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## **Report: Some Connecticut Fortune 500 Companies Paying No Federal Income Taxes**

### ***State group calls for equal sunshine on state corporate taxes***

Eighty-two of America's largest and most profitable corporations—including three Connecticut-based corporations — paid no federal income tax at all in at least one year of the past three years, a period when federal corporate tax collections fell to their lowest sustained level in six decades. A new report on corporate tax avoidance by Citizens for Tax Justice (CTJ) and the Institute on Taxation and Economic Policy (ITEP) covered 275 profitable Fortune 500 corporations, including six Connecticut corporations, for tax years 2001, 2002, and 2003. In almost all cases, the Connecticut companies paid less than the 35% federal corporate tax rate over the three years studied. Three Connecticut companies paid at a “negative tax rate” – that is they not only paid no federal tax, but received large tax rebates in at least one year between 2001 and 2003. Two Connecticut companies, General Electric and United Technologies, were cited in the report as among the nation's largest recipients of federal corporate tax breaks during this period. General Electric received \$9.5 billion in federal tax breaks between 2001 and 2003; UTC received \$1.8 billion between 2001 and 2003.

Comments Richard Pomp, Alva P. Loiselle Professor of Law at the University of Connecticut School of Law and an expert on corporate tax policy, “This information gives us some clues about whether these large companies pay any Connecticut income tax, but without state specific data we can't really know. Connecticut bases its definition of taxable corporate income on the federal definition, and that has a large impact on how much of a company's profits is subject to state taxes. But the other major factor is tax credits and other tax expenditures and there we are totally in the dark about which companies take advantage of Connecticut's tax credits and expenditures.”

Federal law does not require corporations to disclose the amount of state taxes they pay to individual states so that information is available only if the state requires the disclosure. There is no such requirement in Connecticut and thus it is impossible to know whether corporations included in the report (or other profitable Connecticut corporations) are paying any state corporation business taxes. What is known, however, is that in tax year 1999, the only year for which this information is publicly available, 38 of Connecticut's 95 largest corporations paid no

corporate business tax. This information was not company specific and was made available only after a special request by legislators. The finding led to a new state law that required more corporations to pay the Alternative Minimum Tax of \$250 and limited the use of tax credits to eliminate *all* tax liability (currently, credits may offset no more than 70% of taxes due).

While the CTJ and ITEP report focused only on the federal income tax, a study by the Council on State Taxation (a business-funded trade organization), *Total State and Local Business Taxes: A 50-State Study of the Taxes Paid by Business in FY2003*, looked more broadly and found that Connecticut was one of only three states in which *overall* state and local business taxes (e.g., sales taxes, property taxes as well as corporation business taxes) *declined* in the last three years. This study also found that Connecticut ranked among the bottom ten states on three out of four measures of overall state and local business tax burden.

“As large multi-national corporations contribute less to the cost of services that are part of what makes Connecticut attractive to them – public safety, roads and airports, a well-educated workforce and a good health care system - the burden falls increasingly on smaller Connecticut businesses and on families who are struggling to build a good future for their kids,” said Doug Hall, Policy Fellow at Connecticut Voices for Children. “It’s important for Connecticut to restore some balance in how we gather tax revenues and reduce some of the burden that has been shifted to the backs of middle and lower-income families.”

Despite shifting costs to the state and its residents when revenues from business taxes decline, little is known about the benefits to Connecticut of specific state tax expenditures, according to Connecticut Voices for Children. Neither legislators nor the public can currently access information on the identities of companies that are claiming state tax credits and in what amounts, whether certain tax breaks tend to benefit or burden large or small corporations, and what return on investment the state is receiving for economic development funds granted through tax credits and other incentives.

“Our legislators need concrete and current information about the costs and benefits of corporate tax credits and incentives in order to make informed budget decisions. But they don’t have all the information they need to determine what return on investment, if any, the taxpayers of Connecticut are receiving for the hundreds of millions of dollars spent on economic development each year,” noted Ellen Scalettar, Senior Policy Fellow at CT Voices for Children. “During the 2004 Connecticut General Assembly session, various bills were introduced that would have shed increased light on *which* corporations are getting the benefit of state tax breaks and what Connecticut’s taxpayers are getting in return. Although the bills did not pass, there appears to be increasing interest among legislators in getting more information and a deeper understanding of this major piece of the state budget picture.”

