

## ECONOMIC ANALYSIS

## Foreign Tax Profile of Top 50 U.S. Companies

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In 2010 America's 50 most profitable companies generated nearly \$600 billion of profits before taxes — 38 percent of all U.S. profits. The average effective corporate tax rate reported to shareholders was 26 percent. Foreign profits comprised 50 percent of worldwide profits, and the average foreign effective tax rate was 25 percent. These 50 firms accumulated a total of \$681 billion in undistributed foreign profits for which they have not booked any U.S. tax liability. The WIN America coalition is seeking a repatriation holiday to bring that \$681 billion back to the United States.

Of those 50 companies, seven are listed as supporters on the WIN America coalition website ([www.winamericacampaign.org](http://www.winamericacampaign.org)): Apple, Cisco Systems, Devon Energy, Google, Microsoft, Oracle, and Pfizer. These seven companies had a total of \$164 billion in accumulated undistributed foreign profits. On average, their foreign effective tax rate was 12 percent.

### Diversity

These 50 giants of American business are a diverse bunch. Some are entirely domestic operations, while others make most of their sales and profits abroad. Some report high effective tax rates, and some report rates that are extremely low. Table 1 provides a summary of tax information about these 50 companies. Table 2 provides data for each. To make it easier to wade through all these numbers, we divided the 50 companies into five categories:

**(1) Energy and mining** (six companies). This category is dominated by Big Oil. These companies routinely have foreign effective tax rates in excess of the 35 percent U.S. statutory rate. They also have large amounts of unrepatriated accumulated foreign

profits. But in most cases there is little or no lockout effect because of the large amounts of foreign tax credits.

**(2) Financial** (nine companies). Big insurance companies and big investment houses became bank holding companies at the end of 2008 so they could be eligible for funds from the Troubled Asset Relief Program. All these institutions went through holy hell during the financial crisis. But now, thanks to a helping hand from Uncle Sam, their profits are surging. At the moment, international tax planning and tax avoidance do not seem to be a high priority for financial institutions. None of the six companies listed here with significant foreign operations has a foreign effective tax rate below 25 percent, except AIG. Citibank, whose foreign profits are the largest of the group, had a foreign effective tax rate of 51 percent in 2010.

**(3) Domestic** (five companies). These companies report little or no foreign profits and taxes. AT&T's extraordinarily low effective tax rate of -6 percent in 2010 is because of an \$8.3 billion reduction in tax expenses resulting from a favorable IRS settlement.

**(4) Multinationals with relatively small foreign tax benefits** (10 companies). These are companies with foreign effective tax rates of more than 25 percent or with less than \$2 billion in foreign profits. IBM is included in this category because of its relatively high foreign effective tax rate of 30 percent. UPS, Corning, and General Motors are included despite their below 20 percent tax rates because of their relatively low levels of foreign profits.

**(5) Multinationals with large foreign tax benefits** (20 companies). This is where the action is in foreign tax. These 20 companies had \$139 billion of foreign profits, 62 percent of their worldwide total. They had an average foreign effective tax rate of 15 percent. They had \$468 billion of accumulated undistributed foreign profits, which would reap substantial benefits if a second repatriation holiday were enacted.

Table 1. Summary of Foreign Tax Profiles of 50 Most Profitable U.S. Companies  
(\$ in Billions)

| Category              | Number of Companies | 2010 Total Before-Tax Profits | Worldwide Effective Tax Rate | Foreign Profits (\$) | Foreign Profits (%) | Foreign Effective Tax Rate | Accumulated Undistributed Foreign Earnings |
|-----------------------|---------------------|-------------------------------|------------------------------|----------------------|---------------------|----------------------------|--|
| Total                 | 50                  | \$592.0                       | 26%                          | \$296.0              | 50%                 | 25%                        | \$680.9                                    |
| Energy and Mining     | 6                   | \$124.4                       | 39%                          | \$94.4               | 76%                 | 40%                        | \$70.8                                     |
| Financial             | 9                   | \$108.0                       | 27%                          | \$39.3               | 36%                 | 33%                        | \$83.2                                     |
| Domestic              | 5                   | \$43.1                        | 28%                          | —                    | —                   | —                          | —  |
| Small Foreign Benefit | 10                  | \$91.9                        | 26%                          | \$23.3               | 25%                 | 30%                        | \$58.8                                     |
| Large Foreign Benefit | 20                  | \$224.6                       | 22%                          | \$139.0              | 62%                 | 15%                        | \$468.1                                    |

