Multinationals pay lower taxes than a decade ago

FT ft.com/content/2b356956-17fc-11e8-9376-4a6390addb44

March 11, 2018

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.

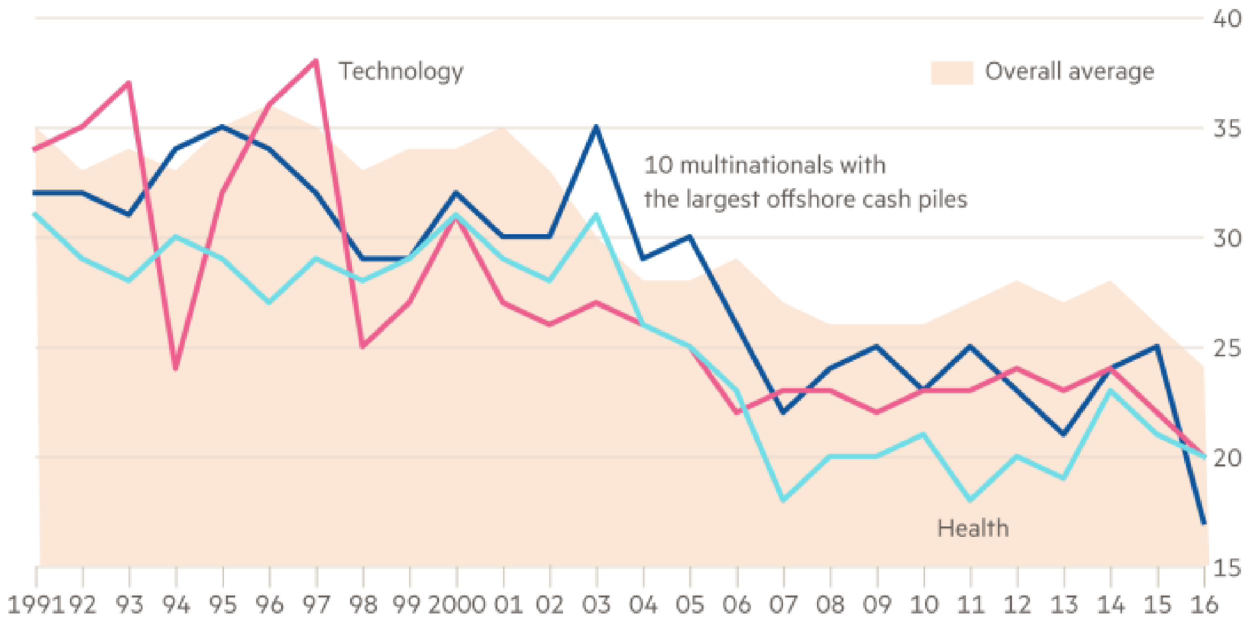
Governments' cuts to their headline corporate tax rates only explain around half the overall fall, suggesting multinationals are still outpacing attempts to tighten tax collection.

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.

Companies are paying lower taxes

Effective corporate tax rates for selected sectors (%)



Sources: FT calculations, S&P Capital IQ

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.”

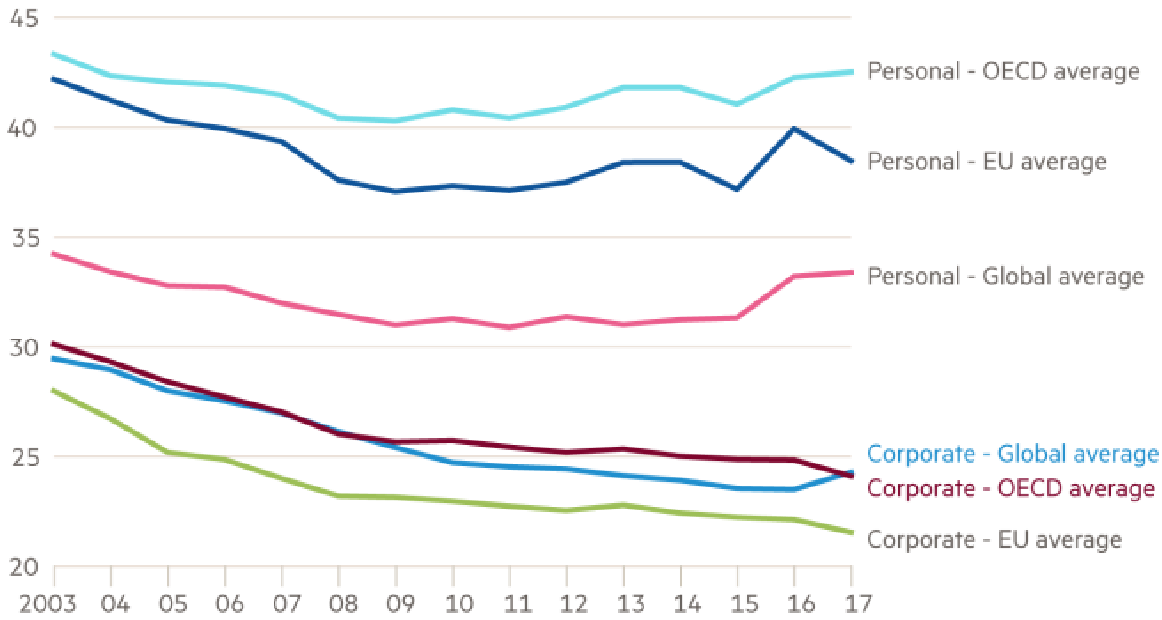
Since the financial crisis, average reported effective tax rates have fallen around 13 per cent for the largest technology and industrial companies, according to the FT’s research. They have been broadly flat in the health, consumer staples and materials sectors.

