BRIEFING

TAX WATCH

US effective tax rate over 4 times higher for tech companies

A new study has shown that large technology companies have historically paid more than four times in tax on their US profits than on profits made in the rest of the world.

In our latest study we looked at pre-tax profits reported by major multinational companies in the technology sector. Our study looked at Microsoft, Apple, Alphabet, Facebook, Cisco Systems, Adobe, Intel and Nvidia.

Under US stock market rules companies have to report the amount of their pre-tax profits that are made overseas and the taxes paid to foreign governments.

The study found that over the last five years technology companies have faced a tax rate of just 9.6% on profits generated outside of the US. By contrast, the same companies have seen a tax liability of 45% on profits generated in the United States.

Average ETR 2015-2019	Microsoft	Apple	Alphabet	Facebook	Cisco	Adobe	Intel	Nvidia	Total
Foreign total tax rate	**14.57%**	**8.21%**	**8.54%**	**5.21%**	**13.29%**	**6.94%**	**10.17%**	**3.12%**	**9.60%**
Foreign income as % total	72.22%	67.31%	56.59%	66.06%	68.37%	67.14%	41.63%	57.74%	63.51%
US current tax rate	76.27%	68.44%	37.89%	52.42%	76.10%	32.22%	30.03%	10.06%	54.88%
US total tax rate	**52.13%**	**48.08%**	**39.71%**	**48.36%**	**80.94%**	**20.81%**	**31.27%**	**3.75%**	**45.32%**

Part of this significant gap is explained by the large, one-off tax bills faced by companies in the US to deal with historic tax abuse following tax reform in 2017. For example, in 2017 Apple faced a tax bill of 71% on its US profits. Google had an effective tax rate of 120% on its US profits. For some companies these large charges also appear in 2018 and 2019 as new rules were issued by the IRS on how to account for the tax reforms brought in in 2017.

However, pre-tax reform there were still very significant gaps between the rates these companies paid on US profits and on non-US profits.

In 2016, Google had a tax bill of just 7.6% outside the US and a rate of 28.7% on its US profits. In the same year, Facebook paid just 2.6% of non-US profits in tax, whereas in the US it faced a tax bill of 30.9% on US profits.

Recently, the gap appears to have closed, following significant tax cuts in the United States, which saw the headline rate of federal corporation tax fall from 35% to 21%

in 2017. At the same time action by tax officials around the world has increased the focus on tax avoidance by multinational companies.

In 2019, the US based technology companies in our study had a total foreign tax bill of 13.6% on profits generated outside of the United States. The total US tax bill was 15.6% of US profits, or 25.4% on a current tax basis.

The worldwide average tax rate was 26% in 2019 when weighted by GDP.

The figures call into question the claims made by companies on why they pay so little tax outside of the United States. Frequently when challenged companies claim that the reason that non-US governments see relatively small tax payments in their jurisdiction is due to the fact that profits should be allocated to the United States where the value of the product is created.

However, TaxWatch's study shows that the majority of US tech companies state in their annual accounts that most of their profits are made outside of the United States. On average the companies in our study reported that 63.5% of their profits were generated outside of the United States.

In 2019, Facebook states that 79% of its pre-tax profit was made outside of the US. Adobe claimed that it made 86% of its profits outside of the United States, on which it paid a tax rate of just 7.2%. Nvidia, the maker of high end graphics cards made 50% of its profits outside of the US, on which it paid just 3.7% tax.

The study also showed significant differences between the corporation tax liabilities of different companies on their non-US profits.

Between 2015 and 2019 Microsoft paid 14.6% of its non-US profits in tax, whereas over the same period Nvidia paid just 3.12% of its foreign earnings in tax. Most companies achieved figures in the single digits.