CTJ Citizens for Tax Justice

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Dave Cote, Member of President's Deficit Commission, CEO of Corporate Tax Dodger Honeywell

A key business leader who was appointed to the President's fiscal commission and who is scheduled to appear this morning with several U.S. Senators to address the budget deficit, manages a corporation that has largely avoided paying U.S. taxes, according to public records.

Honeywell International, whose CEO Dave Cote was a member of the National Commission on Fiscal Responsibility and Reform, paid no U.S. corporate income taxes in either 2010 or 2009, despite having U.S. profits exceeding one billion dollars in each year. For example, according to Honeywell's recent filings with the SEC, in 2010, the company reported U.S. profits of $1.2 billion and rather than paying U.S. taxes, it recorded a tax benefit of $482 million, meaning Honeywell expects to receive that amount from the IRS.

Over the previous five years, 2006 through 2010, Honeywell reported net U.S. profits of $8.8 billion but paid a net of just $79 million in U.S. corporate income taxes. That's an effective U.S. tax rate of just 0.9 percent over the five-year period.

As a member of the fiscal commission, Dave Cote voted in favor of a broad plan that would rely on spending cuts to achieve two thirds of its deficit reduction goals and revenue increases to achieve just one third of that goal.[2]

While the details on the tax components of the plan were not entirely clear, sources inside the commission's process have suggested that corporations overall would not pay more in U.S. taxes than they do now.

In his State of the Union address, President Obama called on Congress to reform the corporate income tax "without adding to our deficit."

It is unclear why President Obama has not called on Congress to use corporate tax reform to raise revenue and reduce the deficit. A report issued by the Treasury in 2007, under the Bush administration, concluded that the share of profits paid in taxes is actually lower for U.S.

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[1]Since this was originally published, we learned that Honeywell's tax avoidance was even more successful than we originally thought. For example, we previously wrote, "While the company did report a loss in the U.S. in 2008, this loss does not explain its ability to aggressively drive down its tax rate over several years." We were wrong; Honeywell did not suffer a loss in 2008. We initially believed that they did because in its 2010 report, the company changed its accounting method for pensions, and retroactively restated its pretax profits for 2009 and 2008. The profits reported in their previous reports for 2008 and 2009 reflect reality.

[2]Citizens for Tax Justice, "Statement on the President's Fiscal Commission Plan," December 2, 2010. http://www.ctj.org/pdf/deficitcommissionplan.pdf

corporations than it is on average for corporations of other OECD member nations.[3]

Many analysts have pointed to this finding as evidence that the U.S. should collect more tax revenue from its corporations.[4]

Cote's most recent public comments on the deficit crisis will come just weeks after observers called into question the influence of another corporate CEO, Jeffrey Immelt, after the New York Times reported on the tax avoidance of his company, General Electric.[5] Immelt is the chair of the President's Council on Jobs and Competitiveness, which is to advise the White House on economic policy.

[On the following pages are Honeywell's letter to CTJ in response this press release, and the letter CTJ sent to Honeywell the next day.]

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[3]U.S. Department of the Treasury, "Treasury Conference on Business Taxation and Global Competitiveness: Background Paper," July 23, 2007, page 41. http://www.treasury.gov/press-center/press-releases/Pages/hp500.aspx

[4]For example, see Chuck Marr and Brian Highsmith, "Six Tests for Corporate Tax Reform: Reform Should Help Shrink Long-Term Deficits, Reduce Biases and Preferences in the Tax Code, and Discourage Tax Sheltering," Center on Budget and Policy Priorities, February 28, 2011. http://www.cbpp.org/cms/index.cfm?fa=view&id=3411 See also, Citizens for Tax Justice, "Revenue-Positive Reform of the Corporate Income Tax," January 25, 2011. http://www.ctj.org/pdf/corporatetaxreform.pdf

