

October 2004

## National Report Highlights Eleven North Carolina Corporations that Avoided Paying Federal Taxes

### Overview

A study released by Citizens for Tax Justice and the Institute on Taxation and Economic Policy (ITEP) examined the U.S. profits of 275 of the nation's largest and most profitable corporations to compare the legislated tax rate of 35 percent to the amount paid in taxes - known as the effective tax rate - for tax years 2001, 2002, and 2003. The report included 11 North Carolina companies that paid less than the legislated federal corporate income tax rate in at least one of the tax years examined. Of the 82 companies that paid *zero or less* in federal income taxes during this period, three are North Carolina companies: Nucor, SPX, and Wachovia.

### National Findings

This report compares the amount of pretax U.S. profits to the amount each company reports it paid in federal corporate income tax during a three-year period to calculate an effective tax rate. During this time frame, each of the 275 corporations examined were listed in *Fortune's* 2004 list of America's largest corporations and each company was profitable every year. On average, the companies paid an effective tax rate of 21.4 percent in 2001, 17.1 percent in 2002, and 17.2 percent in 2003, which is significantly lower than reported for a similar group of large companies paying an average of 26.5 percent in 1988.

### North Carolina Findings

Eleven of the 275 companies that have paid less than the legislated federal tax rate within the three-year period are headquartered in North Carolina.

<b>North Carolina Corporations Included in Tax Study</b>					
		<b>Effective Tax Rates</b>			
	<b>Business Classification</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>3-year Total</b>
Bank of America	Financial	29.6	24.7	27.9	27.3
BB&T	Financial	11.5	10.3	0.3	7.6
Family Dollar	Retail & Wholesale Trade	25.5	29.0	33.4	29.7
Goodrich	Aerospace & Defense	14.0	2.0	29.4	11.3
Jefferson-Pilot	Financial	28.5	34.0	16.3	26.1
Lowe's	Retail & Wholesale Trade	29.6	25.0	28.2	27.4
Nucor	Metals & Metal Products	28.2	21.5	-74.9	8.7
Sonic Automotive	Motor Vehicles & Parts	23.6	23.1	24.8	23.8
SPX	Electronics	1.1	-2.7	14.0	3.6
VF Corporation	Manufacturing	38.0	22.7	30.5	30.1
Wachovia	Financial	14.0	-4.0	17.2	9.6

Some of the North Carolina companies received among the largest tax breaks of the 275 companies examined. The report highlighted that:

- Two North Carolina companies – Wachovia and Bank of America – whose tax breaks cut taxes by -72 percent and -22 percent, respectively, were in the top 25 corporate tax break recipients.
- Bank of America ranked 13th among the 275 companies in tax savings from stock options, 2001-03.
- Wachovia ranked 5th among the 275 companies with the largest accelerated depreciation tax breaks.
- North Carolina-based companies paying less than half the 35 percent rate at least once during the three-year period include BB&T, Goodrich, Nucor, SPX and Wachovia.

### **How Do Corporations Lower Their Tax Bills?**

By analyzing the companies' annual reports, the authors discuss several ways in which the corporations included in the study paid lower taxes.

1. *Accelerated depreciation* – Federal law allows corporations to deduct the depreciation of capital investments faster than the goods wear out.
2. *Stock options* – Several corporations allow employees to purchase company stock at a reduced price. Companies may claim a deduction for the difference in the stock's value less the amount paid by employees.
3. *Tax credits* – Companies are allowed numerous federal tax credits, such as credits for investment or exporting, which reduce tax liability.
4. *Offshore tax sheltering* – Some corporations sought to shift their profits out of the country to avoid paying tax. Wachovia was the target of a PBS *Frontline* investigation that described how the company bought German municipal property, such as sewer and rail tracks, and leased it back to the municipality in an attempt to reduce its profit.
5. *Alternative Minimum Tax (AMT)* – The report points out that most companies avoided the AMT. In contrast, the federal individual AMT is affecting more moderate-income families because the AMT is not indexed for inflation.

### **Are North Carolina's Tax Revenues Impacted?**

The North Carolina corporate income tax is based on federal taxable income. As a result, state corporate revenues were negatively affected because of federal tax breaks. However, North Carolina law prohibits the public release of corporate tax information and Securities and Exchange Commission (SEC) rules that require the disclosure of federal corporate tax information do not require state tax information to be released. Therefore, only greater disclosure of North Carolina corporate tax payments can allow our policymakers to know how seriously the North Carolina tax base has been compromised.

The full report may be accessed at: <http://www.ctj.org/corpfed04an.pdf>.

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