



Representation Without Taxation

**Fortune 500 Companies
that Spend Big on Lobbying
and Avoid Taxes**

January 2012

Georgia PIRG
Education Fund

CTJ Citizens for
Tax Justice

Representation Without Taxation

**Fortune 500 Companies
that Spend Big on Lobbying
and Avoid Taxes**

January 2012

Georgia PIRG
Education Fund

CTJ Citizens for
Tax Justice

Authors

Blair Bowie, U.S. PIRG

Dan Smith, U.S. PIRG

Richard Phillips, Citizens for Tax Justice

Steve Wamhoff, Citizens for Tax Justice

Acknowledgements

Authors

Blair Bowie, U.S. PIRG

Dan Smith, U.S. PIRG

Richard Phillips, Citizens for Tax Justice

Steve Wamhoff, Citizens for Tax Justice

The authors thank Phineas Baxandall and Gary Kalman of U.S. PIRG for their thoughtful and informed assistance. Thanks also to Public Campaign, Rich Williams and James Dubick of U.S. PIRG, and Joe Donnellan for his research assistance.

The authors bear responsibility for any factual errors. The recommendations are those of U.S. Public Interest Research Group Education Fund (U.S. PIRG Education Fund) and Citizens for Tax Justice (CTJ). The views expressed in this report are those of the authors and do not necessarily reflect the views of our funders.

Copyright 2012 U.S. PIRG Education Fund and CTJ.

Georgia Public Interest Research Group Education Fund (Georgia PIRG Education Fund)

With public debate around important issues often dominated by special interests pursuing their own narrow agendas, Georgia PIRG Education Fund offers an independent voice that works on behalf of the public interest. Georgia PIRG Education Fund, a 501(c)(3) organization, works to protect consumers and promote good government. We investigate problems, craft solutions, educate the public, and offer Americans meaningful opportunities for civic participation.

For more information about Georgia PIRG Education Fund or for additional copies of this report, please visit www.georgiapiRG.org.

Citizens for Tax Justice (CTJ)

Citizens for Tax Justice, founded in 1979, is a public interest research and advocacy organization focusing on federal, state and local tax policies and their impact upon our nation. CTJ's mission is to give ordinary people a greater voice in the development of tax laws. Against the armies of special interest lobbyists for corporations and the wealthy, CTJ fights for fair taxes for middle and low-income families, requiring the wealthy to pay their fair share, closing corporate tax loopholes and adequately funding important government services.

For more information about CTJ, please visit www.ctj.org.

*Cover photos (clockwise from top left): Edyta Pawlowska/Bigstock, Microsoft, Mansi Ltd/iStockPhoto, Architect of the Capitol
Report design: Alec Meltzer*

Executive Summary

Marking the second anniversary of the Supreme Court's decision in the *Citizens United vs. Federal Election Commission* case—which opened the floodgates to corporate spending on elections—this report takes a hard look at the lobbying activities of profitable Fortune 500 companies that exploit loopholes and distort the tax code to avoid billions of dollars in taxes.

280 profitable Fortune 500 companies collectively paid an effective federal income tax rate of 18.5 percent, about half of the statutory 35 percent corporate tax rate, while receiving \$223 billion in tax subsidies.

These corporations include most of the Fortune 500 companies that were consistently profitable from 2008 through 2010. Collectively they paid \$250.8 billion in federal income taxes on a total of \$1,352.8 billion in U.S. profits. If they had paid the statutory 35 percent tax on their profits, they would have paid an extra \$223 billion. There are thousands of perfectly legal ways that corporations, with the help of armies of high-paid lawyers and accountants, can reduce their tax burden.

These 280 companies spent a total of \$2 billion lobbying on tax and other issues between 2008 and 2010.

We also identify the “Dirty Thirty” companies that were especially aggressive at dodging taxes and lobbying Congress. These companies so deftly exploited carve outs and loopholes in the tax code that all but one of them enjoyed a negative tax rate over the three year period of the study, while spending nearly half a billion dollars to lobby Congress on issues including tax policy. Altogether they collected \$10.6 billion in tax rebates from the federal government, while skirting a total of \$67.9 billion in taxes they would have paid had they paid the statutory 35 percent tax rate.

Ordinary American taxpayers and small businesses must pick up the tab when major corporations avoid their taxes. Spread out over every individual tax filer

in America, the taxes avoided by the Dirty Thirty break down to an average of \$481 per taxpayer.