The CTJ/ITEP report comes as the constitutionality of certain corporate tax credits is being challenged in U.S. courts. On September 2, a three-judge panel for the Sixth Circuit of the U.S. Court of Appeals ruled that the city of Toledo, Ohio violated the United States Constitution by providing a corporate tax break in 1998 to DaimlerChrysler in exchange for building an auto factory. The court ruled that the tax incentive violated the Commerce Clause, which bars states from interfering in state commerce, since the credit was designed to “encourage further

investment in-state at the expense of development in other states, and the result is to hinder free trade among the states.” [“Court bars tax breaks to attract companies”, *Minneapolis Star Tribune*, Sept 10, 2004]

Citizens for Tax Justice ([www.ctj.org](http://www.ctj.org)) and the Institute on Taxation and Economic Policy ([www.itepnet.org](http://www.itepnet.org)), which jointly issued the report, are research and educational organizations based in Washington DC that work on government taxation and spending policy issues.

Connecticut Voices for Children is a statewide, research-based policy and advocacy organization committed to promoting leadership, policy change, and investments to enable *all* Connecticut’s children and youth to achieve their full potential. ([www.ctkidslink.org](http://www.ctkidslink.org)).

The full text of the report is available at <http://www.ctj.org/corpfed04an.pdf>.

### Connecticut-based Fortune 500 companies in report

Company	2003 Pretax Profits (Millions)	2003 Effective Tax Rate	2002 Pretax Profits (Millions)	2002 Effective Tax Rate	2001 Pretax Profits (Millions)	2001 Effective Tax Rate	2001-2003 Pretax Profits (Millions)	2001- 2003 Effective Tax Rate
Emcor	50	4.7%	101.13	33.0%	76.75	6.7%	228.05	17.9%
General Electric	10,826	11.5%	11,998.47	-0.3%	13,984.64	15.7%	36,809.12	9.2%
Oxford Health Plans	562	22.4%	342.98	36.2%	499.14	21.8%	1,403.78	25.5%
Pitney Bowes	623	-7.0%	485.12	-32.2%	714.83	20.1%	1,823.12	-3.1%
Praxair	213	9.0%	222.30	2.7%	208.81	10.3%	643.96	7.2%
United Technologies	1,503	2.2%	1,892.78	4.2%	1,760.08	-3.3%	5,155.47	1.1%

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EMBARGOED FOR RELEASE UNTIL  
WEDNESDAY, SEPTEMBER 22, 2004 at 12:30 P.M. EDT  
CONTACT: Bob McIntyre, 202/626-3780, ext. 22 (6 pages)

## **Bush Policies Drive Surge in Corporate Tax Freeloading 82 Big U.S. Corporations Paid No Tax in One or More Bush Years**

Eighty-two of America's largest and most profitable corporations paid no federal income tax in at least one year during the first three years of the George W. Bush administration — a period when federal corporate tax collections fell to their lowest sustained level in six decades. This is one of the many troubling findings of a major new [report](#) on corporate tax avoidance by Citizens for Tax Justice (CTJ) and the Institute on Taxation and Economic Policy (ITEP). The report covered 275 profitable *Fortune 500* corporations, with total U.S. profits of \$1.1 trillion over the three-year period.

"The sharp increase in the number of tax-avoiding companies reflects the results of aggressive corporate lobbying and a White House and a Congress eager to do the lobbyists' bidding," said Robert S. McIntyre, director of CTJ and co-author of the report with T.D. Co Nguyen of ITEP.

### **Skyrocketing Corporate Tax Avoidance**

In part due to a major expansion in corporate tax breaks in 2002 and 2003, along with continued failure by Congress and the White House to curb abusive corporate offshore tax sheltering, corporate tax avoidance has skyrocketed. For example:

- **Eighty-two of the 275 companies, almost a third of the total, paid zero or less in federal income taxes in at least one year from 2001 to 2003.** Many of them enjoyed multiple no-tax years. In the years they paid no income tax, these companies reported \$102 billion in pretax U.S. profits. But instead of paying \$35.6 billion in income taxes as the statutory 35 percent corporate tax rate seems to require, these companies generated so many excess tax breaks that they received outright tax rebate checks from the U.S. Treasury, totaling \$12.6 billion. These companies' "negative tax rates" meant that they made more after taxes than before taxes in those no-tax years.
- **Twenty-eight corporations enjoyed negative federal income tax rates over the entire 2001-03 period.** These companies, whose pretax U.S. profits totaled \$44.9 billion over the three years, included, among others: Pepco Holdings (-59.6% tax rate), Prudential Financial (-46.2%), ITT Industries (-22.3%), Boeing (-18.8%), Unisys (-16.0%), Fluor (-9.2%) and CSX (-7.5%), the company previously headed by our current Secretary of the Treasury.
- **In 2003 alone, 46 companies paid zero or less in federal income taxes.** These 46 companies, almost one out of six of the companies in the study, reported U.S. pretax profits in 2003 of \$42.6 billion, yet received tax rebates totaling \$5.4 billion. In 2002, almost as many companies, 42, paid no tax, reporting \$43.5 billion in pretax profits, but \$4.9 billion in tax rebates. From 2001 to 2003, the number of no-tax companies jumped from 33 to 46, an increase of 40 percent.
- **After 2001, the average effective rate for all 275 companies dropped by a fifth, from 21.4 percent in 2001 to 17.2 percent in 2002 and 2003,** less than half the statutory 35 percent corporate tax rate that corporations ostensibly are supposed to pay. MORE...

