

Apple CEO defends multi-billion-dollar tax dodge

Andre Damon
22 May 2013

Apple CEO Tim Cook used his appearance Tuesday at a hearing of the Senate Permanent Subcommittee on Investigations—called to investigate Apple’s evasion of billions of dollars in taxes—to call for a sharp reduction in the corporate tax rate. The senators on the committee, Democratic and Republican alike, agreed with Cook that the appropriate response to the systematic evasion of taxes carried out by Apple and other US corporations was to enact pro-corporate tax “reform.”

Cook’s appearance followed the publication Tuesday of a report by the committee showing that Apple, one of the world’s largest companies by market capitalization, pays almost no taxes on the bulk of its income. The report found that between 2009 and 2011, Apple paid only \$21 million in taxes on all of its earnings outside the United States—an effective tax rate of 0.06 percent.

Apple managed to avoid paying taxes on its worldwide profits by funneling them through global subsidiaries, the main ones being based in Ireland, where the company pays a nominal corporate tax rate of 2 percent. The report found that in 2011, Apple posted 64 percent of its global pretax income in Ireland, a country that accounts for less than one percent of its global sales.

Since the United States bases a corporation’s tax nationality on the country where it is incorporated, and Ireland bases it on where a firm is managed, Apple’s subsidiaries were able to sidestep taxation in both countries by being incorporated in Ireland and managed in the US.

According to the Senate committee’s report, Apple used this gimmick to pay little or no taxes on at least \$74 billion over the past four years. One of Apple’s Irish-based units, Apple Operations International, has not filed a tax return in any country for the past five years. The report said of this subsidiary: “Despite reporting net income of \$30 billion over the four-year period 2009 to 2012... [it] paid no corporate income taxes to any national government during that period.”

By Apple’s own estimate, cited in the Senate report, the company avoided paying \$9 billion in taxes in 2012. It paid

only \$6 billion in US taxes that year after reporting a record \$41.7 billion in profit—an effective tax rate of less than 15 percent.

Apple CEO Cook was completely unapologetic at the hearing, saying, “We pay all the taxes we owe... Every single dollar. We not only comply with the laws, but we comply with the spirit of the laws.”

The Senate committee concluded as well that Apple had violated no laws by evading billions of dollars in taxes. To the extent that this is technically true, it only demonstrates the corrupt character of the entire tax structure, which is designed to allow major corporations to avoid paying taxes.

Cook went on to call for “comprehensive tax reform” that would slash the corporate tax rate while supposedly eliminating tax loopholes. He concluded his prepared remarks by saying, “Apple has recommended to the Obama administration and several members of Congress... to pass legislation that dramatically simplifies the US corporate tax system.”

Cook treated the senators with well-deserved contempt, knowing he had nothing to fear from them. They, in turn, treated Cook with cringing deference.

“Apple is a great company,” said the committee chairman, Carl Levin (Democrat of Michigan), at the beginning of his remarks. Other senators followed suit, heaping praise on the company. No one suggested that any sanctions, criminal or financial, be imposed, or that any action be taken to hold Cook and the company accountable for defrauding the American people.

Kentucky Republican Rand Paul openly defended Apple, presenting the firm as the victim of a federal tax structure that penalizes US corporations. “I’m offended by a \$4 trillion government bullying, berating and badgering one of America’s greatest success stories,” he declared, and demanded that the committee “tell me what Apple’s done that is illegal.” He continued: “What we need to do is apologize to Apple and compliment them for the job-creation they’re doing.”

While major US corporations routinely move profits

offshore to minimize their taxes, investigators told the committee that Apple was the first company they had seen that claimed a substantial portion of its profits was not taxable by any country.

Apple's evasion of corporate taxes is not the exception for corporate America, it is the rule. In September, the same senate panel investigated tax avoidance by Apple's competitors, Microsoft and Hewlett-Packard, which used similar methods to avoid paying billions of dollars in taxes.

General Electric paid an 11 percent effective tax rate in 2011, according to Citizens for Tax Justice, after paying negative taxes for the previous three years as a result of vast tax breaks given to US manufacturers.

The Senate report noted the correspondence between the expansion of the US federal debt and the decline in the effective corporate tax rate, noting, "At the same time the US federal debt has continued to grow—now surpassing \$16 trillion—the US corporate tax base has continued to decline, placing a greater burden on individual taxpayers and future generations."

The report quoted an earlier document from the Congressional Research Service that noted: "At its post-WWII peak in 1952, the corporate tax generated 32.1 percent of all federal tax revenue. In that same year, the individual tax accounted for 42.2 percent of federal revenue, and the payroll tax accounted for 9.7 percent of revenue. Today, the corporate tax accounts for 8.9 percent of federal tax revenue, whereas the individual and payroll taxes generate 41.5 percent and 40.0 percent, respectively, of federal revenue."

As a result of this drastic reduction in corporate tax rates, individuals paid \$1.1 trillion in federal taxes in 2011, while corporations paid only \$181 billion.

The subcommittee report hinted at the vast scale of corporate offshore tax havens, noting that the "foreign profits of controlled foreign corporations (CFCs) of US multinationals significantly outpace the total GDP of some tax havens. For example, profits of CFCs in Bermuda were 645 percent and in the Cayman Islands were 546 percent as a percentage of GDP, respectively."

According to a report released this month by Audit Analytics, US corporations' overseas earnings hit a record \$1.9 trillion in 2012. The total stockpile of these profits, which are not taxable in the US, has swelled by 70 percent over the last five years. Apple itself is sitting on a vast cash hoard of \$145 billion, of which \$102 billion is outside of the US and not subject to US corporate taxes.

Under pressure from shareholders demanding higher returns, Apple issued \$17 billion in bonds earlier this month to pay dividends to investors rather than repatriate some of its offshore cash hoard, on which it would have had to pay

taxes.

The Senate report highlights the role of corporations in driving up the deficit, which is universally presented as the burning issue facing the country. Yet there are no demands from any section of the political or media establishment that corporate profits derived from withholding taxes be seized. Instead, both parties demand the gutting of social programs upon which millions of working people depend, as well as the lowering of wages and slashing of health care and pensions.

This demonstrates the fact that the economic policies of the Obama administration and both parties are determined not by the so-called "national interest," but by the class interests of the corporate-financial elite.

The Senate Permanent Subcommittee on Investigations' report on Apple is only the latest in a series of reports by the panel documenting rampant corporate fraud and criminality, none of which have led to any serious consequences for the malefactors.

In 2011, the subcommittee issued a voluminous report on the 2008 Wall Street crash that documented fraud and violations of securities laws by Goldman Sachs and Deutsche bank, as well as collusion on the part of the credit ratings firms and government regulators. Earlier this year, the panel issued a report establishing that the top management of JPMorgan Chase, including Chairman and CEO Jamie Dimon, concealed from the government and the public billions of dollars in speculative losses.

Thousands of pages of reports notwithstanding, not a single leading banker has been prosecuted for the criminal actions that led to the crash of 2008. On the contrary, this social layer has been rewarded with trillions of dollars in bank bailouts and cash infusions from the Federal Reserve.

Tuesday's hearing makes clear that there is no way to end this vast looting operation outside of the restructuring of society and transformation of corporations into public enterprises under the democratic control of the working population.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact