Big Bank Tax Drain

How Wall Street Speculation and Tax Avoidance are Starving Public Revenues

A Public Accountability Initiative report, prepared for National People's Action
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NATIONAL PEOPLE'S ACTION

public accountability initiative

National People's Action (NPA) is a network of community power organizations from across the country that work to advance a national economic and racial justice agenda. NPA has over 200 organizers working to unite everyday people in cities, towns, and rural communities throughout the United States. For 38 years NPA has been a leader in the fight to hold banks accountable to the communities in which they serve and profit.

Public Accountability Initiative (PAI) is a non-profit, non-partisan watchdog organization focused on corporate and government accountability. PAI's mission is to facilitate and produce investigative research that supports citizen-led accountability efforts. PAI's hardhitting research reports on topics such as wasteful government subsidies, corporate lobbying efforts, conflicts of interest, and Wall Street fraud have been cited by the New York Times, the Wall Street Journal, and numerous other media outlets.

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Executive Summary

Wall Street banks caused the economic crisis that has left millions unemployed, foreclosed-on, and without prospects in the worst economy since the Great Depression. This crisis has, in turn, caused massive tax revenue shortfalls for the federal government and for state governments across the country: nearly $300 billion combined for 50 states in the years since the crisis began. To deal with these budget woes, politicians are cutting public spending: laying off teachers, attacking public sector workers, raiding pensions, closing hospitals, and eliminating essential services for children, veterans, and the elderly.

Raising revenue from the wealthy, bailed-out banks that caused the crisis would be a far more sensible way to address these budget woes. This report analyzes data from the latest financial filings by the six big banks – Bank of America, Wells Fargo, JPMorgan Chase, Citigroup, Goldman Sachs, and Morgan Stanley – to expose the ways in which they continue to avoid taxes and contribute to tax revenue shortfalls, rather than pay for an economic recovery that will put people to work, keep people in their homes, and preserve the safety net – for people, not corporations.

Key findings:

- **This year Bank of America is receiving the "income tax refund from hell" – $666 million for 2010,** according to its annual report filed in late February 2011. This is following a $3.5 billion refund reported in 2009. Bank of America's federal income tax benefit this year is roughly two times the Obama administration's proposed cuts to the Community Development Block Grant program ($299 million).

- Six banks – Bank of America, Wells Fargo, Citigroup, JPMorgan Chase, Goldman Sachs, and Morgan Stanley together paid income tax at an approximate rate of 11% of their pre-tax US earnings in 2009 and 2010. Had they paid at 35%, what they are legally mandated to pay, **the federal government would have received an additional $13 billion in tax revenue**. This would cover more than two years of salaries for the 132,000 teacher jobs lost since the economic crisis began in 2008.

- **Wells Fargo reportedly received a $4 billion federal income tax refund on $18 billion in pre-tax income in 2009, and paid 7.5% of its pre-tax income of $19 billion in 2010 in federal taxes.** Its net federal income tax benefit for 2009 and 2010 combined, $2.5 billion, is equal to the Obama administration's proposed cuts of 50% to the Low-Income Home Energy Assistance Program.

- Banks use a variety of mechanisms to avoid corporate income taxes, including offshore tax shelters. **50% of the six banks' 1871 foreign subsidiaries are incorporated in jurisdictions that have been identified as offshore tax havens,** such as the Cayman Islands.

- **Bank of America operates 371 tax-sheltered subsidiaries, more than any other big bank studied,** and 204 subsidiaries in the Cayman Islands alone, according to its latest regulatory filings. 75% of Goldman Sachs's foreign subsidiaries are incorporated in offshore tax havens.

- The banks' private banking arms also protect the wealth of rich clients from taxation through offshore investment strategies. **Bank of America's wealth management arm encourages clients to register their yachts in foreign jurisdictions for tax reasons.**

- Closing special tax loopholes on the financial sector and implementing sensible revenue-raising initiatives such as the Financial Speculation Tax could generate over **$150 billion in federal tax revenue each year**.

I. Big Bank Speculation & Budget Shortfalls

The federal government and state governments across the country are facing significant budget shortfalls due to lost tax revenue and increased relief spending during the recession. The breadth and depth of the recession owes to a decade of reckless speculation, fraudulent lending, lax regulation, and low interest rates pursued by the largest banks and compliant politicians, culminating in an unprecedented housing bubble.

The bubble economy rewarded Wall Street with record profits and executive bonuses, but its collapse wiped out $9 trillion in property value nationwide, destroyed the construction industry, bankrupted millions of homeowners, and plunged the entire US economy into its sharpest downturn since the Great Depression.[1]

The direct impact of this collapse on local and state tax revenues and relief spending has been disastrous and accounts for most of the states' current funding troubles.

