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Financial Times (March 12, 2018)

Multinationals pay lower taxes than a decade ago

Rochelle Toplensky

Big multinationals are paying significantly lower tax rates than before the 2008 financial crisis, according to Financial Times analysis showing that a decade of government efforts to cut deficits and reform taxes has left the corporate world largely unscathed.

Companies' effective tax rates — the proportion of profits that they expect to pay, as stated in their accounts — have fallen 9 per cent (two percentage points) since the financial crisis. This is in spite of a concerted political push to tackle aggressive avoidance.

Governments' cuts to their headline corporate tax rates only explain around half the overall fall, suggesting multinationals are still outpacing attempts to tighten tax collection. Drawing on 25 years of financial statements, the FT examined the tax rates paid by the world's 10 biggest public companies by market capitalisation in each of nine sectors. The tax

rates reported by the 10 multinationals with the largest offshore cash piles were also examined.

The results show that the corporate contribution to public finances has fallen since 2008 as a proportion of profits — whether measured by headline rates, reported effective rates, or the rates actually paid to governments. Rules allowing companies to delay when some taxes are paid mean reported effective rates and actual amounts paid can vary substantially in a given year.

The longer-term trend is even more pronounced, with effective reported corporate tax rates falling nearly one-third since 2000, from 34 per cent to 24 per cent.

"There has been a lot of action and gestures that are very visible but the reality is different. Rate cuts and patent boxes [tax breaks for intellectual property] have been the dominant forces on corporate tax — and that reflects the continued dynamics of tax competition," said Mihir Desai, professor of finance and law at Harvard university. "Call it a great irony or hypocrisy, but it's one of the two.

"Since the financial crisis, average reported effective tax rates have fallen around 13 per cent for the largest technology and industrial companies, according to the FT's research. They have been broadly flat in the health, consumer staples and materials sectors.

The results highlight how the long downward trend in corporate tax rates set by the countries that make up the OECD continued at a time when taxes on consumers and workers were rising after the financial crisis.

Since 2008, countries have cut headline corporate taxes by 5 per cent while governments on average have increased personal taxes by 6 per cent, according to figures from KPMG, the accountancy firm.

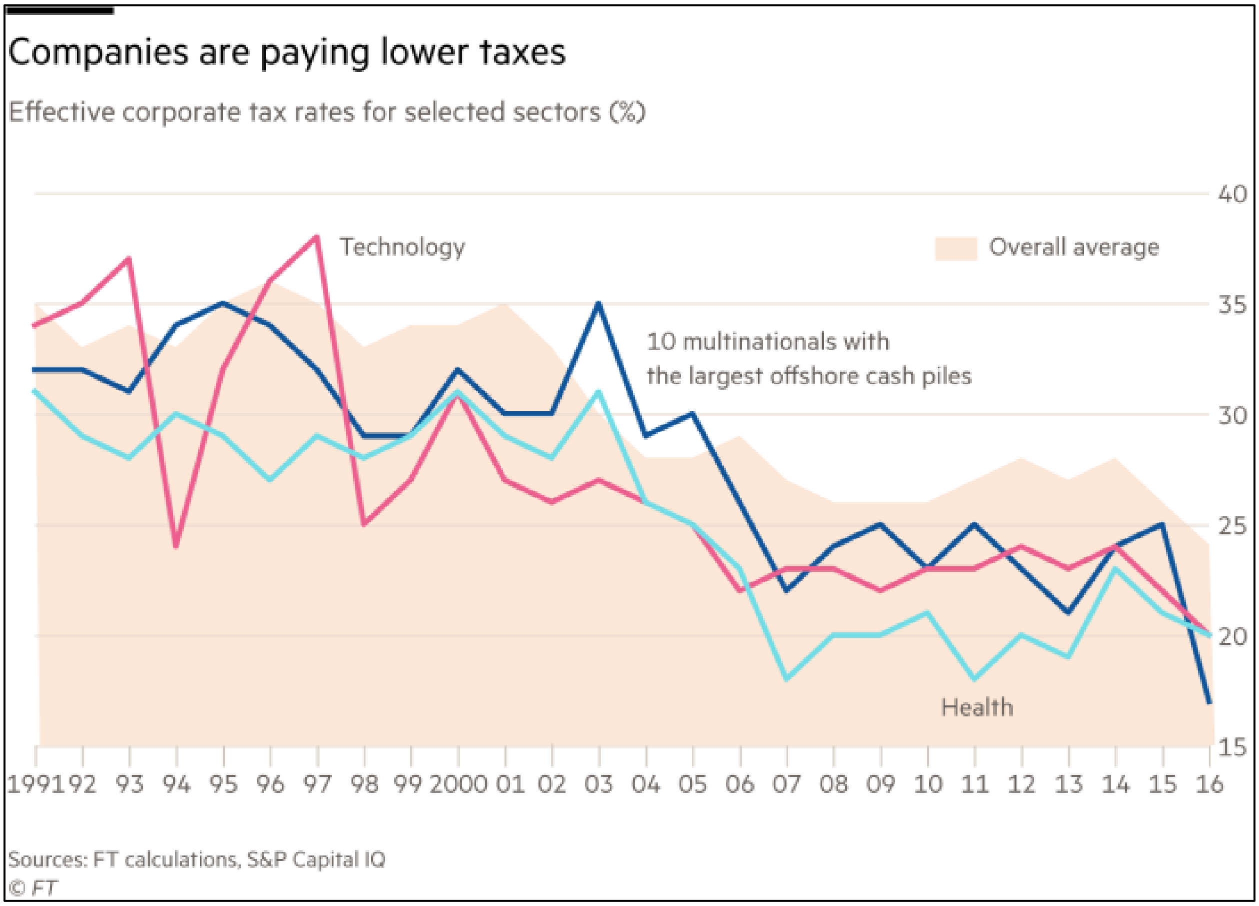
"That's the process of competition [between governments] and I can't really ever see it stopping," said Michael Devereux, professor of business tax at Oxford university. He said the recent US cut to its headline rate was likely to spur more tax competition between governments.

