

## Big Foreign-Controlled Firms in U.S. Pay Lower Taxes than American Companies

A new report from the General Accounting Office for Senator Byron Dorgan (D-N.D.) shows that large foreign-controlled corporations doing business in the United States pay considerably less in U.S. corporate income taxes than similarly sized American companies.

According to GAO's analysis, the 15,363 large American companies studied paid an average of \$8.1 million in federal income taxes in 1995. In contrast, the 2,767 foreign-controlled corporations paid an average of only \$4.2 million in federal income taxes that year—only half what the U.S. companies paid. This was true even though the average amount of gross receipts reported by the foreign-controlled companies was actually slightly larger than the amount reported by the American firms.

“As subsidiaries of overseas corporations, foreign-controlled companies doing business in the United States appear to have greater opportunities to manipulate their U.S. taxable income downward,” said Robert S. McIntyre, director of Citizens for Tax Justice. “Paying too much or charging too little in paper transactions with their foreign affiliates is the typical way that multinational companies shift income out of the United States for tax purposes. That is likely to explain much of the discrepancy in tax payments found in the GAO report.”

McIntyre warned that recent acquisitions of U.S. firms by foreign companies, such as the Chrysler-Daimler merger and the soon-to-be-completed \$58 billion takeover of cell-phone giant AirTouch Communications by the British wireless firm Vodafone, may accentuate tax-avoidance problems in the future.

“Chrysler reported \$879 million in federal income tax payments in 1995 and \$963 million in 1996,” McIntyre noted. “One wonders whether that will fall off sharply now that Chrysler is foreign controlled.”

“Likewise, AirTouch paid a total of \$248 million in federal income taxes from 1995 to 1997,” McIntyre noted. “With the recent IRS approval of Vodafone's tax-free takeover of AirTouch, that amount may fall sharply, too.”

The Vodafone takeover of AirTouch was in technical violation of IRS regulations governing tax-free mergers, but the companies requested a waiver of the regulation. The waiver request raised objections from the Communications Workers of America and the AFL-CIO, but was nevertheless approved by the IRS this week.

McIntyre called on Congress and the Clinton administration to explore ways to address multinational tax avoidance problems, in particular by moving toward a simpler, formula approach to allocating multinational taxable profits among countries, rather than the cumbersome “transfer pricing” approach currently in use.

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## Large Corporations filing US Tax Returns in 1995\*

	Number of Returns	Average Gross Receipts (\$-mill.)	Average Income Tax (\$-mill.)	Total Income Taxes (\$-bill.)	% of Total Gross Receipts	% of Total Income Taxes Paid	Income Taxes / Gross Receipts
<b>US-controlled</b>	15,363	\$ 1,562.0	\$ 8.1	\$ 124.6	85.1%	91.5%	1.56%
<b>Foreign-controlled</b>	2,767	1,670.0	4.2	11.6	14.9%	8.5%	0.83%
<b>Totals, large corps.</b>	<b>18,130</b>	<b>\$ 3,232.0</b>	<b>\$ 12.3</b>	<b>\$ 136.3</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1.45%</b>

**NOTE:**

Total 1995 corporate income taxes, all corporations (\$-millions)	\$ 156.4
% of all 1995 corporate income taxes paid by large corporations	87.1%

\*Corporations with assets greater than \$250 million or gross receipts greater than \$50 million.

**Source:** U.S. General Accounting Office, *Foreign- and U.S.-Controlled Corporations That Did Not Pay U.S. Income Taxes, 1989-95* (March 1999).

**ADDENDUM:**

The GAO defined large corporations as those with assets greater than \$250 million or gross receipts greater than \$50 million. Companies meeting this definition paid 87 percent of total federal corporate income taxes in 1995, the year studied. Corporations were classified as foreign-controlled or U.S.-controlled based on who owns the companies' voting stock. In general, the foreign-controlled companies are U.S. subsidiaries of foreign-based corporations.

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Citizens for Tax Justice is a non-partisan tax policy research group based in Washington, DC.