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# 60 of America's biggest companies paid no federal income tax in 2018

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Big companies have long relied on strategies to reduce their tax bills. But the new tax law is making it even easier, with a new analysis finding that 60 profitable Fortune 500 companies paid no taxes on a total of $79 billion of profits earned in 2018.

The companies, which include tech giants such as Amazon and Netflix, should have paid a collective $16.4 billion in federal income taxes based on the Tax Cuts and Jobs Act's 21 percent corporate tax rate, according to the left-leaning Institute on Taxation and Economic Policy. Instead, these corporations received a net tax rebate of $4.3 billion. The analysis is based on the corporations' annual financial reports, which were filed earlier this year to report their 2018 results.

Defenders of the corporate cuts under the tax law that took effect this year, which lowered the rate companies pay to 21 percent from from 35 percent, contend they will plump profits, drive investment and boost economic growth. Opponents say the drop in corporate income tax revenue will grow the deficit and make it harder to fund public programs.

There is no suggestion that companies seeing a dramatic dip in their tax obligations are doing anything against the law — indeed, it is the prospect of already thriving Fortune 500 companies legally reaping large tax windfalls that is giving ammunition to progressive critics and lawmakers. The corporations relied on a range of legal loopholes to erase their tax liabilities, including accelerated depreciation, a tax break that permits companies to write off the cost of their capital investments, ITEP noted.

"The new law cut the statutory tax rate to 21 percent, while leaving intact most of the tax breaks that allowed profitable companies to zero out their income taxes," wrote ITEP senior fellow Matthew Gardner, director of federal Steve Wamhoff and co-authors Mary Martellotta and Lorena Roque, in the report. "The result, unsurprisingly, has been a continued decline in our already-low corporate tax revenues."

Sen. Bernie Sanders, a candidate for the 2020 Democratic presidential nomination, has claimed on Twitter that the $119 Amazon Prime members pay annually for perks, including free two-day shipping, is more than the online retail giant paid in taxes last year.

## Paying their fair share?

Amazon won't pay a cent in federal income tax this year, despite its profits soaring to $11.2 billion in 2018, nearly double the $5.6 billion it earned the previous year, ITEP said. In fact, Amazon claimed a federal income tax rebate of $129 million, the study found. It would be the second year in a row Amazon paid no federal tax, giving the retail giant an effective tax rate of -1 percent.

Amazon has dismissed ITEP's tax analysis and notes that its profit margins on more than $232 billion in revenue last year are in the single digits. "Amazon pays all the taxes we are required to pay in the U.S. and every country where we operate, including paying $2.6 billion in corporate tax [worldwide] and reporting $3.4 billion in tax expense over the last three years," the company said in a statement to CBS MoneyWatch earlier this month.

"Corporate tax is based on profits, not revenues, and our profits remain modest given retail is a highly competitive, low-margin business and our continued heavy investment," an Amazon spokesperson said.

## Single-digit corporate tax rates

Video streaming service Netflix likely paid no U.S. income tax in 2018 either, despite posting a record $845 million U.S. profit, according to ITEP's analysis.

Its 10-K estimates its federal income tax liability at $-22.176 for 2018 — hence ITEP's conclusion that it won't pay the government any money for the year.

"When I say they paid zero, really what I mean is they reported a $22 million income tax rebate, so they have a negative income tax," Gardner said.

Netflix's number is just an estimate. "We don't have access to their actual corporate tax returns so we can never know precisely and fully what they are doing," he said. "But based on the limited disclosures they are required to make in annual reports, it seems pretty clear that they are relying on distinct tax breaks, all of them clearly legal," Gardner said.

Netflix's annual earnings report shows an effective tax rate (after deductions) of 1 percent for the year — referring to taxes paid worldwide. Netflix said it paid $131 million in taxes globally in 2018. "We don't break out U.S. versus foreign in that figure, but there were U.S. taxes paid," a Netflix spokesperson told CBS MoneyWatch.

These companies' single-digit tax rates are startling — given how much lower they are than the already reduced 21 percent imposed by the new law.

So how are big companies legally reducing their exposure to federal income tax? By using a mixture of existing and new tax breaks:

## Net operating loses

Even if a company was profitable in 2018, it can use so-called net operating losses from the prior year to offset profits. "Those negative amounts offset positive profits in future years, which happens all the time in cyclical businesses, not just during major depressions," tax analyst Marty Sullivan said.

That means a company that loses money one year — but that has been profitable in the past — can get a tax refund on a prior year's taxes.

## Stock options

Technology and other companies commonly pay high-level executives partly in stock options rather than in cash to reduce their cash burn.

"It's not an expense for the companies in the same sense that it would be if they just wrote employees a paycheck every two weeks. But companies are still allowed, for tax purposes, to pretend it's a cash expense," Gardner said.

That means companies can value the stock options as a "cost" of doing business even though it doesn't cost them anything. "Tech companies like Amazon, Facebook, Microsoft and Apple rely heavily on this," Gardner said.

## Tax credits

Unspecified tax credits, for expenses like research and development, also help lower profitable companies' tax rates.

Amazon's financial statements show that the company received $419 million in tax credits in 2018 — most of which were in the form of R&D credits.

"R & D tax credits are a pretty big thing for them. It's a big chunk of the $419 million. It's hard to say where the rest came from," Gardner said, noting that the credit accounts for worldwide expenditures. "Their approach was to make a big bucket of tax credits, so it's not super helpful for the purposes of understanding why they pay what they pay."

Amazon also earned tax credits for building warehouses across the country. "If Amazon is building huge warehouse distribution centers, they can take enormous write-offs that are intended under the law. I would not jump to any negative conclusions based on the fact that they don't have any taxes," said tax analyst Marty Sullivan.

## Accelerated depreciation tax breaks

Companies' ability to expense inventory before it depreciates is a new provision under the Tax Cuts and Jobs Act that accounts for part of their big tax breaks. The provision effectively allows businesses to write off the expense of buying a piece of equipment faster than it wears out.

"Normally, you have to depreciate an asset to take a deduction for a purchase of an asset over several years, but under the new law, you can take it all in the first year," Sullivan said.

Gardner likened it to "an IOU on steroids." "You are postponing your tax bill on income," he said.

While not every dollar in tax cuts can be attributed to the new tax law, it did ramp up accelerated depreciation. "It seems clear the new tax law made this problem worse," Gardner said.

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