Exploiting offshore tax havens—an example of tax dodging at its worst

Loopholes that allow corporations to avoid taxes by shifting profits offshore are particularly egregious. At least 22 of the Dirty Thirty have reported subsidiaries in offshore tax havens like the Cayman Islands. Since profit artificially shifted offshore is often counted as “foreign” profits, this corporate tax data doesn't reflect the amount lost due to tax havens. All told, offshore tax havens cost American taxpayers an estimated \$100 billion in lost revenue every year. At least 83 of the nation's top 100 publically traded corporations have subsidiaries in tax haven countries.

Recommendations for closing offshore tax loopholes

The solution to stopping the abuse of tax havens is to end the rule that allows U.S. companies to defer taxes on their offshore profits. In the mean time, there are concrete steps Congress can take that would stop the worst of the abuses by requiring more honest rules and reporting.

The need for campaign finance reform

Corporate influence through lobbying is only the tip of the iceberg, especially given the Supreme Court's decision in the *Citizens United* case. Elections have become astronomically more expensive for winning candidates over the last several years, and the 2012 election promises to be the most expensive in history.

To limit corporate money in elections, lawmakers should:

- Require full and honest disclosure—the public should know who is funding what candidates
- Empower shareholders—the shareholders that own corporations should have a say in how corporations spend their money on elections
- Reverse *Citizens United*

Introduction

Two years ago, the Supreme Court's *Citizens United vs. Federal Election Commission* decision opened the floodgates to corporate influence in our political system by allowing corporations to pour money from their treasuries into the campaign coffers of political candidates. This report examines one area of policymaking where corporate money already had an enormous impact even before that decision: tax law. This report compares corporations' lobbying expenditures with the tax breaks they receive. In addition, this report examines one particular way in which corporations' ability to successfully lobby for tax breaks is even *greater* than this data can demonstrate by exploring corporate tax avoidance using offshore tax havens. One can only conclude

that corporations' influence over tax policy will become even greater than what is described here if the *Citizens United* decision is allowed to stand.

For too long, large corporations have wielded far too much unchecked political power in our country. While they provide valuable public services and goods, too often powerful corporations use their influence to gain special favors in the law and fend off basic public interest protections that might threaten their profit margins. This influence rarely takes the form of simple payment for favors. It rather works more indirectly—through lobbying and campaign contributions—and is amplified by the resources and economic power of corporations.

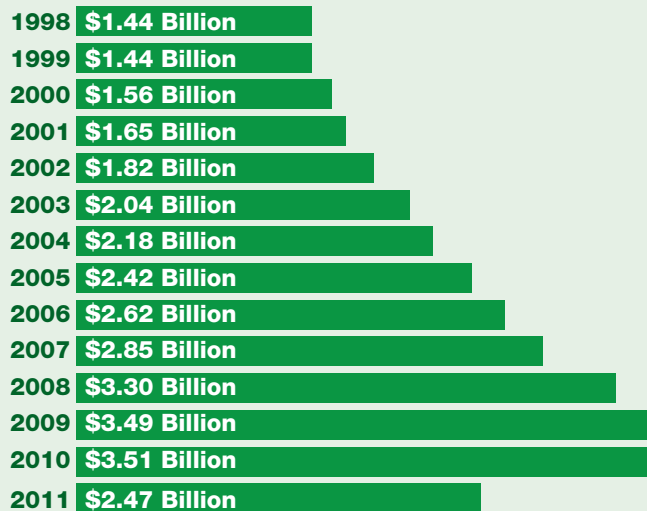
This report covers 280 corporations that make up most of the Fortune 500 companies that were consistently profitable in each of the last three years. These 280 companies spent a combined total of \$2 billion over the 2008-2010 period on federal lobbying and received a total of \$223 billion in tax breaks during those years, making a mockery of our tax code, which has long been written in their favor.

The most egregious examples are 29 companies that avoided federal corporate income taxes entirely during this period, plus an additional company that paid less in federal corporate income taxes than it did for lobbying Congress. These 30 companies collected \$67.9 billion in tax subsidies while spending nearly half a billion dollars on federal lobbying.

While lobbying is only one avenue of corporate influence, we highlight it because it is one of the more thoroughly documented. Federal laws require that any entity that lobbies report quarterly on its overall lobbying expenses and give a brief summary of who lobbied which branch on what issue. Although this reporting is hardly a complete picture of corporate influence, we chose not to examine campaign contributions, another common form of influence, because current reporting standards for contributions are entirely insufficient.

