

# 20 big profitable U.S. companies paid no taxes

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U.S. companies are looking for all sorts of ways to reduce their tax bill. But scores of big U.S. companies just paid no taxes or effective tax rates of 0%.

There are 20 companies in the Standard & Poor's 500, including drugmaker Merck (MRK), computer storage company Seagate (STX) and automaker General Motors (GM), which reported effective tax rates of 0% or lower in the second calendar quarter despite reporting a profit during the period, according to a USA TODAY analysis of data from S&P Capital IQ. To be included, the companies also needed to report positive earnings before taxes including unusual items.

This analysis shows that while U.S. companies and investors constantly grumble about corporate tax rates, there are many companies that pay nowhere near the highest rates. This is the rule, not an exception. A 2013 report from the U.S. Government Accountability Office found that profitable U.S. firms filing a Schedule M-3 paid federal taxes of 13% of pretax worldwide income. That's well below the top 35% statutory rate.

But some profitable companies can pay even less than that during time to time. And the second quarter is another good example.

The biggest example during the second quarter is drugmaking giant Merck. The company had a negative effective tax rate during the second quarter of 7.5%, meaning it actually got a net tax credit. That's despite the fact that income before taxes at Merck soared 52% to \$1.9 billion during the quarter.

Merck appears to be gaining on the tax front, in part, by the fact it earns profits in countries with lower tax rates. In its regulatory filing, Merck pointed to the "beneficial impact of foreign earnings" as part of the reason for the low effective tax rate. Perhaps more importantly, Merck got a tax benefit in the quarter from an option exercise connected with rival AstraZeneca buying Merck's interest in a partnership. Financial moves connected to the deal resulted in Merck getting a one-time tax benefit.

Merck's effective tax rate last year was much higher, 18%, since it didn't have some of the same benefits. But Seagate has made habit out of keeping effective tax rates low. During its fiscal year ended June 27, the company had an income tax benefit of \$14 million, which was double the \$7 million income tax benefit of fiscal 2013, according to the company's regulatory filing. During fiscal 2014, the company got a big tax benefit from "the reversal of a portion of the valuation allowances recorded in prior periods." But Seagate also points out it gets a boost from the fact its parent holding company is based in low-tax country Ireland. The company paid this low tax rate despite reporting income before taxes of \$1.6 billion during the quarter.

Again, these companies describe how they're following appropriate tax rules. But it's still interesting to see how some corporate income escapes taxes on any given quarter. Keep in mind too several of the stocks on the list, including Public Storage (PSA) and Kimco Realty (KIM) are real-estate investment trusts. These companies are required to pay out nearly all their profits to investors, which keeps taxes low at the corporate level. That's one reason this corporate structure is getting more popular.

Below are the 20 companies in the S&P 500 that reported 0% (or lower) effective tax rates during the second calendar quarter of 2014:

| Company              | Symbol | Net income Q2 2014 (\$ mils) |
|----------------------|--------|------------------------------|
| Merck                | MRK    | \$2,004                      |
| Seagate Tech.        | STX    | \$320                        |
| Thermo Fisher        | TMO    | \$278.5                      |
| General Motors       | GM     | \$278                        |
| Public Storage       | PSA    | \$276.8                      |
| Iron Mountain        | IRM    | \$271.6                      |
| Newmont Mining       | NEM    | \$180                        |
| Eaton                | ETN    | \$171                        |
| Avalonbay            | AVB    | \$158.1                      |
| Kimco Realty         | KIM    | \$89.5                       |
| Prologis             | PLD    | \$81.2                       |
| Boston Properties    | BXP    | \$79.1                       |
| Apartment Investment | AIV    | \$77                         |
| Plum Creek Timber    | PCL    | \$55                         |
| Citrix Systems       | CTXS   | \$53                         |
| Crown Castle         | CTXS   | \$53                         |
| Macerich             | MAC    | \$16.1                       |
| News Corp.           | NWSA   | \$13                         |
| Essex Prop.          | MRK    | \$6.3                        |

