

# US government survey: Most corporations pay no taxes

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A study released Tuesday by the Government Accountability Office (GAO) reveals that the majority of corporations pay no federal taxes on profits accrued through business conducted within the US.

From 1998-2005, the period covered by the survey, about two thirds of both domestic and international businesses paid no federal taxes, while about one quarter of large US corporations, defined as those with over \$250 million in assets and at least \$50 million in sales, had no tax liability.

While it failed to name the ways specific corporations avoided taxes, the GAO survey, based on Internal Revenue Service records, attributes the failure to three factors: tax credits, operating losses and “transfer pricing,” which means corporations internally shift taxable profits to their own subsidiaries in lower-tax nations.

Both Senators John McCain and Barack Obama have proposed lowering the top-end US corporate tax rate if elected. At least on paper, it is possible for extremely profitable corporations to be taxed as much as 35 percent of their profits in the US, a higher top-end corporate tax rate than prevails in most other advanced industrial OECD (Organization for Economic Cooperation and Development) nations, although the US top-end income tax rate for extremely wealthy individuals is among the lowest.

Right-wing critics of the tax on corporate profits claim that the 35 percent rate puts US-based corporations at a competitive disadvantage in the global competition to create what is euphemistically called, “a friendly business environment.”

However, the GAO report demonstrates that this high-end tax rate is largely mythical, as the majority of corporations in fact pay no taxes whatsoever.

The decline in the taxes that corporations actually pay

is also suggested by the decline in the relative share these taxes contribute to the federal budget. According to an April report issued by the liberal Economic Policy Institute (EPI), in the 1950s corporate taxes represented one quarter of all federal revenue. Since 2000, this figure has fallen to about one tenth. The resulting shortfall has largely been made up through payroll taxes on US workers, according to the EPI.

The GAO study also listed the sustaining of regular operating losses as a possible explanation for corporations’ failure to pay taxes. Of the millions of companies submitting tax forms in the period, the vast majority were small businesses. There is no reason to doubt that many of these small ventures lose money year after year, and are dependant for their survival upon tax credits. Yet the crisis of the auto and airline industries demonstrates that the piling up of debt extends to the biggest corporations as well. At the same time, the tax code encourages companies to claim losses precisely as a means of avoiding tax payments.

Democratic Senators Carl Levin of Michigan and Byron Dorgan of North Dakota had made the request for the GAO study. The purported impetus behind the request was the senators’ suspicion that “foreign” corporations were benefiting unequally from the US tax code, paying substantially less than their US-based competitors through the use of transfer pricing.

In fact, the report suggested that, especially after 2001, differences in terms of tax liability between “foreign-controlled domestic corporations” (FCDC) and “U.S.-controlled corporations” (USCC) “were not statistically significant.”

Responding to the report, Levin and Dorgan condemned corporations for avoiding taxes. Levin claimed that the report “makes clear that too many corporations are using tax trickery to send their profits

overseas and avoid paying their fair share in the United States.”

This is all hot air. Levin and Dorgan are big business politicians, who receive hundreds of thousands of dollars in contributions from corporations and wealthy individuals. They have been overseeing the tax regime for many years—Levin has been in the Senate since 1979, Dorgan since 1992—and either they knew perfectly well what was going on, or they were neglectful in the extreme. In any event, they won’t lift a finger to change the situation.

The GAO report demonstrates that the tax system provides no means of redistributing social wealth from the corporate oligarchy to the great majority of the population. Just the opposite is the case.



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