Lobbying Expenditures

Lobbying simply refers to the process of talking to legislators and staff. This is not inherently problematic. In fact, the exchange of ideas between independent parties and legislators is critical to a vibrant democracy. However, that exchange can be tainted when the weight given to recommendations of narrow special interests are amplified by their economic power, ability to spend on campaigns, and their employment of former public officials in lucrative lobbying jobs. Lobbying expenditures are therefore often used as a rough indicator of the amount of influence a particular corporation is attempting to wield over the legislative process.



The money special interests spent on lobbying more than doubled between 1998 and 2010, increasing from \$1.44 billion to \$3.51 billion. Numbers in 2011 are through the third quarter only. Source: www.opensecrets.org

Tax legislation is particularly vulnerable to the influence of powerful corporations because the countervailing forces of democratic accountability are particularly weak in this area. Most Americans pay little attention to the arcane rules of corporate taxation. Although special tax giveaways have the same bottom-line effect on the budget as direct spending, they are subject to far less democratic oversight. Proposals for special tax favors are usually not considered against competing spending proposals or with consideration of how other ordinary taxpayers must pick up the tab. And unlike a spending item, once tax giveaways are on the books, they usually don't need to be approved each year. Instead they typically remain in effect indefinitely, sucking away at government revenue like a tape worm that remains unseen.

Lobbying by Corporate Tax Dodgers

Loopholes and special carve-outs in the tax code allow many of the nation's most profitable corporations to pay considerably less in taxes than the 35 percent statutory federal corporate income tax rate. There are thousands of perfectly legal ways that corporations lower their tax burden, most of which serve no public interest purpose.

The 280 corporations covered in this report collectively paid an effective tax rate of just 18.5 percent from 2008 through 2010. That means these companies together paid \$250.8 billion in federal corporate income taxes on a total of \$1,352.8 billion in profits earned during that three-year period.

If these corporations had paid 35 percent of their profits in taxes, they would have paid another \$223 billion over those three years. In other words, they received \$223 billion in tax subsidies (subsidies provided through the tax code rather than through direct spending) during those years.

Meanwhile these corporations spent \$2 billion lobbying on tax issues and other issues from 2008 through 2010. One can see right away why corporations think their lobbyists are worth their high salaries. The \$2 billion they spent on lobbying seems like an enormous figure, but pales in comparison to the \$223 billion in benefits that these corporations received in tax breaks alone.

Campaign Contribution Reporting

One of many troubles with *Citizens United* is that a key piece of the logic which guided the majority decision has not been realized. Justice Kennedy wrote in that decision, "With the advent of the Internet, prompt disclosure of expenditures can provide shareholders and citizens with the information needed to hold corporations and elected officials accountable for their positions and supporters."* What Justice Kennedy failed to recognize is that current reporting requirements do not paint a clear picture of election expenditures—Super PAC reporting is neither timely nor does it reveal the source of all contributions. At minimum, Super PACs only have to report their fundraising and disbursements biannually and often take money from non-profits and straw corporations that are not subject to reporting requirements.

* The Hon. Justice Kennedy, A. *Citizens United vs. FEC*. The Opinion of the Court. The Supreme Court of the United States. January 21, 2010.

None of these tax subsidies are free to the public. Each dollar in tax subsidy to these Fortune 500 companies must be accompanied by a dollar in reduced spending in public programs, higher federal debt, or higher taxes for other more ordinary taxpayers.

The most startling examples of tax dodgers are corporations from the Fortune 500 that paid an average *negative* federal tax rate between 2008 and 2010, meaning they collected more tax rebates from the federal government than they paid in taxes.¹ None of this is illegal and the true scandal is that Congress has allowed all of this. Companies can hire armies of high-paid lawyers and accountants to mold the tax code in their favor. The fact that a corporation can pay more to lobby Congress in pursuit of its narrow interests than it pays in federal income taxes makes a mockery of both our tax code and our democratic system.

Every company in this study was profitable in each of the three years covered. Companies that don't make a profit during a given year wouldn't be expected to pay income taxes, but companies that are profitable for three years straight, like those listed here, would be expected by any reasonable person to pay their share of taxes. The three-year span of the data also ensures that the findings

¹ See the box titled "How Do Companies Pay Less Than Nothing?". For a more detailed explanation, see "Corporate Taxpayers and Corporate Tax Dodgers, 2008-2010," a 2011 report by *Citizens for Tax Justice*.

are not mere anomalies due to the way particular corporations may have deferred reported income or carried over a previous year's loss. All the data on taxes and profits come from the companies themselves, as reported on their Securities and Exchange Commission annual filings.²

The “Dirty Thirty” Corporations That Get the Most for their Lobbying

Thirty of the companies examined in this study are some of the worst offenders when it comes to corporate tax dodging. These companies collectively received \$67.9 billion in tax subsidies over the 2008-2010 period. In other words, if these 30 corporations had paid 35 percent of their profits in corporate income taxes, the U.S. Treasury would have received an additional \$67.9 billion during those years.