- **Collectively, states lost approximately $297 billion in tax revenues from late 2008 to 2010 due to the housing bubble collapse.**[2] Unlike cities and the federal government, states cannot borrow money to finance operating costs and must choose between tax increases, spending cuts, or a combination of the two to plug budget holes.

- As a result of lost tax revenues and projected losses, **states face a combined budget deficit of $125 billion for fiscal year 2012, and have already dealt with deficits of $423 billion for 2009, 2010, and 2011 combined.**[3]

States across the country are responding to these deficits with pay and benefit cuts for public employees and cuts to public programs like education, pensions, and veterans benefits. These cuts will hurt the same people who have been hurt most by the recession, and will impede economic recovery and job creation.

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[1] The $9 trillion figure is drawn from Zillow's December 2010 report on the US housing market: http://www.zillow.com/blog/research/2010/12/09/u-s-homes-set-to-lose-1-7-trillion-in-value-during-2010/

[2] State tax revenue data is drawn from US Census tax collection figures. Tax revenue losses from the recession are estimated by comparing actual state tax revenue since 2007 Q3 with a hypothetical 5% annual revenue growth, the average over the preceding 10 years. State tax collection numbers are available through 2010 Q3.

[3] Center on Budget and Policy Priorities, "States Continue to Feel Recession's Impact," http://www.cbpp.org/cms/?fa=view&id=711

Table 1: Selected State Tax Revenue Losses and Deficits Since Start of Recession

State	Estimated Tax Revenue Loss, 2009-2010	2009-2011 Deficits	2012 Deficit
All States	**$297 billion**	**$423 billion**	**$125 billion**
California	$43.7	$100.5	$25.4
New York	$24.6	$36.9	$9.0
Texas	$21.1	$8.1	$13.4
New Jersey	$14.5	$27.8	$10.5
Florida	$11.3	$16.4	$3.6
Illinois	$11.1	$32.1	$15.0
Ohio	$11.0	$9.2	$3.0
Pennsylvania	$7.8	$13.2	$4.5
Georgia	$7.8	$11.1	$1.7
Michigan	$7.3	$7.3	$1.8

Note: Deficits are drawn from Center on Budget and Policy Priorities Data, and tax revenue losses are estimated based on US Census data.

- **California has faced unprecedented budget deficits after losing approximately $43 billion in tax revenue to the recession during 2008-2010.** The state has already closed most of a $100.5 billion shortfall during the 2009, 2010, and 2011 fiscal years with massive cuts to education and other public services, and faces another projected $44.6 billion shortfall through 2013.

- **An epidemic of foreclosures by the biggest banks have cost local governments in California an estimated $2-14 billion.** A recent analysis showed that interest rate swaps sold to California by Goldman Sachs, JP Morgan Chase, and Bank of America have cost the state $1.5 billion dollars since 2008.[4]

- **The recession has cost New York State around $24 billion in tax revenue, and has left the state with deficits of $28.4 billion since the recession began.** Budget cuts pushed by Governor Andrew Cuomo, backed by many Wall Street executives whose bonuses owe to trillion-dollar bailouts, have already resulted in layoffs of thousands of state workers and cuts to education and services for the poor. Meanwhile, the state has refunded tens of billions in Wall Street stock transfer taxes per year, $210 billion since 1981.[5]

- **If Wisconsin's tax collections hadn't declined steeply from the recession, the state would be roughly $3.5 billion richer, enough to close its projected deficit for the year.** The state's shortfalls have led to a political crisis as Governor

[4] Wake up Wall Street, SEIU, August 2010. http://www.seiu721.org/Wake%20Up%20Wall%20Street%202010-08%20Report.pdf

[5] Data from the 2009-2010 New York State Tax Collections Report

> Scott Walker has tried to abolish the collective bargaining rights of state employees, who have already agreed to pay cuts and pension contribution increases. [6]

Governor Walker is one of many politicians and talking heads who have lined up to blame public employees and unions for the budget shortfalls. Some are now pointing to underfunded state pensions as an excuse to cut pension benefits and possibly even default on pension obligations.[7] But studies show that most of the pension shortfall is due to the financial meltdown and resulting stock market collapse from 2007-2009:

- **Collectively, local and state employee pensions lost an estimated $857 billion from steep falls in asset values during the financial crisis,**[8] according to an analysis by the Center for Economic and Policy Research, averaging over $16 billion per state and over $57,000 per full-time state and local employee.[9]