## The Size of the Corporate Tax Subsidies

Over the 2001-03 period, the 275 companies in the survey earned almost \$1.1 trillion in pretax profits in the United States. Had all of those profits been reported to the IRS and taxed at the statutory 35 percent corporate tax rate, the 275 companies would have paid \$370 billion in income taxes over the three years. But instead, the companies reported only about half of their profits – \$557 billion – to the IRS. Over the three years, the effective tax rate on the companies as a group was only about half the ostensibly required 35 percent rate.

- **Loopholes and other tax subsidies cut taxes for the 275 companies by \$43.4 billion in 2001, \$60.8 billion in 2002 and \$71.0 billion in 2003, for a total of \$175.2 billion in tax breaks over the three years.**
- **Half of the total tax-break dollars over the three years – \$87.1 billion – went to just 25 companies, each with more than a billion-and-a-half dollars in tax breaks.**
- **General Electric topped the list of corporate tax break recipients, with \$9.5 billion in tax breaks over the three years.**
- **In 2002 and 2003, the 275 companies sheltered more than half of their profits from tax.** They told their shareholders they earned \$739 billion in those two years, but they told the IRS they made less than half of that, only \$363 billion.

## 25 Companies with the Largest Total Tax Breaks vs. Changes in Capital Investment, 2001 to 2003

Company (\$-millions)	2001-03 Tax breaks	Investment Change
General Electric	\$ 9,481	-40%
SBC Communications	9,032	-53%
Citigroup	4,626	+38%
IBM	4,617	-19%
Microsoft	4,599	-19%
AT&T	4,572	-45%
ExxonMobil	4,268	+29%
Verizon	4,234	-35%
JPMorgan Chase	3,929	NR
Pfizer	3,889	+25%
Altria (Philip Morris)	3,341	+3%
Wachovia	3,259	+120%
Boeing	3,058	-65%
Bank of America	2,959	-75%
Time Warner	2,637	-9%
Wells Fargo	2,459	NR
ConocoPhillips	1,985	-3%
Intel	1,972	-50%
Merrill Lynch	1,966	-85%
Prudential Financial	1,838	NR
Viacom	1,812	+4%
United Technologies	1,750	-33%
BellSouth	1,632	-47%
Allstate	1,631	-9%
American Express	1,541	+19%
<b>Total these 25 companies</b>	<b>\$ 87,089</b>	<b>-22%</b>
Other 250 companies	88,075	-13%
<b>All companies</b>	<b>\$ 175,164</b>	<b>-15%</b>

## The Failure of Corporate Tax Incentives

Legislation adopted in 2002 and 2003 vastly increased corporate write-offs for “accelerated depreciation” and made it easier for corporations to use their excess tax subsidies to generate tax-rebate checks from the U.S. Treasury, at a three-year cost of \$175 billion. Backers of those so-called “incentives” said they would encourage new corporate investments in plant and equipment. But the study finds that they failed to do so:

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- The 25 companies in the study who reported *the largest tax savings from accelerated depreciation* – garnering two-thirds of the total depreciation benefits for all 275 companies over the three years – cut their total property, plant and equipment investments by 27 percent from 2001 to 2003.
- In contrast, the remaining 250 companies reduced their investments by only 8 percent.
- Overall, the 275 companies in the study reported that their capital investments fell by 15 percent from 2001 to 2003.

Likewise, the 25 companies in the survey with *the largest total tax breaks from all sources* over the three years (getting half of the total tax breaks for all 275 companies) cut their capital investments from 2001 to 2003 by 22 percent. In contrast, the remaining 250 companies in the survey reduced their investments by 13 percent.

