Forbes.com

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What The Top U.S. Companies Pay In Taxes

Christopher Helman, 04.01.10, 3:00 PM ET
HOUSTON -

As you work on your taxes this month, here's something to raise your hackles: Some of the world's biggest, most profitable corporations enjoy a far lower tax rate than you do--that is, if they pay taxes at all.

The most egregious example is General Electric. Last year the conglomerate generated $10.3 billion in pretax income, but ended up owing nothing to Uncle Sam. In fact, it recorded a tax benefit of $1.1 billion.

Avoiding taxes is nothing new for General Electric. In 2008 its effective tax rate was 5.3%; in 2007 it was 15%. The marginal U.S. corporate rate is 35%.

How did this happen? It's complicated. GE's tax return is the largest the IRS deals with each year--some 24,000 pages if printed out. Its annual report filed with the Securities and Exchange Commission weighs in at more than 700 pages.

Inside you'll find that GE in effect consists of two divisions: General Electric Capital and everything else. The everything else--maker of engines, power plants, TV shows and the like--would have paid a 22% tax rate if it was a standalone company.

It's GE Capital that keeps the overall tax bill so low. Over the last two years, GE Capital has displayed an uncanny ability to lose lots of money in the U.S. (posting a $6.5 billion loss in 2009), and make lots of money overseas (a $4.3 billion gain). Not only do the U.S. losses balance out the overseas gains, but GE can defer taxes on that overseas income indefinitely. The timing of big deductions for depreciation in GE Capital's equipment leasing business also provides a tax benefit, as will loan losses left over from the credit crunch.

But it's the tax benefit of overseas operations that is the biggest reason why multinationals end up with lower tax rates than the rest of us. It only makes sense that multinationals "put costs in high-tax countries and profits in low-tax countries," says Scott Hodge, president of the Tax Foundation. Those low-tax countries are almost anywhere but the U.S. "When you add in state taxes, the U.S. has the highest tax burden among industrialized countries," says Hodge. In contrast, China's rate is just 25%; Ireland's is 12.5%.

Corporations are getting smarter, not just about doing more business in low-tax countries, but in moving their more valuable assets there as well. That means setting up overseas subsidiaries, then transferring to them ownership of long-lived, often intangible but highly profitable assets, like patents and software.

As a result, figures tax economist Martin Sullivan, companies are keeping some $28 billion a year out of the clutches of the U.S. Treasury by engaging in so-called transfer pricing arrangements, where, say, Microsoft's overseas subsidiaries license software to its U.S. parent company in return for handsome royalties (that get taxed at those lower overseas rates).