What the BBC did not tell us

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On November 23, 2017, in an interview with BBC, I pointed out that Apple was paying all the taxes that it was legally obligated to pay. This was the quote the BBC chose to use following an hour-long interview recorded a week earlier. For the record, what I told the BBC did not fit their narrative, namely, that corporations should be milked for all they are worth.

My first and most important point was that though the so-called “rich” own Apple stock, so do tens of millions of government workers (firefighter and teachers, for example) at federal, state and local levels. Hence, when governments tax Apple’s profits, they harm the retirement prospects of these workers. This fact is easy to prove.

Apple’s effective tax rate, based on actual cash taxes paid, was 18.1% in fiscal 2017. The company’s current market cap is close to $900 billion. What would have happened to Apple’s market cap if it paid the full 35% statutory rate? Based on fiscal 2017’s pre-tax earnings, it would have lowered net income by another $11 billion. Apple’s current P/E ratio is 20. If Apple was forced to send an additional $11 billion to Washington, its market cap would have taken a $220 billion hit (20 times $11 billion), and with that the retirement ambitions of many of its shareholders.

Taxing corporations destroys capital. This is why so many US corporations relocate their operations abroad to countries where corporate tax rates are so much lower than in the US to protect shareholder wealth. Instead of castigating Apple’s management, they should be applauded. Some of these “relocations” are based more on legal constructs than on the physical movement of assets, but all within the limits of what the tax codes of the countries involved allow.

Secondly, there is a very good reason why countries like Ireland, The Netherlands and Singapore offer US corporations attractive tax incentives to relocate some of their operations. Such relocations result in the creation of jobs, often highly skilled jobs. After spending a small fortune of the taxpayers’ wages on educating the youth, it is vitally important that newly-minted graduates find gainful employment. Apple has 116,000 employees. Not only do governments tax the salaries of these employees, but they also extract social security taxes and, in the case of BBC’s UK, national health insurance taxes. Corporations are the engines of economic growth, job creators and innovators. It makes no sense to harm their business models by taxing their profits.

Also, consider that Apple’s total operating expenses amounted to $165 billion in fiscal 2017. There are only 55 countries with a GDP more than $165 billion. For every $15 billion (9% of operating expenses) that Apple’s spends in Ireland, the country’s GDP grows by +5%.

There is also the argument that corporations do not pay tax, they merely pass the expense onto consumers. Hence, if the UK wants to slap a higher tax on Apple, the price of iPhones will be increased to recover additional costs incurred thanks to Her Majesty's revenue collectors.

I proposed a more sensible tax regime, but the BBC preferred the comments of a Nobel Laureate who claimed to be working on normalizing the tax regimes of nations – good luck with that. I recommended a tax on the worldwide revenues of corporations of 1% to 2%, with such revenues being distributed to the governments of the countries where the revenues were generated. Tax capital gains and dividends at 15% at source, again distributing such taxes in line with the revenue tax distributions. Tax all dividends and capital gains, regardless of the entity owning the stocks or residence status. For example, university endowments would not be exempt. Only allow 50% of short-term capital losses as tax deductions against capital gains within three years of incurring the losses. This tax regime would rid corporations of the cost of employing an army of professionals to prepare their tax returns and eliminate a bureaucracy dedicated to examining corporate tax returns, levying taxes on agreed upon profits and filing lawsuits when such agreement cannot be reached. More importantly, countries would have to compete for capital and resources not based on a favorable tax regime, but on what they offer in terms of their business climate.

We favor companies where management works hard to manage all costs, including the tax expense. In the current political climate, corporate taxes are a hot topic. Because of the media's penchant for presenting a misleading picture as to the taxes paid by US corporations, we offer an alternative perspective based on reality.

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