The five industries whose companies got the largest average benefits, on a per-company basis, from accelerated depreciation over the 2001-03 period received 61 percent of the total depreciation benefits.

- From 2001 to 2003, these five industries – telecommunications, petroleum and pipelines, transportation, gas and electric utilities, and electronics and electric equipment – reduced their capital investments by 22 percent.
- In contrast, the remaining 15 industries reduced their investments by only 9 percent.

“We do not mean to imply in our report that corporate tax breaks actively discourage capital investments,” McIntyre said. “But the evidence shows, as it has so often in the past, that business investment decisions are primarily driven by supply and demand, not by government attempts to micro-manage the economy. The \$175 billion in revenues lost to the tax subsidies enacted in 2002 and 2003 appears to have been exceedingly poorly spent.”

### **Wide, Economically-Distorting Disparities in Tax Rates**

The study found wide disparities in taxes among industries and among companies within particular industries. Over the 2001-03 period, industry effective tax rates for the 275 corporations ranged from a low of 1.6 percent to a high of 27.7 percent. In 2003, the range of industry tax rates was even greater, ranging from a low of -30.0 percent (a negative rate) up to a high of 27.9 percent.

- **Aerospace and defense companies enjoyed the lowest effective tax rate** over the three years, paying only 1.6 percent of their profits in federal income taxes. This industry’s taxes declined sharply over the three years, falling to -30.0 percent of profits in 2003.
- **Other very low-tax industries**, paying less than half the statutory 35 percent tax rate over the entire 2001-03 period, included: transportation (4.3%), industrial and farm equipment (6.2%), telecommunications (7.5%), electronics and electrical equipment (10.8%), petroleum and pipelines (13.3%), miscellaneous services (14.4%), gas and electric utilities (14.4%), computers, office equipment, software and data (16.0%), and metals & metal products (17.4%).
- Not a single industry paid an effective tax rate of more than 29 percent, either for the entire three-year period or in any given year.

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Within industries, effective tax rates also varied widely. For example:

- Over the three-year period, average tax rates on oil companies ranged from 3.0 percent for Devon Energy up to 31.4 percent on Marathon Oil.
- Among aerospace and defense companies, three-year effective tax rates ranged from a low of -18.8 percent for Boeing up to a high of 25.0 percent for General Dynamics.
- In the pharmaceutical industry, Merck paid an effective U.S. tax rate of 32.5 percent, while Pfizer paid only 8.2 percent.

## **Conclusion**

The study points out that the losers from widespread corporate tax avoidance include:

- The general public, who must pay higher taxes, lose public services, or be responsible for big future debt burdens.
- Relatively disadvantaged industries and companies that will find it harder to compete for investment capital with tax-favored corporations.
- The U.S. economy, which is harmed by the distortions that corporate subsidies produce.
- State governments and state taxpayers, which see their corporate tax systems erode along with the federal system.
- The integrity and sustainability of the tax system as a whole.

“Most of the loopholes and tax dodges that corporations use to slash their taxes may be technically ‘legal’ in the sense that the tax law allows them,” said McIntyre. “But remember that these subsidies got into the tax code because corporations lobbied to put them there. Saying something is ‘legal’ doesn’t mean that it’s right.”

### **Two pages of selected tables and charts from the study follow.**

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Citizens for Tax Justice and the Institute on Taxation and Economic Policy have analyzed corporate profits and corporate income taxes in a series of reports dating back to the 1980s. These reports are widely credited with helping persuade President Ronald Reagan and Congress to enact the loophole-closing Tax Reform Act of 1986. ITEP’s research for the new study was funded by a grant from the Nathan Cummings Foundation.

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*A copy of the full 68-page report can be found at [www.ctj.org](http://www.ctj.org) or [www.itepnet.org](http://www.itepnet.org).*

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**82 COMPANIES PAYING ZERO OR LESS IN TAXES  
IN ONE OR MORE YEARS, 2001-2003 (\$-million)**

In the no-tax years			
	Profits	Rebates	Rate
<b>2003 (46 cos.)</b>	\$ 42,622	\$ -5,438	-12.8%
<b>2002 (43 cos.)</b>	43,530	-4,945	-11.4%
<b>2001 (33 cos.)</b>	15,664	-2,184	-13.9%
	<b>\$ 101,816</b>	<b>\$ -12,568</b>	<b>-12.3%</b>