Bank foreclosures also take a heavy toll on local government budgets, with one study estimating the cost as ranging from $5,000 to $35,000 per foreclosure.[10] At this rate, the cost of 1.05 million foreclosures in 2010 to local governments was between $5.25 billion and $36.8 billion.[11]

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[6] http://www.jsonline.com/news/statepolitics/116470423.html

[7] http://www.nytimes.com/2011/01/21/business/economy/21bankruptcy.html

[8] The Origins and Severity of the Public Pension Crisis, CEPR, February 2010. http://www.cepr.net/documents/publications/pensions-2011-02.pdf

[9] The US Census reported 14.9 million state and local government employees in 2009. http://www2.census.gov/govs/apes/09stlus.txt

[10] See estimates cited in "Wake Up Wall Street," drawn from William C. Agpar, Mark Duda, and Rochelle Nawrocki Gorey, "The Municipal Cost of Foreclosures: A Chicago Case Study" http://www.995hope.org/content/pdf/Apgar_Duda_Study_Full_Version.pdf

[11] http://www.huffingtonpost.com/2011/01/13/foreclosure-record-2010_n_808398.html

II. Big Bank Income Tax Avoidance

Corporate income tax avoidance by big banks is a significant and growing drain on the public purse. Corporate tax avoidance ultimately works to shift the tax burden from big businesses and wealthy elites onto everyone else and exacerbates the revenue shortfalls plaguing the federal budget and state budgets across the country.

A survey of federal, state, and foreign taxes paid over the past decade, as reported in financial statements, indicates six Too Big To Fail banks – Bank of America, Wells Fargo, Citigroup, JP Morgan Chase, Goldman Sachs, and Morgan Stanley – have paid tens of billions less in corporate income taxes than the federal statutory rate of 35%.[12] Excluding Citigroup's three years of deep losses, these six bailed-out banks pay roughly the same federal tax rate on their US profits as kindergarten teachers pay on their salaries, not even counting the banks' sizable earnings hidden from taxation in hundreds of offshore subsidiaries.

Since federal corporate income tax returns are confidential, estimating tax payments is an inexact science. Please see "A Note on Methodology" in the Appendix for more information on how we calculated these estimates.

The Bailout Years

During the two years following the bailouts of 2008, the big banks have essentially enjoyed a tax holiday:

- In 2009 and 2010, the six banks appear to have paid a net of only $6.1 billion in federal income taxes out of $54.8 billion of reported US earnings, or 11.2%.[13] **If they had paid 35% during these years the federal government would have received an additional $13 billion in tax revenue.** This is enough to cover more than two years of salaries for the 132,000 teacher jobs lost since the economic crisis began in 2008.[14]

- **In 2010, the six banks paid only 15% of their US income in federal taxes, $8.3 billion less than a 35% rate.** Bank of America and Citigroup report having

[12] Public companies report annual income taxes paid and domestic and foreign pre-tax income in their annual shareholder reports and 10-K filings with the SEC, allowing a tabulation of taxes paid as a proportion of pre-tax domestic and foreign income. These numbers do not necessarily provide the effective tax rate for a company, but should provide a decent approximation. See "A Note on Methodology" in the appendix for further details.
[13] Based on a review of current payable federal income tax and earnings disclosures in the annual reports of each bank for 2009 and 2010, available at SEC EDGAR.
[14] Bureau of Labor Statistics data on Current Employee Statistics show that there were 132,000 fewer employees in local government education in December 2010 than there were in December 2008 – 7.95 million as opposed to 8.08 million.

received net tax refunds of $666 million and $249 million respectively from the federal government. Bank of America's refund is roughly twice the amount of cuts to the Community Development Block Grant Program in Obama's proposed budget (roughly $300 million).[15] Other bailed-out financial firms like AIG, State Street, Prudential and SunTrust report having paid no taxes or having received net tax refunds in 2010.

Table 2: Big Bank Earnings and Federal Taxes, 2009-2010

Company	Pre-tax Earnings	Pre-tax US Earnings	Current Federal Taxes	Tax as % of US Earnings
Bank of America	$3.0	-$12.2	-$4.2	--
Citigroup	$5.4	-$13.0	-$1.9	--
Goldman Sachs	$32.7	$19.4	$5.8	30.1%
JPMorgan Chase	$40.9	$21.5	$8.7	40.3%
Morgan Stanley	$7.2	$2.1	$0.37	17.8%
Wells Fargo	$37.0	$37.0	-$2.5	-6.8%
TOTAL	**$126 billion**	**$54.8 billion**	**$6.2 billion**	**11.2%**

Source: SEC filings for each bank.