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.

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

Headline tax rates (%)

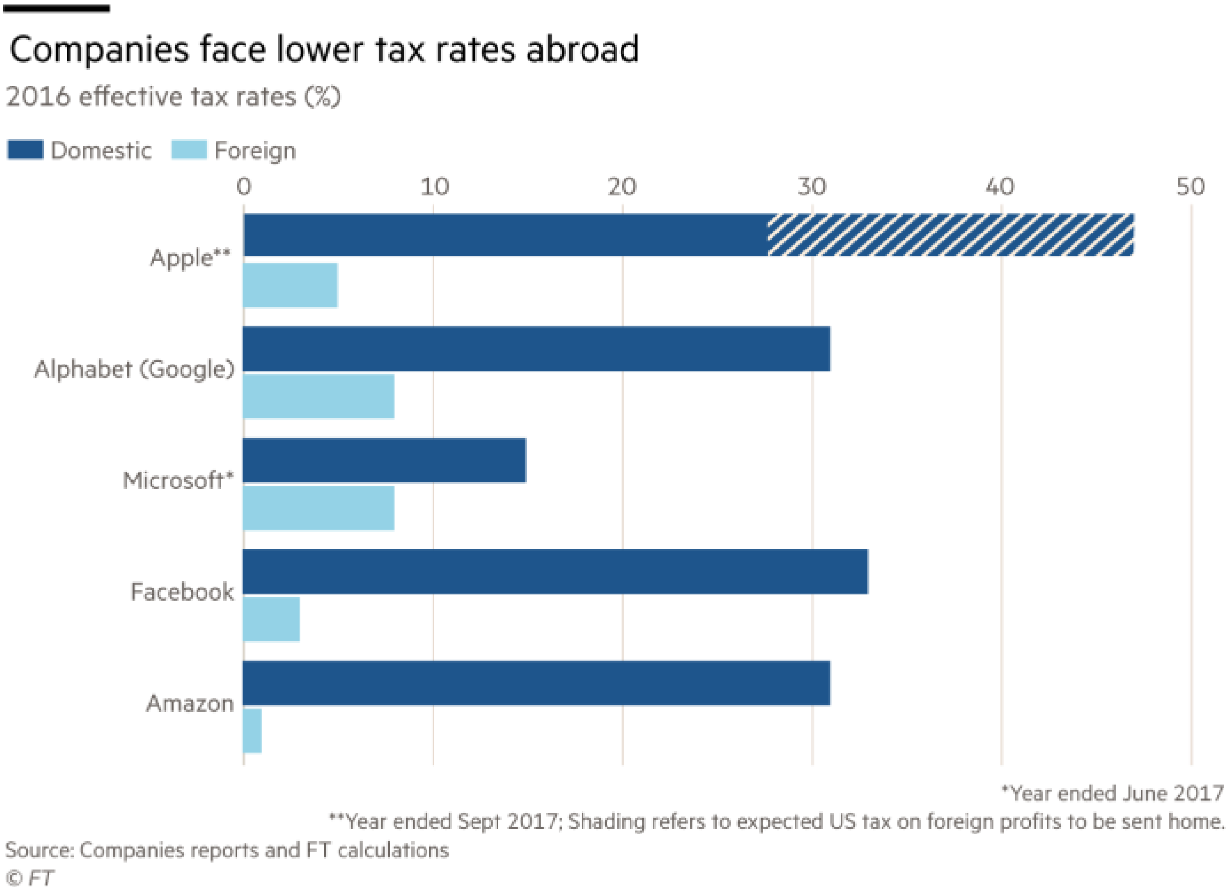


Source: KPMG

“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.

