Corporate Taxes & CEOs

Last week, the Institute for Policy Studies (IPS), a Washington-based think tank, released a report revealing that 25 major corporations ***paid more to their chief executive than they did to the IRS***. That list includes household names like Ford, Coca-Cola, Verizon, Prudential, General Electric, Boeing, and eBay. Altogether, those 25 companies averaged $1.622 billion in pre-tax income. They paid their CEOs an average of $16,684,071. But when it came to taxes, they averaged $304 million in *refunds* on their federal corporate income tax.

How do they do it? The main culprit, according to the IPS, is "offshoring" revenue to low-tax countries. The study found that the 25 corporations collectively maintain 556 subsidiaries in "tax havens" as defined by the Government Accountability Office. And many of the corporations have a long history of working to reduce taxes on shareholder profits. For example, the *New York Times* once reported that "G.E.'s giant tax department, led by a bow-tied former Treasury official named John Samuels, is often referred to as the world's best tax law firm." Overall, the study concluded that:

"Our 25 hyperactive tax-dodging corporations employed a variety of avoidance techniques. Not all of these techniques are nefarious. Some corporate tax breaks can have redeeming social value. Incentives that encourage our economic transition to a green energy economy offer one example of these beneficial breaks. But such incentives as these play only a minor role. The lion's share of tax breaks reward corporate behaviors - from "offshoring" to accelerated depreciation - that are of questionable value to society, especially over the long term."

Not surprisingly, critics of the study have accused the IPS of political bias. And several of the companies cited have disputed the study's findings. For example, the IPS states that eBay paid CEO John J. Donahoe $12.4 million while claiming $131 million in federal tax benefits. EBay responded that they actually paid $646 million in worldwide taxes, with the majority paid here in the U.S. Boeing Corporation also disputes the study, claiming the IPS understated their actual cash tax bill by a factor of 20.

At the same time, the study's narrow focus on federal corporate income tax obscures the true tax burden on corporate profits. Corporations pay billions in state and local taxes in addition to federal tax. CEOs who earn millions in salary pay millions in taxes themselves - usually at higher effective rates than the corporations they work for. Every tax dollar saved for shareholder dividends ultimately gets taxed at the shareholder's own level. And ultimately, who can blame corporations for playing by the legal rules? "After all," says one *Forbes* magazine columnist, "CEOs and boards are supposed to be running their business for the benefit of shareholders, not the U.S. government."

Whichever side you take, as our nation's debt continues to spiral out of control, lawmakers are focusing more attention on taxes in general - and this includes efforts to reform corporate taxes and close corporate loopholes. What do you think? Are healthy corporate profits and low corporate taxes a ray of bright sunshine in an otherwise gloomy economy? Or should the townspeople be gathering up pitchforks, lighting torches, and preparing to storm the corporate castles?