- **In 2009, the six banks appear to have collectively paid no taxes to the federal government;** three banks appear to have received net tax refunds totaling $9.2 billion – Wells Fargo ($3.95 billion), Citigroup ($1.7 billion) and Bank of America ($3.6 billion). Wells Fargo net income tax benefit for the two years is roughly equal to the Obama administration's proposed 50% cut to the Low-income Home Energy Assistance Program, or LIHEAP ($2.5 billion).[16]

- After taking billions in bailout funds from the US government in 2008, financial statements for **Citigroup and Goldman Sachs suggest that the banks did not pay a penny of federal taxes for 2008,** and instead report having received net tax refunds of $4.6 billion and $278 million respectively from the federal government.

- In its 2010 annual report, **Bank of America reported a total combined (federal, state, foreign) cash income tax refund of $6.3 billion**.[17] This offers further evidence of the bank's significant federal income tax refund for 2009.

How did these banks avoid taxes? Press reports explain Bank of America's tax benefit in 2009 as a result of its losses for that year, and Wells Fargo's as a function of the losses of

[15] http://nationaljournal.com/whitehouse/exclusive-obama-to-cut-energy-assistance-for-the-poor-20110209

[16] Ibid.

[17] Bank of America SEC 10-k, Consolidated Statement of Cash Flows, page 141. http://www.sec.gov/Archives/edgar/data/70858/000095012311018743/g25571e10vk.htm

Wachovia, which it acquired on the verge of collapse in 2008.[18] A corporate tax accounting oddity allows corporations to "carry back" tax losses to prior years in which they "overpaid" their income taxes, so corporations often receive tax refund checks – literally – from the US Treasury.[19] But the banks also use a wide range of accounting gimmicks and tax credits in order to avoid income taxes or defer them, often indefinitely, to future years.

A Decade of Corporate Income Tax Avoidance

The tax holiday big banks enjoyed following the financial crisis appears to have been part of a much longer trend. A review of financial statements from 2001-2010 suggests the banks have been engaging in tax avoidance for most of the decade:

- Bank of America, Wells Fargo, Citigroup, JP Morgan Chase, Goldman Sachs, and Morgan Stanley reported roughly $382 billion in domestic earnings over the past ten years, including some heavy recent losses from the financial crisis. **During this period, these banks paid $116 billion in federal taxes and $20 billion in state taxes, about 30.3% and 5.2% of their US income, respectively.[24]**

- Combined US income for the six banks from 2001-2010 was significantly reduced by Citigroup's unprecedented $84 billion in losses from the financial meltdown between 2007-2009. **If Citigroup's three years of losses are excluded, the six banks' domestic earnings totaled about $466 billion and their federal and state taxes were $124 billion and $20.3 billion respectively -- rates of 26.7% and 4.3%.**

Table 3: Big Bank Earnings and Federal Taxes, 2001-2010

Company	Pre-tax Earnings	Pre-tax US Earnings	Current Fed. Taxes	Fed. Taxes as % of US Earnings
Bank of America	$144.7	$118.1	$36.2	30.7%
Wells Fargo	$110.9	$110.9	$17.3	15.6%
Citigroup*	$160.1	$87.5	$22.5	25.7%
JP Morgan Chase	$119.5	$73.2	$23.5	32.1%
Goldman Sachs	$93.6	$55.9	$16.1	28.8%
Morgan Stanley	$50.7	$20.6	$8.6	41.9%
TOTAL	**$679 billion**	**$466 billion**	**$124 billion**	**26.7%**

* This figure excludes three years (2007-2009) of deep losses and associated taxes at Citigroup.

- The statutory federal corporate income tax rate is 35%. If these six banks had paid 35% of their US earnings in federal taxes, **it would have generated an**

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[18] http://www.charlotteobserver.com/2010/03/26/1337021/billions-in-tax-benefits-for-banks.html

[19] For a discussion of this, see Citizens for Tax Justice's 2004 report on "Corporate Income Taxes in the Bush Years," available at http://www.ctj.org/corpfed04an.pdf

[24] SEC annual reports, 2001-2010 for each bank.

additional $18 billion in federal tax revenue since 2001, or $38.9 billion if Citigroup's three years of deep losses are excluded.

