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POLITICS AND POLICY

Many Companies Avoided Taxes Even as Profits Soared in Boom

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WASHINGTON -- More than 60% of U.S. corporations didn't pay any federal taxes for 1996 through 2000, years when the economy boomed and corporate profits soared, the investigative arm of Congress reported.

The disclosures from the General Accounting Office are certain to fuel the debate over corporate tax payments in the presidential campaign. Corporate tax receipts have shrunk markedly as a share of overall federal revenue in recent years, and were particularly depressed when the economy soured. By 2003, they had fallen to just 7.4% of overall federal receipts, the lowest rate since 1983, and the second-lowest rate since 1934, federal budget officials say.

The GAO analysis of Internal Revenue Service data comes as tax avoidance by both U.S. and foreign companies also is drawing increased scrutiny from the IRS and Congress. But more so than similar previous reports, the analysis suggests that dodging taxes, both legally and otherwise, has become deeply rooted in U.S. corporate culture. The analysis found that even more foreign-owned companies doing business in the U.S. -- about 70% of them -- reported that they didn't owe any U.S. federal taxes during the late 1990s.

"Too many corporations are finagling ways to dodge paying Uncle Sam, despite the benefits they receive from this country," said Sen. Carl Levin (D., Mich.), who requested the study along with Sen. Byron Dorgan (D., N.D.). "Thwarting corporate tax dodgers will take tax reform and stronger enforcement." A 1999 GAO study on corporate tax payments reached similar results.

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The latest report has given new ammunition to the campaign of Democratic presidential challenger Sen. John Kerry, who has criticized President Bush for failing to crack down on corporate tax dodgers. Mr. Kerry wants to end corporations' ability to park their overseas earnings in tax havens, in order to discourage outsourcing; in return, he is proposing a lower U.S. corporate tax rate.

A spokeswoman said that Mr. Kerry "wants to make America more fair, so that average Americans don't have to pick up the tab for corporate-America profits."

Tomorrow, Mr. Kerry is expected to outline his ideas for reducing the budget deficit. Yesterday, he criticized Mr. Bush for dropping a budget rule, used in prior administrations, mandating that any new tax breaks be paid for by revenue or spending cuts elsewhere in the budget.

To be sure, Mr. Kerry has supported some of the most recent big corporate breaks, such as those contained in a 2002 economic stimulus bill. And the latest GAO report focused on tax avoidance that took place entirely during the Clinton years.

A spokesman for the Bush campaign said Mr. Kerry's own campaign has acknowledged its plan wouldn't stop outsourcing. "Sen. Kerry has a habit of putting forth political statements that wouldn't achieve the policy goals that he says they would," Bush spokesman Scott Stanzel said.

An IRS spokesman noted that the agency recently has stepped up enforcement activity for business taxpayers. The Bush administration's 2005 budget request includes a 10% increase for IRS enforcement, mostly to go after more corporations.

The GAO report also may further fuel a drive in Congress to crack down on a variety of corporate tax-dodging strategies, such as a recently discovered leasing maneuver that allows companies to buy up depreciation rights to public transit lines, highways and water systems. Senate tax-committee leaders have released a list of companies involved that includes a number of well-known financial firms, such as First Union Commercial Corp., a unit of **Wachovia** Corp. Wachovia has defended its involvement, saying the transactions are legal.

The new report also could spur further IRS action against tax-shelter peddlers and their customers. The IRS is closely examining tax-shelter deals sold by accounting firms such as KPMG LLP, for example. That firm recently experienced a management shake-up in response to the inquiry.

Conservatives depicted the GAO report as an argument for tax-code overhaul for both corporations and individuals. Dan Mitchell, a fellow at the Heritage Foundation, a conservative think tank, also noted in corporations' defense that they have an obligation to shareholders to pay as little tax as they legally can.

The report examined a sample of tax information for the years 1996 through 2000; for 2000, it covered about 2.1 million returns filed by U.S.-controlled corporations and 69,000 filed by foreign-controlled corporations. It showed that big companies -- defined as those with at least \$250 million in assets or \$50 million in gross receipts -- were more likely to pay taxes than smaller ones. Still, the GAO said 45.3% of large U.S.-controlled companies and 37.5% of large foreign-controlled companies had no tax liability in 2000. More than 35% paid less than 5% of their income.

The basic federal corporate-tax rate for big corporations is 35%. But the federal tax code also offers many credits and loopholes that allow many companies to pay far less than that.

Despite the rising rate of tax avoidance among corporations, collections from the federal corporate income tax rose to more than \$200 billion in 2000, from \$171 billion in 1996. But over the next three years they fell each year, reaching \$131.8 billion in 2003 -- the lowest annual total since 1993. They are projected to reach \$168.7 billion this year.

---- Rob Wells contributed to this article.

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