RE: Question about Your Report "Corporate Tax Avoidance in the First Year of the Trump Tax Law"

Hi Adam,

The 22.2% tax rate Comcast cites is the company’s overall effective tax rate for 2018. It’s different from our statistic in two ways. First, it’s a worldwide statistic. They’re including both US and foreign income in their denominator, and are including US, state and foreign income taxes in their numerator.

Second, they’re including both current income taxes (the taxes the company paid in 2018) and deferred income taxes (the amount of tax the company estimates it will eventually pay based on 2018 income).

For purposes of our report, we wanted to evaluate the workings of the 21 percent federal corporate income tax—how close to the legal rate large companies are paying. For this purpose, Comcast’s approach is simply wrong. Including foreign income and foreign tax (and state income tax) means they’re looking at the effect of every taxing jurisdiction on their income taxes, not just the federal tax. And including deferred taxes means they’re counting taxes the company may never pay.

As an example: like other companies, Comcast keeps track of the cumulative amount of deferred income taxes it forecasts it’ll pay in future years. At the end of 2016, the company’s cumulative deferred tax liability was $37 billion. At the end of 2017, a year later, the company’s deferred liability was $12 billion smaller, at $25 billion. This is because after the passage of 2017 tax cuts, the company reduced its estimate of the deferred taxes it would eventually pay on pre-2017 income by $12 billion, a huge amount. Deferred liabilities are forecasts, and changes in the tax law can affect those forecasts dramatically.

This doesn’t mean, by the way, that Comcast is cooking up some devious new way of calculating effective tax rates. Their calculation is a standard one in financial reporting. It’s just not the right calculation to make for those seeking to evaluate the workings of the federal corporate income tax.

One other point RE this: if you look at the “correct” federal income tax number in Comcast’s 2018 10-K annual financial report, it includes $229 million of tax the company didn’t actually pay. There’s an accounting concept called “unrecognized tax benefits” (UTB’s), tax breaks a company has claimed in its tax filings but believes it won’t get away with on audit. Comcast increased its current-year UTB’s by $229 million in 2018. When the company says its current federal income tax was $2 billion in 2018, it’s calculating that amount by assuming that whole $229 million will end up getting paid. If circumstances change and the company’s $229 million of UTB’s are not taken away on audit, the $2 billion number will end up substantially smaller. So while current federal income tax is the best number you’re going to find in annual reports for purposes of the calculation we want to make, you should think of it as a high-end estimate of what the company will actually pay in the end.
Hope this is helpful. Feel free to reach out with followup questions.
Cheers,
Matt Gardner