How Do Companies Pay Less Than Nothing?

Most simply, a company enjoys a negative tax rate if it gets a net tax rebate from the federal government. Corporations achieve negative tax rates in a few different ways. If a company had excess tax deductions or credits in a given year, it can “carry” them back to a previous year, when it did not enjoy excess deductions, and thereby get a refund check from the federal government.

A company may also not receive tax benefits claimed one year until a later year. This happens when the corporation's tax attorneys claim a tax benefit they don't expect the IRS will eventually grant them. Since they aren't counting on it, the benefit isn't reported in that earlier year's annual report to the SEC. If the IRS unexpectedly grants them their wish in a later year, the benefit gets reported as a decrease in the income taxes it has to pay the year it was received.

This was a major way that GE was able to achieve a negative tax rate over the three year period of the study.

2 Tax data was obtained through a report by Citizens for Tax Justice entitled “Corporate Taxpayers and Corporate Tax Dodgers, 2008-2010.” 2011. We recognize that SEC filings reflect book accounting principles which can differ from the way companies report income to tax authorities. The data represent what corporations tell their own shareholders. We also recognize that corporations are subject to separate state income taxes.

Put another way, the staggering volume of tax subsidies for these 30 corporations represents an amount equal to \$481 for every individual tax filer in America.³

All but one of these companies was able to pay an average *negative* federal tax rate from 2008 through 2010.⁴ Altogether, the thirty corporations made nearly \$164 billion in U.S. profits, but paid negative \$10.6 billion in corporate income taxes (meaning they collectively received rebates totaling that amount) from 2008 through 2010. Meanwhile, they spent close to half a billion dollars to lobby Congress on issues including tax policy.

The list of tax dodgers includes some of the largest and best known U.S. companies. For example, despite making \$10.5 billion in U.S. profits over the three years, General Electric paid zero dollars in federal taxes and collected \$4.7 billion in tax rebates. GE has a tax department of 975 strong to help lower its taxes, and the company boasts 14 subsidiaries in low or no-tax offshore tax havens.⁵

When the *New York Times* broke the news that GE paid less than nothing in federal income taxes in 2010, the company fired back, saying it had in fact paid \$2.7 billion in taxes. That number, however, misleadingly referred to what GE paid *worldwide*, rather than federal income taxes in the U.S.⁶

All the while, GE spent \$84 million lobbying Congress to get its special treatment. In Federal Election Commission filings, “taxes” consistently ranks in the top three issues on which GE reports lobbying activity.⁷ The Center for Responsive Politics found that GE has no less than 37 employees who fit the bill of “passing through the revolving door” between Congress, executive agencies, and GE's lobbying shop.⁸

3 The number is derived by dividing \$67.9 billion by the 141,167,000 individual tax returns in 2010 reported by the Internal Revenue Service in 2010 IRS Data Book; Table 3.

4 See box titled “How Do Companies Pay Less Than Nothing?”. For a more detailed explanation, see “Corporate Taxpayers and Corporate Tax Dodgers, 2008-2010,” a 2011 report by Citizens for Tax Justice.

5 Kocieniewski, David. “GE's Strategies Let it Avoid Taxes Altogether.” 24 March 2011. <http://www.nytimes.com/2011/03/25/business/economy/25tax.html?pagewanted=all>

6 See “How Do Companies Pay Less Than Nothing?” for more information on GE's tax avoidance.

7 The Center for Responsive Politics. <http://www.opensecrets.org/lobby/clientissues.php?id=D000000125&year=2011>

8 The Center for Responsive Politics. http://www.opensecrets.org/revolving/search_result.php?priv=General+Electric

The “Dirty Thirty”—Taxes and Lobbying Expenses

Three year (2008-2010) totals for profit, federal taxes paid, lobbying expenses, and current tax haven subsidiaries