These are high-technology, pharmaceutical, and high-value trademark companies. Their effective foreign tax rates are well below the tax rates at which the companies do most of their non-U.S. business — probably because they have manufacturing operations in low-tax jurisdictions like Ireland and Singapore, and they have placed valuable intangibles in holding companies in tax havens like Bermuda and the Cayman Islands.

### Notes

The 50 most profitable corporations were selected by sorting the 2010 *Fortune* 500 companies by after-tax profits and choosing the top 50 from that sorted list.

All data are derived from the latest available Form 10-K reports filed annually with the SEC. Most information was extracted from the income tax footnote.

Most companies' fiscal years align with calendar years. For companies ending their calendar years at midyear or at the end of the third quarter of the calendar year, 2010 data presented here are for the fiscal year ending in calendar year 2010. Wal-Mart's and Home Depot's latest complete fiscal years ended on January 31, 2011, and are reported here as 2010.

Worldwide and foreign effective tax rates were computed, not transcribed directly, from data on Forms 10-K. Foreign and worldwide before-tax profits were usually reported in the tax footnote. Sometimes only foreign percentages of worldwide totals were presented, and dollar amounts of foreign profits were computed using the reported percentages. Berkshire Hathaway, some financial companies, and companies in our domestic category did not separately report foreign earnings.

Worldwide effective tax rates (ETRs) are calculated by dividing reported total income tax liability — federal, state, and foreign, both current and deferred — by reported before-tax worldwide profit. Except for Exxon Mobil, these calculations yield ETRs equal to ETRs reported by the companies.

Exxon Mobil's reported worldwide ETR for 2010 is 45 percent (compared with the calculated ETR of 41 percent).

The foreign ETR is not a figure companies directly report on their Forms 10-K. Foreign ETR rates are calculated for this article by dividing total reported foreign income tax liability — both current and deferred — by reported before-tax foreign profit.

AT&T does not separately report any foreign income, any foreign income tax liability, or any effect of foreign taxes in its tax rate reconciliation table.

Microsoft does not disaggregate deferred tax expenses into foreign and domestic subcategories. So foreign ETR includes just current foreign taxes in the numerator.

Apple's latest complete fiscal year ended on September 30, 2010.

Unlike other pharmaceutical companies and companies with significant foreign earnings subject to low tax, Johnson & Johnson does not separately report undistributed accumulated foreign earnings.

Berkshire Hathaway does not report foreign earnings separately. Other information from its annual report suggests most of its business is in the U.S. market. Its relatively small amount (\$127 million) of undistributed accumulated foreign earnings suggests foreign tax benefits are not large.

Procter & Gamble's latest complete fiscal year for which data are available ended on June 30, 2010. Procter & Gamble does not disaggregate deferred tax expense into foreign and domestic subcategories. So foreign ETR includes just current foreign taxes in the numerator.

Wells Fargo does not separately report foreign profits, nor is there an entry in its reconciliation table for foreign taxes. Foreign tax expense is a small fraction of its total tax expense.

Deferred tax included in the numerator of Intel's foreign ETR calculation includes (presumably small) deferred state and local tax expense not separately reported.

Foreign profits and foreign taxes used in Goldman Sachs' foreign ETR calculation are only for Europe, Asia, the Middle East, and Africa.

AIG does not separately report any undistributed accumulated foreign earnings.

Cisco's fiscal year ends on July 31.