More surprising has been the limited impact so far of a decade-long push in the OECD and G20 to simplify a web of national tax rules that enable multinationals to minimise their global tax bills.

Pierre Moscovici, EU commissioner for tax, said countries were free to set their own corporate tax rates, but highlighted that international tax reform was needed. "Let's make no mistake: the headline rate is not what triggers tax evasion and aggressive tax planning. That comes from schemes that facilitate profit shifting."

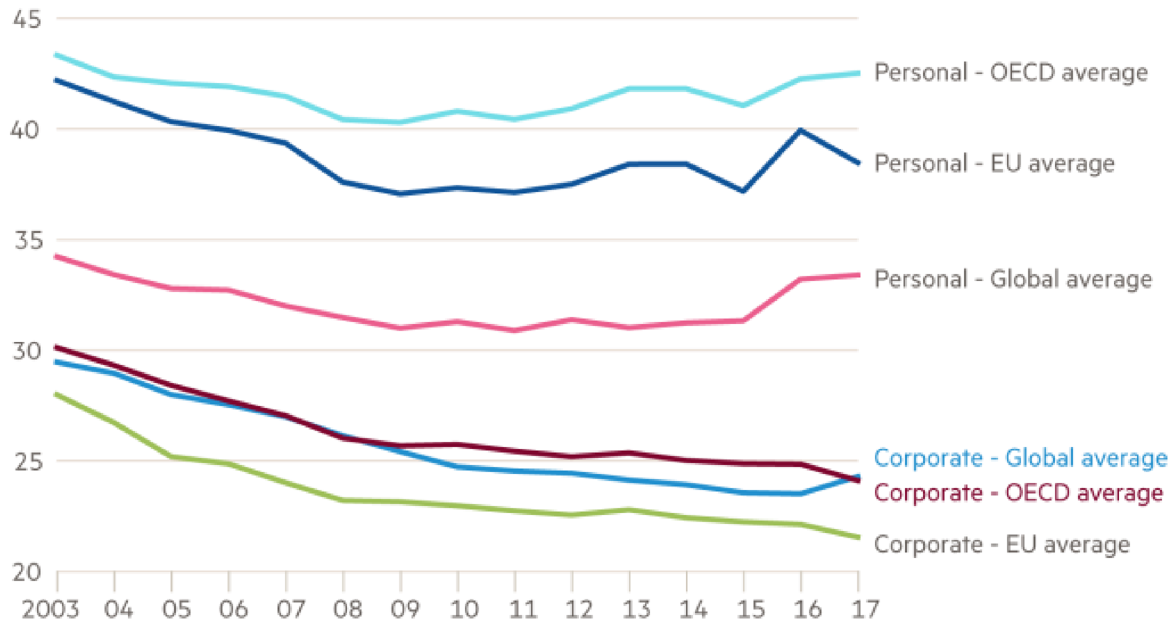
The political desire to tackle this "profit-shifting" has been given more urgency because of the light shed on corporate tax arrangements by large-scale data leaks and political

inquiries into the tax affairs of tech groups such as Apple, Google and Amazon. Group level accounts show many big tech companies tend to pay significantly less tax on foreign profits than the money they earn at home. The groups argue they pay all taxes legally required and some have acknowledged the need for tax reform.