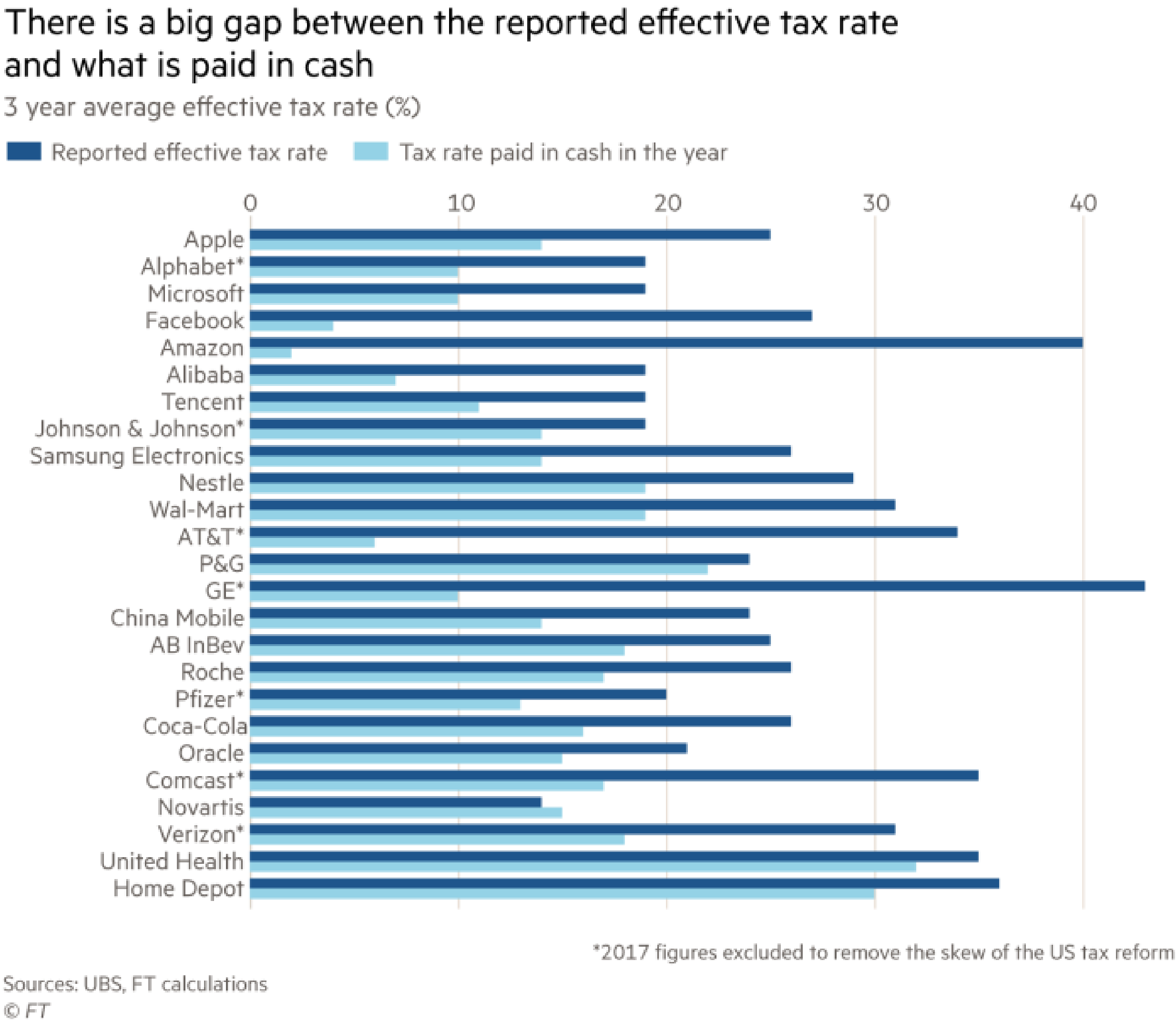
Group level accounts show many big tech companies tend to pay significantly less tax on foreign profits than the money they earn at home. The groups argue they pay all taxes legally required and some have acknowledged the need for tax reform.

Listen: Why are tax rates for multinationals still falling?