Company	Domestic Profit (millions)	Federal Taxes (millions)	Effective Tax Rate	Tax Subsidies (millions)	Lobbying Expenses (millions)	Subsidiaries in Tax Havens ^a	State of Corporate Headquarters
Pepco Holdings	882.0	-508.0	-57.6%	816.7	3.8	2.0	DC
General Electric	10,459.7	-4,737.0	-45.3%	8,397.9	84.4	14.0	CT
Paccar	365.5	-111.6	-30.5%	239.5	0.8		WA
PG&E Corp.	4,855.0	-1,027.0	-21.2%	2,726.3	79.0		CA
Computer Sciences	1,665.8	-305.1	-18.3%	888.2	4.4	21.0	VA
NiSource	1,384.6	-227.3	-16.4%	711.9	1.8		IN
CenterPoint Energy	1,931.0	-284.0	-14.7%	959.9	2.7		TX
Tenet Healthcare	415.0	-48.0	-11.6%	193.3	3.4	1.0	TX
Integrus Energy Group	818.4	-92.3	-11.3%	378.8	0.7		IL
American Electric Power	5,899.0	-545.0	-9.2%	2,609.7	28.8		OH
Con-way	286.4	-26.0	-9.1%	126.3	2.3	1 ^b	MI
Ryder System	627.0	-45.8	-7.3%	265.3	1.0	9.0	FL
Baxter International	926.1	-65.9	-7.1%	390.0	10.5	7.0	IL
Wisconsin Energy	1,724.9	-85.0	-4.9%	688.8	2.5		WI
Duke Energy	5,475.5	-216.0	-3.9%	2,132.4	17.5	27.0	NC
DuPont	2,124.0	-72.0	-3.4%	815.4	13.8	12.0	DE
Consolidated Edison	4,263.0	-127.0	-3.0%	1,619.1	1.8	1 ^c	NY
Verizon Communications	32,518.0	-951.0	-2.9%	12,332.3	52.3		NY
Interpublic Group	570.9	-15.0	-2.6%	214.8	1.3	1.0	NY
CMS Energy	1,292.0	-29.0	-2.2%	481.2	3.5	8.0	MI
NextEra Energy	6,403.0	-139.0	-2.2%	2,380.1	10.0	1.0	FL
Navistar International	896.0	-18.0	-2.0%	331.6	6.3	1.0	IL
Boeing	9,735.5	-177.6	-1.8%	3,585.0	52.3	40.0	IL
Wells Fargo	49,370.0	-680.8	-1.4%	17,960.3	11.0	58.0	CA
El Paso	4,105.0	-41.0	-1.0%	1,477.8	2.9	24.0	TX
Mattel	1,019.8	-9.2	-0.9%	366.1	0.8	4.0	CA
Honeywell International	4,903.1	-33.9	-0.7%	1,750.0	18.3	5.0	NJ
DTE Energy	2,551.0	-17.0	-0.7%	909.9	4.4	2 ^d	MI
Corning	1,977.0	-4.0	-0.2%	696.0	2.8	5.0	NY
FedEx	4,246.6	37.0	0.9%	1,449.3	50.8	21 ^e	TN
TOTAL	163,690.7	-10,601.7	-6.5%	67,893.4	475.7	265	—

a Unless otherwise noted below, numbers of tax haven subsidiaries come from 2010 corporate 10-K reports

b In 2007, Menlo Worldwide, a Con-way subsidiary acquired Chic Holdings, a Chinese company registered in the Cayman Islands. Chic Holdings was not listed as a “significant” subsidiary in Con-way’s 10-K report. There could be other unlisted tax haven subsidiaries as well. See Con-way press release—http://www.con-way.com/en/about_con_way/newsroom/press_releases/Sep_2007/2007_sept_9/

c Con Edison Development Guatemala was a Cayman Islands subsidiary that the company sold in 2010. It is included because this study looks at the 2008-2010 period. See <http://secfilings.nyse.com/filing.php?doc=1&attach=ON&ipage=721439&rid=23>

d As of 2008, DTE Energy had two inactive subsidiaries in the Cayman Islands. See <http://efile.mpsc.state.mi.us/efile/docs/12134/0474.pdf>

e In its 2010 10-K report, FedEx only disclosed its largest subsidiaries. Based on its 2008 filing, the company has 21 tax haven subsidiaries that are part of its larger subsidiaries listed in the 2010 filing.