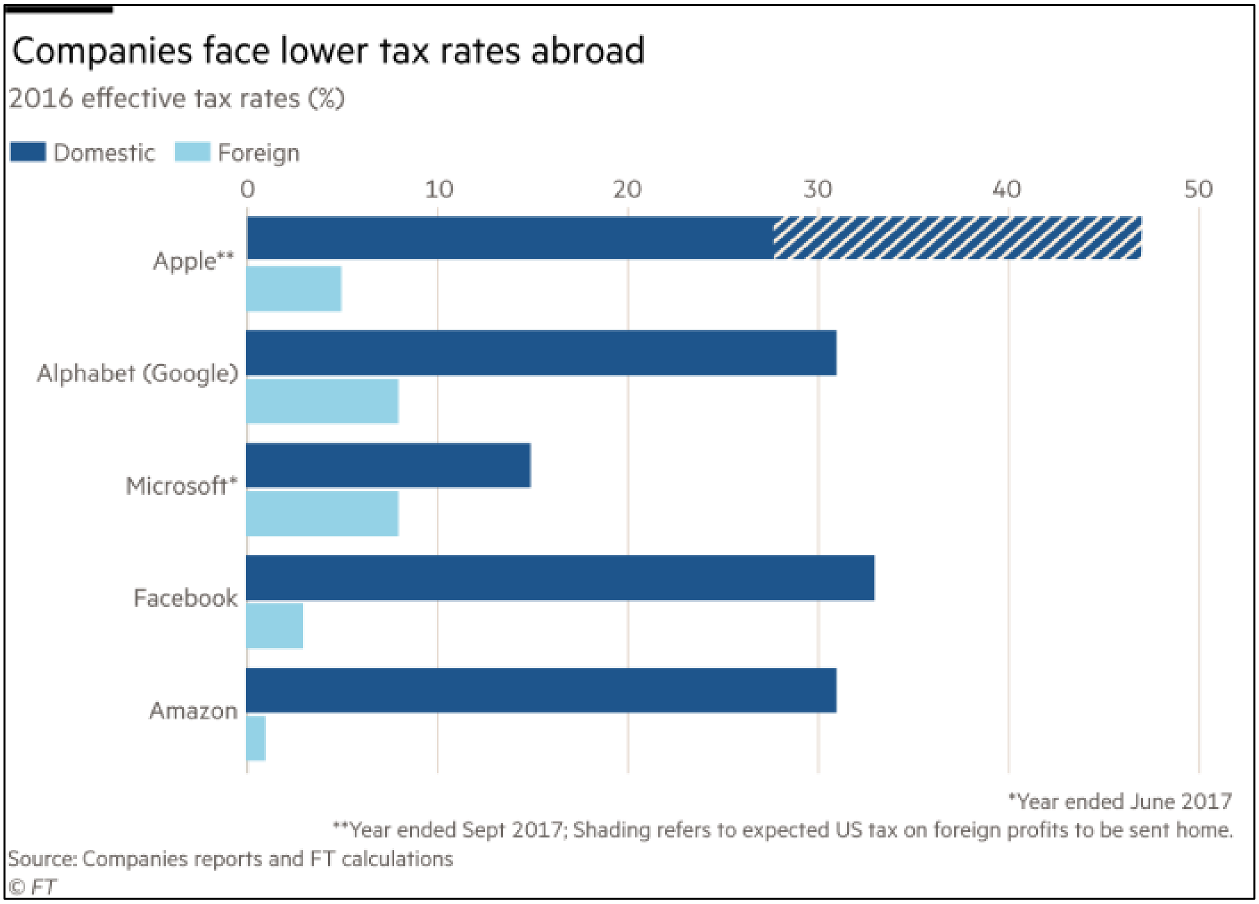


Corporate rates have fallen since the financial crisis while personal rates are up

Headline tax rates (%)