**82 Companies Paying Zero Tax or Less in at Least One Year, 2001-2003**

Company	In No-Tax Years			# of zero tax years	Company	In No-Tax Years			# of zero tax years
	Profit	Tax	Rate			Profit	Tax	Rate	
Pepco Holdings	\$ 725	\$ -432	-59.6%	3	Consolidated Edison	852	-120	-14.0%	1
ITT Industries	821	-183	-22.3%	3	Brunswick	106	-15	-13.7%	1
Unisys	334	-53	-16.0%	3	Southwest Airlines	398	-51	-12.8%	1
Principal Group	2,025	-259	-12.8%	3	Verizon	5,642	-685	-12.1%	1
NCR	708	-41	-5.8%	3	Kelly Services	18	-2	-12.6%	1
Ryder	318	-10	-3.1%	3	Devon Energy	344	-39	-11.3%	1
Computer Sciences	1,291	-31	-2.4%	3	Toys "R" Us	147	-16	-10.9%	1
Shaw Group	276	-6	-2.2%	3	Smith International	39	-4	-11.5%	1
Saks	271	-6	-2.2%	3	American Express	1,367	-140	-10.2%	1
Prudential Financial	437	-1,146	-262.3%	2	Marriott International	384	-38	-9.9%	1
Ingram Micro	53	-21	-40.3%	2	Boston Scientific	376	-37	-9.9%	1
CenterPoint Energy	1,218	-401	-32.9%	2	Ikon Office Solutions	146	-11	-7.7%	1
Reebok	35	-9	-26.1%	2	Rockwell Automation	113	-8	-7.0%	1
AT&T	5,628	-1,389	-24.7%	2	Newell Rubbermaid	249	-14	-5.5%	1
CSX	556	-137	-24.7%	2	SBC Communications	8,941	-476	-5.3%	1
Reliant Resources	340	-74	-21.7%	2	Eaton	329	-17	-5.2%	1
Timken	90	-19	-21.6%	2	John Hancock	756	-39	-5.1%	1
Pitney Bowes	1,108	-200	-18.0%	2	Ball	121	-5	-4.4%	1
Baxter	1,278	-198	-15.5%	2	Wachovia	4,055	-164	-4.0%	1
Fisher Scientific International	91	-14	-15.4%	2	Humana	188	-7	-3.7%	1
FPL Group	2,243	-252	-11.2%	2	Disney, Walt	1,764	-59	-3.4%	1
Time Warner	4,882	-487	-10.0%	2	United Technologies	1,760	-57	-3.3%	1
Caterpillar	830	-81	-9.8%	2	Dominion Resources	1,999	-63	-3.2%	1
KeySpan	1,366	-109	-8.0%	2	Engelhard	192	-5	-2.8%	1
Valero Energy	679	-57	-8.4%	2	Pfizer	6,088	-168	-2.8%	1
Triad Hospitals	333	-28	-8.3%	2	SPX	478	-13	-2.7%	1
Caremark RX	794	-65	-8.2%	2	Lehman Brothers	1,825	-39	-2.1%	1
Manpower	78	-5	-6.0%	2	Metlife	2,926	-67	-2.3%	1
Danaher	1,037	-46	-4.4%	2	Anadarko Petroleum	698	-15	-2.1%	1
Cendant	1,822	-58	-3.2%	2	Bank of New York	1,773	-29	-1.6%	1
Boeing	1,069	-1,700	-159.0%	1	Sara Lee	1,256	-20	-1.6%	1
Entergy	562	-758	-135.0%	1	Burlington Northern Santa Fe	1,226	-18	-1.5%	1
Nucor	79	-59	-74.9%	1	3M	1,656	-21	-1.2%	1
Fluor	46	-29	-63.3%	1	Kinder Morgan	360	-4	-1.2%	1
Wesco International	19	-14	-73.5%	1	Lexmark	307	-2	-0.8%	1
Graybar Electric	14	-8	-57.3%	1	Allstate	1,540	-14	-0.9%	1
JPMorgan Chase	2,515	-1,398	-55.6%	1	Health Net	136	-1	-0.7%	1
Dillard's	20	-5	-27.0%	1	General Electric	11,998	-33	-0.3%	1
Advance Auto Parts	92	-18	-19.2%	1	Allied Waste Industries	274	-0	-0.1%	1
OGE Energy	215	-36	-16.6%	1	Autoliv	59	-0	-0.0%	1
Public Service Enterprise Group	1,369	-208	-15.2%	1	Sysco	1,264	-	-	1
<b>Totals, these 82 companies</b>						<b>\$ 101,816</b>	<b>\$ -12,568</b>	<b>-12.3%</b>	<b>121</b>

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