Source: All tax data was obtained through a report by Citizens for Tax Justice entitled “Corporate Taxpayers and Corporate Tax Dodgers, 2008-2010, 2011.” Lobbying data for these corporations came from the Center for Responsive Politics. Data on tax haven subsidiaries was obtained by the authors using corporate 10-K reports filed with the Securities and Exchange Commission. They can be found at www.sec.gov. The list of tax haven jurisdictions was one compiled by a 2009 GAO report—<http://www.gao.gov/products/GAO-09-157>

Another well-known company in our findings is Wells Fargo, a bank bailed out by taxpayers in 2009, that reported \$49 billion in U.S. profits over the last three years. The company paid zero dollars in federal taxes, and instead collected \$681 million in various tax credits and rebates. The company spent \$11 million lobbying over the same period.

Tax Havens: Corporate Tax Dodging at its Worst

The effect of corporate money in politics on the ability of corporations to avoid U.S. taxes is even *greater* than these figures demonstrate when one considers their abuse of offshore tax havens. Corporations have lobbied to protect the loopholes that let them shift their profits into offshore tax havens but the effect on their U.S. tax bill often does not show up in the estimates of their U.S. tax rates. Effective tax rates are calculated as U.S. taxes divided by U.S. profits. However, that statistic fails to account for U.S. profits that companies describe to tax authorities as “foreign” profits, but that truly consist of income generated in the U.S. and then shifted to subsidiaries they control in offshore tax havens using accounting gimmicks and convoluted transactions between their subsidiaries. (Some companies report their real U.S. profits to their shareholders; others exclude U.S. profits that the tax code lets them treat as foreign.)

Reporting Tax Haven Subsidiaries

Corporations are only required to publicly disclose information on their “significant” subsidiaries, or their largest.

For example, in 2008, FedEx reported having 21 subsidiaries that were registered in tax haven countries. Many of these entities were subsidiaries of its larger subsidiaries. However, the company’s 2010 SEC filing only listed its largest subsidiaries, none of which were registered in tax haven countries.

That means the number of actual tax haven subsidiaries these thirty companies have may be understated, perhaps vastly.

At least 83 of the top 100 publically traded U.S. corporations have subsidiaries in tax havens, which are jurisdictions with no tax on profits or extremely low taxes on profits, such as the Cayman Islands, Bermuda, and Singapore.⁹ Of the thirty companies examined in this report, *at least 22* have subsidiaries in tax haven countries based on SEC filings, which don’t require corporations to report smaller subsidiaries.¹⁰ Often these subsidiaries are nothing more than P.O. boxes. The Ugland House, a single five story building in the Cayman Islands, houses 18,857 such “corporations” under one roof.

In some cases, corporations are able to lobby for very specific loopholes that expand their ability to avoid U.S. taxes by using offshore tax havens. For example, corporations successfully lobbied for a corporate tax holiday in 2004 that allowed U.S. corporations to bring profits from offshore jurisdictions back to the U.S. while paying hardly any of the U.S. corporate income taxes that would normally come due. A recent study found that the companies that lobbied for this measure received \$220 for every one dollar they spent lobbying in favor of it.¹¹

At other times, the effect of corporate influence on Congress is more difficult to measure, but is undeniable. For example, President Obama’s first budget proposal included a series of provisions to crack down on offshore tax avoidance by corporations but most of these were never even introduced as legislation in the House or Senate—even when they were both controlled by the President’s party.¹²

9 “Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions listed as Tax Havens or Financial Privacy Jurisdictions.” 2009. Government Accountability Office (GAO).

10 See box “Reporting tax haven subsidiaries” for more information

11 Raquel Meyer Alexander, Stephen W. Mazza, Susan Scholz, “Measuring Rates of Return for Lobbying Expenditures: An Empirical Analysis under the American Jobs Creation Act,” April 8, 2009. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1375082

12 Citizens for Tax Justice, “Obama’s Proposals to Address Offshore Tax Abuses Are a Good Start, but More Is Needed,” May 20, 2009. <http://www.ctj.org/pdf/offshoretax20090508.pdf>

Tax Havens Cost Ordinary Taxpayers and Small Businesses

Tax havens are a significant drain on the treasury, costing taxpayers an estimated \$100 billion a year according to the Senate Permanent Subcommittee on Investigations.¹³ When corporations don't pay, ordinary taxpayers are forced to shoulder the burden of higher taxes, fewer services, or a larger share of the federal debt. Although these corporations benefit from America's infrastructure, educated workforce, large markets, and national security, they are able to escape paying for it. A U.S. PIRG study found that the extra burden on each taxpayer comes out to an average of \$434 a year.¹⁴

Tax havens also give large corporations a competitive advantage over the responsible small and mid-sized businesses that must play by the rules and can't afford armies of high-priced tax attorneys. Businesses should compete on the quality of the products and services they offer, not on the aggressiveness of their tax attorneys.