Philip Morris separately reports U.S. tax on repatriated foreign profits. These U.S. taxes are not included in the foreign ETR calculation.

United Technologies does not separately report undistributed accumulated foreign earnings.

For American Express, the denominator of foreign ETR does not include any unallocated losses.

Table 2. Foreign Tax Profile of 50 Most Profitable U.S. Companies (\$ in Billions)

|  | 2010 Total Before-Tax Profits | Worldwide Effective Tax Rate | Foreign Profits (\$) | Foreign Profits (%) | Foreign Effective Tax Rate | Accumulated Undistributed Foreign Earnings |
|--|-------------------------------|------------------------------|----------------------|---------------------|----------------------------|--|
| <b>Category 1: Energy and Mining</b>   |                               |                              |                      |                     |                            |  |
| Occidental   | \$7.6                         | 40%                          | \$4.3                | 56%                 | 45%                        | \$6.0                                      |
| Exxon Mobil  | \$53.0                        | 41%                          | \$45.2               | 85%                 | 44%                        | \$35.0                                     |
| ConocoPhillips   | \$19.8                        | 42%                          | \$13.5               | 69%                 | 44%                        | \$4.1                                      |
| Chevron  | \$32.1                        | 40%                          | \$25.5               | 80%                 | 43%                        | \$21.3                                     |
| Freeport McKenna   | \$8.5                         | 35%                          | \$7.2                | 85%                 | 38%                        | —  |
| Devon Energy   | \$3.6                         | 35%                          | \$0.6                | 18%                 | 28%                        | \$4.3                                      |
| <b>Category 2: Financial Companies</b>   |                               |                              |                      |                     |                            |  |
| Citi   | \$13.2                        | 17%                          | \$12.2               | 93%                 | 51%                        | \$32.1                                     |
| J.P. Morgan  | \$24.9                        | 30%                          | \$8.3                | 33%                 | 35%                        | \$19.3                                     |
| Morgan Stanley   | \$6.2                         | 12%                          | \$2.7                | 43%                 | 33%                        | \$5.1                                      |
| American Express   | \$6.0                         | 32%                          | \$1.4                | 23%                 | 29%                        | \$7.4                                      |
| Goldman Sachs  | \$12.9                        | 35%                          | \$6.0                | 47%                 | 28%                        | \$17.7                                     |
| AIG  | \$17.9                        | 33%                          | \$4.7                | 26%                 | 24%                        | —  |
| Wells Fargo  | \$18.7                        | 34%                          | —                    | —                   | —                          | \$1.6                                      |
| PNC Financial  | \$4.1                         | 26%                          | —                    | —                   | —                          | —  |
| U.S. Bancorp   | \$4.2                         | 22%                          | —                    | —                   | —                          | —  |
| <b>Category 3: Domestic Companies</b>  |                               |                              |                      |                     |                            |  |
| AT&T   | \$18.2                        | -6%                          | —                    | —                   | —                          | —  |
| United Health Group  | \$7.4                         | 37%                          | —                    | —                   | —                          | —  |
| Comcast  | \$6.1                         | 40%                          | —                    | —                   | —                          | —  |
| CVS  | \$5.6                         | 39%                          | —                    | —                   | —                          | —  |
| Altria   | \$5.7                         | 32%                          | —                    | —                   | —                          | —  |
| <b>Category 4: Small Foreign Tax Benefit (Foreign Profit &lt; \$2 Billion or Foreign ETR &gt; 25%)</b> |                               |                              |                      |                     |                            |  |
| Berkshire Hathaway   | \$19.1                        | 31%                          | —                    | —                   | —                          | —  |
| Disney   | \$6.6                         | 35%                          | \$0.6                | 8%                  | 78%                        | \$0.2                                      |
| Home Depot   | \$5.3                         | 37%                          | \$0.4                | 8%                  | 42%                        | \$2.0                                      |
| Ford   | \$3.0                         | 2%                           | \$1.1                | 38%                 | 34%                        | \$1.3                                      |
| IBM  | \$19.7                        | 25%                          | \$10.6               | 54%                 | 30%                        | \$31.1                                     |
| Wal-Mart   | \$23.5                        | 32%                          | \$5.1                | 22%                 | 29%                        | \$17.0                                     |
| United Technologies  | \$6.5                         | 28%                          | \$3.9                | 59%                 | 29%                        | —  |
| UPS  | \$5.5                         | 37%                          | \$0.7                | 13%                 | 19%                        | \$2.7                                      |
| Corning  | \$1.4                         | 24%                          | \$0.3                | 20%                 | 18%                        | \$0.4                                      |
| General Motors   | \$1.2                         | 13%                          | \$0.6                | 51%                 | 16%                        | \$4.1                                      |
| Kraft  | \$3.6                         | 31%                          | \$2.6                | 71%                 | 24%                        | \$8.4                                      |
| <b>Category 5: Large Foreign Tax Benefit (Foreign Profit &gt; \$2 Billion or Foreign ETR &lt; 25%)</b> |                               |                              |                      |                     |                            |  |
| Philip Morris  | \$10.3                        | 27%                          | \$10.3               | 100%                | 24%                        | \$14.0                                     |