[5]The organizations Progressives United and MoveOn have circulated an online petition calling for Jeffrey Immelt to step down from his position as chair of the President's Council on Jobs and Competitiveness. http://www.immeltmustgo.com/action/immelt-must-go?sc=immelt_gg1

Honeywell

Robert C. Ferris
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April 12, 2011

Mr. Bob McIntyre
Director
Citizens for Tax Justice
1616 P Street NW, Suite 200
Washington, DC 20036

Dear Mr. McIntyre:

We read with some interest your press release today regarding Honeywell's U.S. corporate tax for 2009 and 2010. If you had taken time to reach out to us in advance, we would have been happy to correct the misunderstandings and misrepresentations contained in your release, and now outlined below.

Regarding Honeywell's U.S. tax liabilities for 2009 and 2010, the company made over $2.7 billion in contributions to its U.S. pension plans since 2009. These contributions were voluntary and made to restore U.S. pension assets that were negatively impacted by the recent recession. Although they are not reflected in the book income of the company in 2009-2010, these pension contributions are deductible for U.S. tax purposes. Also to be noted, President Obama's stimulus programs have allowed companies to expense up to 100% of expenditures for fixed asset additions in 2009 and 2010. In both years, Honeywell actually had a loss in the U.S. because virtually all of the income generated was offset by pension contributions and the expensing of fixed asset additions.

Honeywell adheres to the tax laws of all jurisdictions in which it operates and is subject to ongoing review by tax authorities and is compliant in all respects. Please call me at (973) 455-3388 with any questions.

Sincerely,

Robert C. Ferris
Vice President, External Corporate Communications
Honeywell

CTJ Citizens for Tax Justice

Robert C. Ferris
Vice-President, External Communications
Honeywell
101 Columbia Road, AB-1
Morris Township, N.J. 07928

April 13, 2011

Dear Mr. Ferris:

You wrote to us yesterday (by e-mail):

"Regarding Honeywell's U.S. tax liabilities for 2009 and 2010, the company made over $2.7 billion in contributions to its U.S. pension plans since 2009. These contributions were voluntary and made to restore U.S. pension assets that were negatively impacted by the recent recession. Although they are not reflected in the book income of the company in 2009-2010, these pension contributions are deductible for U.S. tax purposes. Also to be noted, President Obama's stimulus programs have allowed companies to expense up to 100% of expenditures for fixed asset additions in 2009 and 2010. In both years, Honeywell actually had a loss in the U.S. because virtually all of the income generated was offset by pension contributions and the expensing of fixed asset additions."

Your point, as I understand it, is that while Honeywell correctly told its shareholders and the SEC that it made a total of $2.4 billion in U.S. pretax profits in 2009 and 2010, it reported (or will report) net "losses" to the IRS. (I assume that when you wrote "Honeywell actually had a loss in the U.S." you inadvertently left out "for tax purposes.")

Over the two years, these tax "losses" appear to have been generated by (a) about $1.5 billion in extra depreciation tax deductions and (b) $1.7 billion in tax deductions for voluntary pension contributions[1] that are not written off for book purposes because they are not treated as expenses under standard accounting rules,[2] coupled with (c) about $0.2 billion in tax savings from other tax breaks.

So I think we agree on the following: The reason why Honeywell, despite reporting substantial pretax U.S. profits to its shareholders, paid no federal income tax in 2009 or 2010 (or more precisely, paid less than zero) is that it took advantage of legal tax breaks to wipe out its federal income tax liability.

We may disagree, however, about whether these tax breaks should exist.

Thanks for taking the time to write us.

Sincerely,

Robert S. McIntyre
Director, Citizens for Tax Justice

[1]You cite $2.7 billion in voluntary pension contributions from 2009 on, but as you know, $1 billion of those were made in 2011. The total for 2009 and 2010, of course, is $1.7 billion.

[2]These "prepaid" contributions may later be treated as book expenses when and if they are necessary to comply with pension funding rules. At this point in time, however, the contributions are much like a situation where I put $1,000 in a savings account, which I would not treat as a cost but as an investment.