At a time when vital programs are being cut to reduce the deficit, it is all the more egregious that large, highly profitable corporations avoid paying their fair share, or any share in the case of all but one of the thirty companies focused on. While funding for higher education, food and product safety, and public transportation is being cut, GE and Wells Fargo receive a giant tax break.

How to Close the Loopholes

The solution to closing offshore tax havens is simple. Congress should end the rule that allows U.S. corporations to "defer" U.S. taxes on their offshore profits.¹⁵ "Deferral" of U.S. taxes on these profits is often more like a blanket tax exemption for any U.S. profits that are dressed up as "foreign" profits using the accounting gimmicks already described.

How Do Tax Haven Schemes Work?

Imagine a hypothetical pharmaceutical company creates a new drug. Before putting it on the market, they sell the drug patent to a subsidiary that consists of just a post office box in the Cayman Islands, at practically no cost. The drug is produced, marketed and sold to U.S. customers in the United States. The U.S. company then pays inflated 'royalties' or 'licensing fees' to the offshore subsidiary. It deducts this "expense" from its taxable income, thereby avoiding corporate taxes.

The technique used by the hypothetical pharmaceutical company manipulates "transfer pricing," which refers to prices theoretically charged in transactions between subsidiaries of the same corporation. To shift profits offshore, one entity will undercharge or overcharge the other so the profits are booked to the tax haven country, while "business expenses" are booked to the company in the higher tax country.

Failing that key reform, there are some other steps that Congress can take that will lessen, if not eliminate, the problems associated with corporations shifting their profits to offshore tax havens:

- Treating the profits of publicly traded "foreign" corporations that are managed and controlled in the U.S. as domestic corporations for income tax purposes.
- Requiring full and honest reporting by ending the ability of multi-national corporations to hide the identity of their owners and the origins of their profits behind layers of shell companies and requiring a full reporting of profits, country by country.
- Closing the loophole that allows foreign subsidiaries of U.S. companies to deposit profits in U.S. financial institutions, thereby benefiting from the stability of the dollar while skipping out on U.S. taxes.

While these solutions would end the worst tax dodging abuses used today, unless reforms are enacted to curtail undue corporate influence of tax laws and regulations, corporations will continue to find loopholes and push for new ones. It is no accident that our tax code is riddled with loopholes and exemptions that lower the

13 "Tax Haven Banks and U.S. Compliance." Senate Permanent Subcommittee on Investigations, 2008. <http://www.gao.gov/products/GAO-09-157>

14 "Tax Shell Game: How Much Did Offshore Tax Havens Cost You in 2010?" 2010. <http://bit.ly/FTMgAF>

15 Citizens for Tax Justice, "Congress Should End 'Deferral' Rather than Adopt a 'Territorial' Tax System," March 23, 2011. <http://www.ctj.org/pdf/internationalcorptax2011.pdf>

tax burden of large corporations. There are currently at least 160 corporate lobbyists pushing for a second temporary corporate tax holiday like the one granted in 2004,¹⁶ which would allow corporations to bring profits back from offshore tax havens at a wildly discounted rate. To close corporate tax loopholes once and for all, we'll need to put a system of checks and balances on corporate power in the short term and overturn *Citizens United* and return democracy to citizens in the long term.

Campaign Finance Reform

We highlight lobbying on the second anniversary of the *Citizens United* decision as a cautionary tale. While the findings presented here largely take place before the court decision, they indicate the kind of corporate influence that will grow even greater in the absence of other reforms or an overturning of the decision.

One reason that corporate power to manipulate tax laws and other policies has increased over time is that the cost of elections has risen dramatically, making candidates more dependent on large contributors than ever. Between 1974 and 2008, the average amount of money a candidate's campaign would have to spend to win a place in Congress increased from \$56,000 to 1.3 million.¹⁷ Between 1992 and 2010 the average spent by the winners of U.S. Senate races increased by over \$4 million.¹⁸ In 1976, all of the candidates for President spent a collective \$66.9 million vs. \$1.3 billion in 2008. President Obama spent more than double in 2008 what George W. Bush spent in 2004.¹⁹

The 2012 race promises to be the most expensive in history—most are predicting at least four times the levels of spending from the record breaking 2008 election.

All this should serve as a reminder of the power corporations wield in our democracy. What is

quantified in this report may only be a fraction of the influence corporations are able to have on our politics. If we are to restore public trust in our government, we need to take action to correct the corrosive influence of corporate money in politics before democracy is a distant memory.

