No-State-Income-Tax Years			No-Tax Years				Company	In No-State-Income-Tax Years			No-Tax Years				
	Profit	Tax	Rate	2001	2002	2003	#		Profit	Tax	Rate	2001	2002	2003	#	
Manpower	\$ 111	\$ -1	-0.5%	✓	✓	✓	3	BB&T	1,408	-13	-0.9%			✓	1	
Merrill Lynch	8,767	—	—	✓	✓	✓	3	Maytag	184	-2	-0.9%			✓	1	
ITT Industries	815	—	—	✓	✓	✓	3	Suntrust	1,886	-16	-0.8%		✓		1	
Lexmark	740	—	—	✓	✓	✓	3	Cinergy	560	-4	-0.7%		✓		1	
Reebok	58	—	—	✓	✓	✓	3	Yum Brands	665	-4	-0.6%			✓	1	
Ingram Micro	45	-7	-15.1%	✓		✓	2	Consolidated Edison	1,088	-6	-0.6%		✓		1	
Nucor	297	-29	-9.7%		✓	✓	2	NiSource	617	-3	-0.5%		✓		1	
Toys “R” Us	344	-30	-8.7%		✓	✓	2	SBC Communications	8,901	-38	-0.4%			✓	1	
AT&T	5,358	-269	-5.0%		✓	✓	2	Charles Schwab	347	-1	-0.3%		✓		1	
Wesco International	60	-2	-4.0%	✓		✓	2	CenterPoint Energy	802	-2	-0.2%	✓			1	
Boeing	3,162	-110	-3.5%		✓	✓	2	Alltel	1,359	-2	-0.2%		✓		1	
Pitney Bowes	1,082	-26	-2.4%		✓	✓	2	Ikon Office Solutions	197	-0	-0.2%		✓		1	
OGE Energy	335	-7	-2.0%		✓	✓	2	IBM	5,644	—	—	✓			1	
FPL Group	2,200	-43	-2.0%		✓	✓	2	Pfizer	4,088	—	—	✓			1	
Eli Lilly	3,362	-20	-0.6%		✓	✓	2	Amgen	1,947	—	—		✓		1	
Avon	573	-3	-0.6%		✓	✓	2	3M	1,654	—	—		✓		1	
Metlife	4,990	-21	-0.4%	✓	✓		2	Tribune Company	1,408	—	—			✓	1	
Performance Food Group	191	-1	-0.3%	✓		✓	2	Cardinal Health	1,149	—	—	✓			1	
Sears	3,610	-4	-0.1%	✓	✓		2	Apache	918	—	—			✓	1	
General Dynamics	2,538	—	—		✓	✓	2	General Mills	751	—	—	✓			1	
Southwest Airlines	1,101	—	—		✓	✓	2	Time Warner	614	—	—	✓			1	
Boston Scientific	639	—	—		✓	✓	2	Baxter	602	—	—		✓		1	
L-3 Communications	500	—	—	✓	✓		2	New York Times	492	—	—		✓		1	
Praxair	418	—	—	✓		✓	2	McKesson	480	—	—	✓			1	
Advance Auto Parts	289	—	—		✓	✓	2	Marriott International	410	—	—	✓			1	
Dillard’s	18	-2	-9.1%			✓	1	Caterpillar	343	—	—		✓		1	
Ball	113	-8	-6.8%	✓			1	Becton Dickinson	327	—	—			✓	1	
Pepco Holdings	335	-17	-5.1%		✓		1	Dover	212	—	—		✓		1	
Foot Locker	115	-5	-4.4%	✓			1	Rockwell Automation	209	—	—			✓	1	
Brunswick	149	-5	-3.4%		✓		1	Ryder	120	—	—		✓		1	
PPL	416	-9	-2.2%		✓		1	Goodrich	91	—	—			✓	1	
Public Service Enterprise Group	1,341	-28	-2.1%			✓	1	Smith International	63	—	—			✓	1	
Whirlpool	353	-6	-1.7%		✓		1	Valero Energy	44	—	—		✓		1	
Eaton	323	-5	-1.6%	✓			1	Fluor	41	—	—	✓			1	
Principal Group	472	-5	-1.2%	✓			1	Fisher Scientific International	6	—	—	✓			1	
Sara Lee	1,054	-12	-1.1%			✓	1									
								Totals	\$ 85,905	\$ -765	-0.9%					101

Changes in State Corporate Income Taxes as a % of State Gross Product, Fiscal 1989-2003



Note: New York figures are combined state and local.

The low state income taxes paid by the 252 corporations in the study reflect the dramatic decline in state corporate income tax collections since the late 1980s. Since fiscal 1989, total state corporate income taxes have fallen by an average of almost 40 percent as a share of the economy. In many states, the declines were much larger than that, ranging as high as an 80 percent drop in Hawaii.

The report outlines some of the key ways that companies avoid their state tax obligations, and offers a menu of suggestions for how states could reform their laws to curb these abuses.

“The data in our report show in stark terms just how successful large, corporations have become at shirking their tax responsibilities to state and local governments,” said Robert S. McIntyre, director of Citizens for Tax Justice and an author of the study. “The companies have been abetted in this effort by America’s major accounting firms, used heavy lobbying and even threats, and often persuaded state elected officials to become their facilitators, too. As a result, individual taxpayers and purely in-state (usually smaller) businesses are paying a heavy price, in the form of higher taxes, reduced public services and unfair competition.”

“State taxpayers can continue to tolerate this situation,” McIntyre said, “or they can call on their elected representatives to take steps to address it.”

The full report includes detailed tables for all 252 companies sorted alphabetically, by tax rates, and by location of corporate headquarters. It is available at www.ctj.org.