**Table 2. Foreign Tax Profile of 50 Most Profitable U.S. Companies**  
(\$ in Billions) (continued)

|                   | 2010 Total<br>Before-Tax Profits | Worldwide<br>Effective Tax Rate | Foreign Profits<br>(\$) | Foreign Profits<br>(%) | Foreign Effective<br>Tax Rate | Accumulated<br>Undistributed<br>Foreign Earnings |
|-------------------|----------------------------------|---------------------------------|-------------------------|------------------------|-------------------------------|--|
| Procter & Gamble  | \$15.0                           | 27%                             | \$6.7                   | 44%                    | 24%                           | \$30.0   |
| General Electric  | \$14.2                           | 7%                              | \$9.1                   | 64%                    | 23%                           | \$94.0   |
| Hewlett Packard   | \$11.0                           | 20%                             | \$6.9                   | 63%                    | 20%                           | \$21.9   |
| 3M Co.            | \$5.8                            | 28%                             | \$3.0                   | 52%                    | 20%                           | \$5.6  |
| McDonalds         | \$7.0                            | 29%                             | \$4.2                   | 61%                    | 19%                           | \$11.0   |
| Oracle            | \$11.4                           | 25%                             | \$5.0                   | 44%                    | 19%                           | \$21.0   |
| Pfizer            | \$9.4                            | 12%                             | \$11.9                  | 126%                   | 18%                           | \$48.2   |
| Pepsi             | \$8.2                            | 23%                             | \$4.2                   | 51%                    | 18%                           | \$26.6   |
| Coca-Cola         | \$14.2                           | 17%                             | \$7.0                   | 49%                    | 17%                           | \$20.8   |
| Johnson & Johnson | \$16.9                           | 21%                             | \$10.6                  | 62%                    | 15%                           | —  |
| Intel             | \$16.0                           | 29%                             | \$2.1                   | 13%                    | 14%                           | \$11.8   |
| Eli Lilly         | \$6.5                            | 22%                             | \$3.6                   | 55%                    | 13%                           | \$19.9   |
| Abbott            | \$5.7                            | 19%                             | \$6.0                   | 105%                   | 12%                           | \$26.8   |
| Microsoft         | \$25.0                           | 25%                             | \$15.4                  | 62%                    | 11%                           | \$29.5   |
| Cisco Systems     | \$9.4                            | 18%                             | \$8.3                   | 88%                    | 5%                            | \$31.6   |
| Amgen             | \$5.3                            | 13%                             | \$3.1                   | 58%                    | 5%                            | \$17.2   |
| Google            | \$10.8                           | 21%                             | \$5.8                   | 54%                    | 3%                            | \$17.5   |
| Apple             | \$18.5                           | 24%                             | \$13.0                  | 70%                    | 1%                            | \$12.3   |