Limit Corporate Money in Elections

Full and honest disclosure: The *Citizens United* decision not only increased the ability of corporations to spend unlimited sums on elections, it also increased the need for strong public disclosure. Much of corporate campaign spending already takes place outside of existing disclosure rules. Money is spent by entities with noble and patriotic monikers

Citizens United vs. the Federal Election Commission

As bad as the problem of corporate influence has been in the past, *Citizens United vs. the FEC* struck down congressional rules to limit the power and influence of these special interests within the democratic process. In 2010, for the first time since 1906 corporations were allowed to spend money directly from their treasuries on electoral campaigns.

Although a lack of full disclosure prevents comprehensive analysis, business clearly upped its game in 2010. The U.S. Chamber of Commerce almost doubled its spending in the 2010 elections as compared to 2008.^a The Chamber jumped to the top of the list of independent spenders just behind the political parties according to OpenSecrets.org. Super PACs, the independent expenditure committees created in the wake of the Supreme Court's decisions, spent over 12 million dollars just in the recent Iowa Republican caucus.^b

Now, more than ever, those with money have more of a say in determining which candidates are able to run competitive campaigns and those in office have had to add another variable in the myriad of factors that affect their decision-making: how would my benefactors feel about this?

16 Drucker, Jesse and Richard Rubin. "Google Joins Apple in Push for Tax Holiday," 2011. <http://www.bloomberg.com/news/2011-09-29/google-joins-apple-mobilizing-lobbyists-to-push-for-tax-holiday-on-profits.html>

17 Huffington, Arianna. *Third World America*. New York, Crown Publishers. 2010. (p. 130)

18 The Center for Responsive Politics. <http://www.opensecrets.org/>

19 Ibid.

a The Center for Responsive Politics. <http://www.opensecrets.org/>

b Eggen, Dan. "Are Iowa Caucuses Harbinger of the super-PAC era?" The Washington Post. 3 January 2012. http://www.washingtonpost.com/politics/are-iowa-caucuses-harbinger-of-the-super-pac-era/2012/01/02/gIQA8zW7YP_story.html

that are often little more than front groups created to hide their true funding sources. In the post-*Citizens United* world, we need new rules to require full and honest disclosure so citizens know the source of support for candidates they are being asked to give their votes. Minnesota stands out as one state to enact stronger disclosure laws. Others should follow its lead.

Empowering shareholders: The post-tax profits of publicly traded companies rightfully belong to the shareholders. After the U.S. Supreme Court's decision, we learned of a number of CEOs and corporate board members who chose to use corporate funds as their personal political action committees. Target Corporation and 3M, both Minnesota-based companies, faced a public relations backlash for their political giving, which compromised shareholder value. If the U.S. Supreme Court insists that corporations are people, a proposition which the Montana Supreme

Court recently called “[entirely] offensive,”²⁰ then let's at least make sure the people who own the corporations have a say in how their money is spent. Resolutions have been filed by investors at several publicly traded companies to prohibit any political spending, require shareholder approval of any political spending or require disclosure of any political spending. Each of these policies would provide some level of accountability as well as greater transparency for these expenditures.

Reversing *Citizens United*: Closing tax loopholes and empowering shareholders are important first steps, however, we cannot make our government work for the public without changing a campaign finance system that inherently favors moneyed interests. The Supreme Court must either come to understand the consequences of its decision and reverse itself or we will need to identify and develop additional measures to blunt the impact of unlimited spending by unaccountable corporate actors.

20 The Hon. Justice Nelson, *J. Western Tradition Partnership, Inc., Champion Painting, Inc., and Montana Shooting Sports Association, Inc. v. the Attorney General and the Commissioner of the Commission for Political Practices*. The Supreme Court of the State of Montana. December 30, 2011 (p. 79).

Conclusion

The most recent Gallup polls show that 67 percent of Americans believe that major corporations have too much power and 71 percent believe the same of lobbyists.²¹ Evidence that 29 corporations were able to exploit tax loopholes to pay less than nothing in federal income taxes, while at the same time lobbying Congress for more special treatment, backs up this suspicion.

With our country facing enormous budget challenges, our elected leaders should side with the public by closing corporate tax loopholes and eliminating the undue influence of corporate money from our elections to get to the root of the problem.

21 Gallup. March 25-27, 2011. <http://www.gallup.com/poll/5248/Big-Business.aspx#1>