National laws to implement the OECD's 15-point action plan to cut aggressive tax avoidance — through so-called base erosion and profit shifting — are starting to come into force. Mr Devereux expects new restrictions on interest charges between countries — clamping down on inter-company loans often used by multinationals to shift profits between jurisdictions — "will show up next year [in the numbers] if it's going to have any effect".

Other initiatives are expected to take longer before they show up in corporate results.

The gap between companies' reporting of what they expect to pay in tax, and the actual payments as revealed by cash transfers, has also grown because of anomalies in the tax system that encouraged some US companies to park cash or profits overseas during this period.

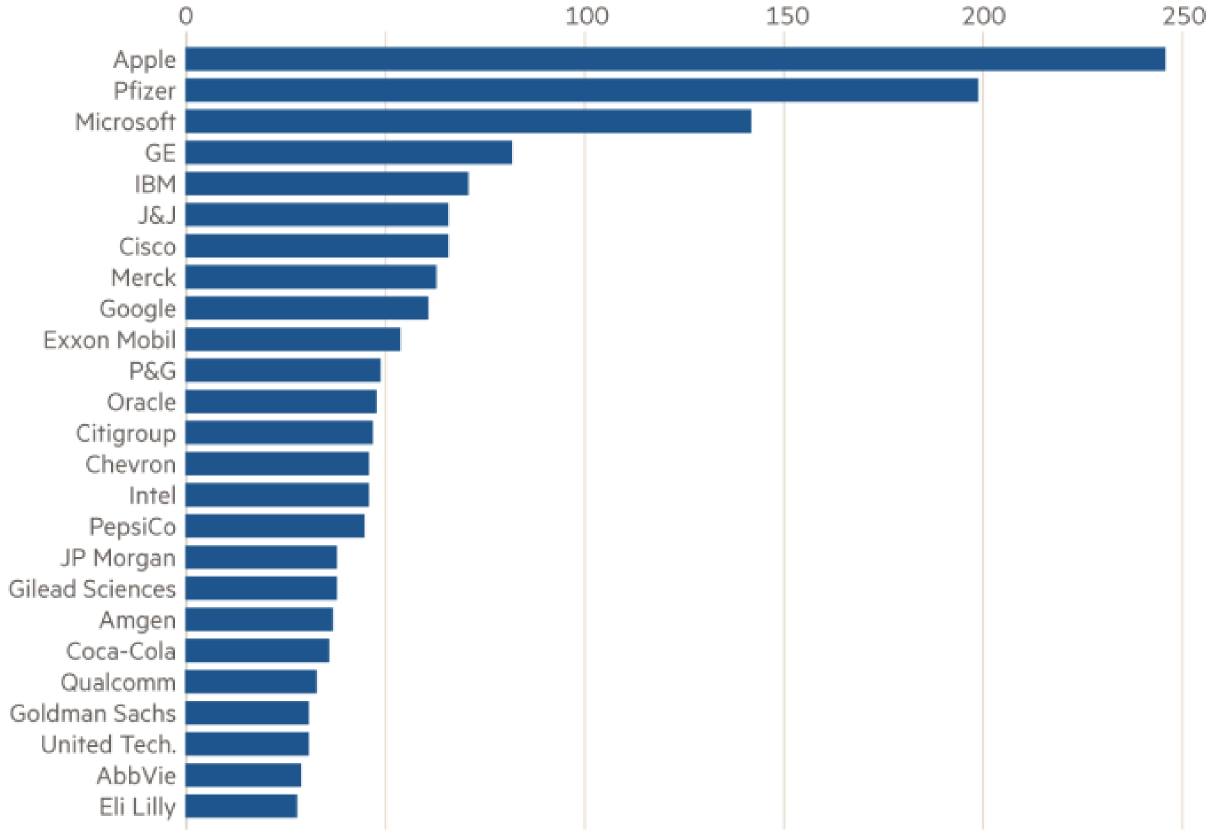


By the end of last year US companies had built up almost $2.6tn in untaxed cash held offshore, according to the Institute for Taxation and Economic Policy.

The US overhauled its tax rules in December, hitting companies' offshore cash with a 15.5 per cent one-off levy. It also lowered the corporate tax rate from 35 per cent to 21 per cent. The one-off levy could net Washington about $400bn in tax revenues but will also save companies up to $500bn compared to the headline corporate tax rate that applied when the profits were earned, the FT estimates.

Fortune 500 US companies held $2.6tn cash offshore in 2016

Wth over half of that in just 25 companies (amount held offshore, $bn)



Source: Institute for Taxation and Economic Policy