GAO Highlights

Highlights of GAO-13-520, a report to congressional requesters

Why GAO Did This Study

Proponents of lowering the U.S. corporate income tax rate commonly point to evidence that the U.S. statutory corporate tax rate of 35 percent, as well as its average effective tax rate, which equals the amount of income tax corporations pay divided by their pretax income, are high relative to other countries. However, GAO's 2008 report on corporate tax liabilities (GAO-08-957) found that nearly 55 percent of all large U.S.-controlled corporations reported no federal tax liability in at least one year between 1998 and 2005.

Given the difficult budget choices Congress faces and its need to know corporations' share of the overall tax burden, GAO was asked to assess the extent to which corporations are paying U.S. corporate income tax. In this report, among other things, GAO (1) defines average corporate ETR and describes the common methods and data used to estimate this rate and (2) estimates average ETRs based on financial statement reporting and tax reporting. To conduct this work, GAO reviewed economic and accounting literature, analyzed income and expense data that large corporations report on the Schedules M-3 that they file with Internal Revenue Service (IRS), and interviewed IRS officials.

What GAO Recommends

GAO does not make recommendations in this report. GAO provided a draft of this report to IRS for review and comment. IRS provided technical comments which were incorporated as appropriate.

View GAO-13-520. For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

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CORPORATE INCOME TAX

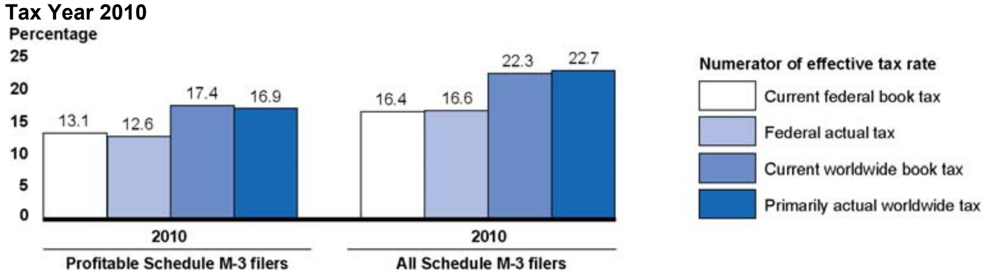
Effective Tax Rates Can Differ Significantly from the Statutory Rate

What GAO Found

Effective tax rates (ETR) differ from statutory tax rates in that they attempt to measure taxes paid as a proportion of economic income, while statutory rates indicate the amount of tax liability (before any credits) relative to taxable income, which is defined by tax law and reflects tax benefits and subsidies built into the law. Lacking access to detailed data from tax returns, most researchers have estimated ETRs based on data from financial statements. A common measure of tax liability used in past estimates has been the current tax expense—either federal only or worldwide (which comprises federal, foreign, and U.S. state and local income taxes). The most common measure of income for these estimates has been some variant of pretax net book income. GAO was able to compare book tax expenses to tax liabilities actually reported on corporate income tax returns.

For tax year 2010 (the most recent information available), profitable U.S. corporations that filed a Schedule M-3 paid U.S. federal income taxes amounting to about 13 percent of the pretax worldwide income that they reported in their financial statements (for those entities included in their tax returns). When foreign and state and local income taxes are included, the ETR for profitable filers increases to around 17 percent. The inclusion of unprofitable firms, which pay little if any tax, also raises the ETRs because the losses of unprofitable corporations greatly reduce the denominator of the measures. Even with the inclusion of unprofitable filers, which increased the average worldwide ETR to 22.7 percent, all of the ETRs were well below the top statutory tax rate of 35 percent. GAO could only estimate average ETRs with the data available and could not determine the variation in rates across corporations. The limited available data from Schedules M-3, along with prior GAO work relating to corporate taxpayers, suggest that ETRs are likely to vary considerably across corporations.

Comparison of Alternative Measures of Average Effective Tax Rates for Schedule M-3 Filers, Tax Year 2010



Source: GAO analysis of IRS data.