Tax lobbying provides 22,000 percent return to multinational firms, KU researchers find

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Three professors at the University of Kansas have found that a one-time tax break allowed multinational corporations to receive a 22,000 percent average return on lobbying expenditures.

The study was conducted by Raquel Meyer Alexander, assistant professor of accounting; Stephen Mazza, associate dean of the School of Law; and Susan Scholz, associate professor of accounting and Harper Faculty Fellow. Mazza recently presented their findings at the Critical Tax Theory Conference, sponsored by the Indiana University Maurer School of Law in Bloomington.

A recent tax law change provided a tax break to the corporations by lowering their tax rate 85 percent on certain worldwide income. The professors examined the extensive lobbying around the law change and found that for each dollar spent on lobbying, a corporation received $220 in U.S. income tax savings.

The American Jobs Creation Act, among other provisions, allowed U.S. multinational corporations a one-time opportunity to bring home foreign earnings at an extremely low tax rate. In effect, it lowered the corporate income tax rate from 35 percent to a maximum of 5.25 percent on repatriated amounts. In response, 843 firms repatriated over $312 billion at this reduced tax rate. Using financial disclosures in the annual reports of multinational corporations, the researchers examined 476 publicly traded firms that repatriated more than $298 billion.

More than 105 companies repatriated more than $500 million. The firms with the largest repatriation amounts include Pfizer, Merck & Co., Hewlett Packard, Johnson & Johnson and IBM. Pfizer repatriated $37 billion, which represented nearly 30 percent of its total assets and 70 percent of its revenue in 2004. In the financial industry, Citigroup, JP Morgan, Morgan Stanley, Merrill Lynch and General Electric repatriated a total of $12.1 billion. Using empirical techniques to study the characteristics of these firms, Alexander, Mazza and Scholz conclude that repatriation provided significant tax savings to a relatively small group of larger, older and more profitable companies.

Further, the KU professors found that firms lobbying for the repatriation provision received lucrative returns on their lobbying investment. On average, firms generated a 22,000 percent return on tax lobbying. When the researchers examined the firms investing more than $1 million in tax lobbying, the return jumped to 24,300 percent. For example, Eli Lilly & Co. disclosed spending $8.52 million in 2003 and 2004 lobbying for this provision. In return, the company gained a tax savings of more than $2 billion.

Alexander, Mazza and Scholz conclude that the tax policy implications are troubling. Many economic development policies are aimed at supporting emerging firms and industries. This tax provision appears to be doing the opposite as it provides tax subsidies to well-established and highly profitable firms and industries.

Mazza hopes this study informs elected officials when similar provisions are introduced."Perhaps it is time for a national conversation about the role of lobbyists in tax reform. We should be concerned when a corporation's most lucrative investment is in lobbying the government for tax benefits."

Source: University of Kansas