Source: KPMG


Companies face lower tax rates abroad
2016 effective tax rates (%)
Domestic
Foreign
0
10
20
30
40
50
Apple**
Alphabet (Google)
Microsoft*
Facebook
Amazon
*Year ended June 2017
**Year ended Sept 2017; Shading refers to expected US tax on foreign profits to be sent home.
Source: Companies reports and FT calculations
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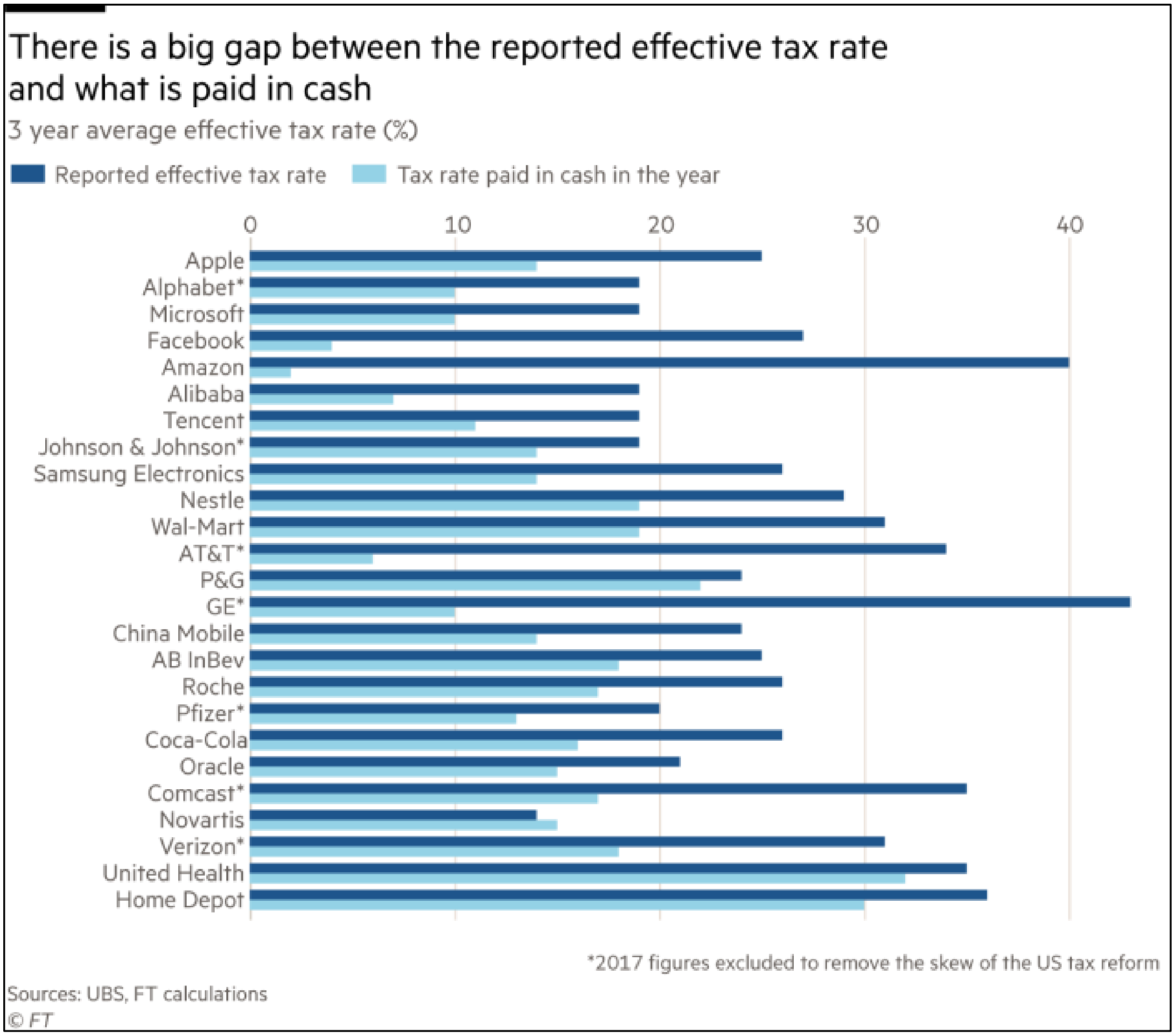

