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Who's Complaining about Health Care Reform? (And What Do They Pay in Taxes?)

Companies That Are Lobbying Against Tax-Loophole-Closing Reform Pay Low Effective Tax Rates

A new analysis from CTJ shows that many of the companies protesting a tax-loophole-closing reform enacted in the new health care reform law are paying corporate taxes at less than a third of the 35 percent statutory corporate tax rate, and in some cases are actually getting tax rebates back from the federal government.

Last December, as it became evident that Congress might seek to help pay for health care reform by eliminating an unusual tax break for employers who provide prescription drugs benefits to their retirees, a group of ten large corporations wrote a letter to Congress protesting this move. Since President Barack Obama signed into law the health care reform (which eliminated the tax break) a number of companies have announced prominently that the loss of this tax break will affect their after-tax income going forward.

- **Some of the companies that wrote the December letter protesting this tax change managed to pay less than one-third of the 35 percent statutory federal corporate tax rate in at least one year from 2007 to 2009, despite being profitable in these years. Xerox, Navistar, Verizon, Boeing, Con-Way, and Deere all paid less than a third of the statutory rate on their profits in at least one of those years.**
- **Three of these companies — Boeing, Verizon and Xerox — actually got federal tax rebates in at least one profitable year during this period, meaning that their corporate income taxes were less than zero. In fact, over the past three years, Xerox got \$46 million in net tax rebates, for an effective tax rate of *negative* 41 percent!**
- **Overall, 6 of the 10 companies that wrote Congress to protest the closing of their loophole reported pretax U.S. profits in 2009. On those \$17.3 billion in total profits, they paid an effective federal income tax rate of only 0.1 percent!.**
- **Several other companies have, in the wake of the health care reform's enactment, announced one-time tax charges related to the lost prescription drug tax loophole. A number of them paid less than one-third of the 35 percent federal statutory tax rate in at least one profitable year since 2007, including Armstrong, Honeywell, Goodrich, AT&T, Allegheny, and PPG Industries.**
- **Three of these companies — Allegheny, Armstrong, and Honeywell — actually got federal tax rebates in profitable years during this period.**

The Repealed Tax Loophole Should Never Have Been Enacted

The eliminated tax break was created as part of the 2003 Medicare prescription drug law. It should never have been enacted. It was part of a deal to (ostensibly) encourage employers to continue offering prescription drug coverage to their retirees, to prevent those retirees from turning to the Medicare drug program.

The companies, as well as state and local employers, were given a federal subsidy of 28 percent of the cost of their retiree drug programs. In addition, private employers were allowed to both exclude the subsidy from their taxable income *and* take a tax deduction as if they had paid the government's share of their retiree drug benefits. In effect, this gave them a double deduction, and a much bigger net subsidy than the Medicare law provided to public employers. (For more on this unwarranted tax break, see:

http://www.ctj.org/taxjusticedigest/archive/2010/04/and_so_it_begins_big_business.php .)

The new health care reform law leaves in place the 28 percent subsidy for both public and private employers, but eliminates the double deduction that private employers have enjoyed.

The Write-Downs Do NOT Represent Immediate Costs to the Companies

The charges that the companies are announcing may sound like big numbers, but they're actually costs that the companies will pay over many, many years. The charges reflect the costs of losing the tax break for the subsidies for retiree drug coverage over the course of the retirees' lives, which will be decades. In fact, the companies refer to the charges as "non-cash" charges because they do NOT represent costs that they must pay this year.

Investors Couldn't Care Less

Several media outlets have reported that Goldman Sachs has written a report for its clients explaining that the write-downs announced by the companies have not adversely affected their stock prices. Indeed, several companies, such as Verizon and Caterpillar, have seen their stock prices rise since making the announcements. The Goldman-Sachs report also notes that the companies may see many benefits from health care reform, even though these future benefits are not reflected in their financial statements.

	Pretax US Profits			Federal Income Taxes			Effective Tax Rates			
	2009	2008	2007	2009	2008	2007	2009	2008	2007	
8 (of 10) companies that sent a letter to Congress in Dec.										
Xerox	\$ 47	\$ -623	\$ 689	\$ 113	\$ -26	\$ 30	\$ -46	nm	4.4%	-40.7%
Navistar	441	299	-214	526	9	1	13	3.0%	nm	2.5%
Verizon	10,309	14,450	13,016	37,775	365	2,568	2,322	2.5%	19.7%	6.1%
Boeing	1,493	3,774	5,737	11,004	44	1,260	1,172	1.2%	22.0%	10.7%
Caterpillar	-635	2,105	2,063	3,533	673	515	745	nm	32.0%	25.0%
Exelon	4,264	3,865	3,887	12,016	790	1,269	2,862	18.8%	20.4%	32.6%
Con-Way	-95	178	233	317	20	52	80	nm	11.2%	22.2%
Deere	744	1,670	1,561	3,975	559	484	1,046	0.4%	33.5%	31.0%
7 other companies reporting writeoffs so far										
Armstrong	76	171	221	468	8	5	-140	-203%	4.9%	2.2%
Honeywell	1,744	1,933	2,020	5,697	493	249	715	-1.5%	25.5%	12.3%
Goodrich	545	720	511	1,776	118	62	224	8.0%	16.5%	12.1%
AT&T	17,799	20,177	17,778	55,754	1,160	5,872	9,884	16.0%	5.7%	33.0%
Allegheny	61	801	1,062	1,925	143	292	343	-150%	17.8%	27.5%
Lockheed	4,284	4,702	4,368	13,354	1,385	1,199	3,294	16.6%	29.5%	27.4%
PPG Industries	260	660	789	1,709	140	294	437	1.2%	21.2%	37.3%
Totals for these 15 companies	\$ 41,077	\$ 54,222	\$ 52,933	\$ 148,232	\$ 2,918	\$ 14,152	\$ 22,951	7.1%	10.8%	26.7%

Source: corporate annual reports for 2009. Note: "nm" = not meaningful