There is a big gap between the reported effective tax rate and what is paid in cash
3 year average effective tax rate (%)
Reported effective tax rate
Tax rate paid in cash in the year
0
10
20
30
40
Apple
Alphabet*
Microsoft
Facebook
Amazon
Alibaba
Tencent
Johnson & Johnson*
Samsung Electronics
Nestle
Wal-Mart
AT&T*
P&G
GE*
China Mobile
AB InBev
Roche
Pfizer*
Coca-Cola
Oracle
Comcast*
Novartis
Verizon*
United Health
Home Depot
*2017 figures excluded to remove the skew of the US tax reform
Sources: UBS, FT calculations
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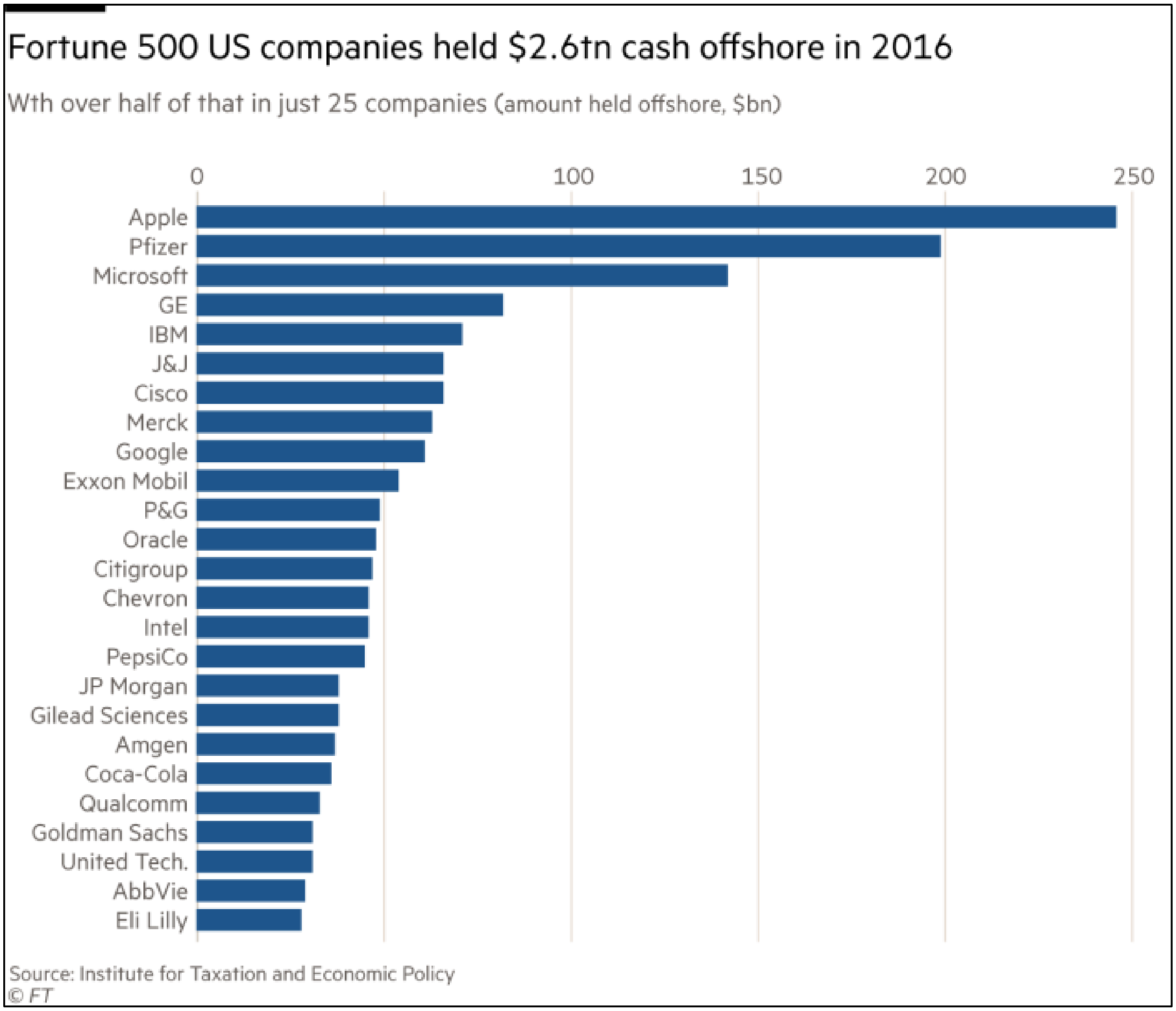
Fortune 500 US companies held $2.6tn cash offshore in 2016
Wth over half of that in just 25 companies (amount held offshore, $bn)
0
100
150
200
250
Apple
Pfizer
Microsoft
GE
IBM
J&J
Cisco
Merck
Google
Exxon Mobil
P&G
Oracle
Citigroup
Chevron
Intel
PepsiCo
JP Morgan
Gilead Sciences
Amgen
Coca-Cola
Qualcomm
Goldman Sachs
United Tech.
AbbVie
Eli Lilly
Source: Institute for Taxation and Economic Policy
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