- The average state corporate tax rate, weighted by Gross State Product, is 6.5%.[25] **If these six banks had paid 6.5% of their US earnings in state taxes, it would have generated an additional $4.8 billion in tax revenue for state governments, or $10 billion if Citigroup's three years of deep losses are excluded.**

Table 4: Big Bank Earnings and State Taxes, 2001-2010

Company	Pre-tax Earnings	Pre-tax US Earnings	Current State Taxes	State Taxes as % of US Earnings
Bank of America	144.7	118.1	5.2	4.4%
Wells Fargo	110.9	110.9	2.5	2.3%
Citigroup*	160.1	87.5	3.4	3.9%
JP Morgan Chase	119.5	73.2	5.1	6.9%
Goldman Sachs	93.6	55.9	2.5	4.5%
Morgan Stanley	50.7	20.6	1.6	7.6%
TOTAL	**$679 billion**	**$466 billion**	**$20.3 billion**	**4.4%**

* This figure excludes three years (2007-2009) of deep losses and associated taxes

Worldwide Tax Rate

It is also possible to calculate a worldwide tax rate based on figures for cash paid for income taxes disclosed in the "Consolidated Statement of Cash Flows" in the banks' annual reports. [26] These figures allow us to determine combined local, state, federal, and foreign taxes as a percentage of income, a rough approximation of worldwide tax rate.

Table 5: Big Bank Earnings and Worldwide Income Taxes, 2001-2010

Company	Cash Paid for Income Taxes	Earnings	Cash Paid as % of Earnings
Bank of America	$41.8	$144.7	28.9%
Wells Fargo	$27.5	$110.9	24.8%
JP Morgan Chase	$39.8	$119.5	33.3%
Goldman Sachs	$29.9	$93.6	31.9%
Morgan Stanley	$14.6	$50.7	28.8%
TOTAL	**$154 billion**	**$519 billion**	**29.6%**

Source: SEC annual reports, 2001-2010, for each bank.

- Over the past ten years, **Wells Fargo paid the lowest worldwide tax rate of the group, at 24.8%** – $27.5 billion in cash paid for taxes on $110.9 billion in pre-tax

[25] A 2005 analysis by Citizens for Tax Justice found the average state tax rate (weighted by GSP) to be 6.8%. http://www.ctj.org/pdf/corp0205an.pdf

[26] http://www.nytimes.com/2011/02/02/business/economy/02leonhardt.html

earnings.

- **Five banks (excluding Citigroup and its deep losses) paid 29.6% of their income in taxes from 2001 to 2010.** JPMorgan Chase paid the highest rate, at 33.3%, but this figure is still below the federal corporate income tax rate – and this represents federal, state, and foreign income tax payments combined.

Broader Financial Industry

Tax avoidance in the financial industry is not limited to the six big banks. A detailed analysis by Citizens for Tax Justice in 2004 looked at earnings and taxes at 275 Fortune 500 companies, including forty financial companies, from 2001-2003, and found high rates of avoidance:[27]

- **Forty top financial firms paid $56 billion in federal taxes out of $285.6 billion in US earnings, resulting in an effective tax rate of 19.7%.** Twenty-one of them paid less than half the statutory 35% federal rate over this period, and four received net tax refunds.

- **The forty financial firms collectively paid $43.6 billion less than the statutory rate in just three years.**

- **CTJ found Citigroup, JP Morgan Chase, Bank of America, and Wells Fargo to be among the top 25 beneficiaries of tax breaks, receiving a total of $13 billon in tax breaks in 2001-2003.**

Tax Shifting and Foreign Subsidiaries

Big banks use a variety of mechanisms to minimize their federal and state corporate income tax obligations. Many of these mechanisms take advantage of a network of foreign subsidiaries in countries with low tax rates and inconsistent tax accounting laws.

Decades of studies by economists, regulators, and watchdogs have shown that US corporations employ a broad arsenal of global tax avoidance techniques to escape US taxes. Common methods include shifting debt to subsidiaries in high-tax countries to lower their overall tax burden without otherwise affecting their operations, and selling assets from one subsidiary to another at artificially high or low prices in order to shift reported income to low-tax countries, known as "transfer pricing."[28]

It is notoriously difficult to track the use and cost of such techniques, but the proliferation of foreign subsidiaries in low-tax countries is an easily identifiable symptom, one used extensively by the six biggest banks.

[27] http://www.ctj.org/corpfed04an.pdf
[28] http://assets.opencrs.com/rpts/R40623_20100903.pdf

- The **six big banks collectively operate 928 subsidiaries incorporated in jurisdictions identified as offshore tax havens** by the Government Accountability Office (GAO).[29]

- **Bank of America operates 371 subsidiaries incorporated in offshore tax havens, more than any other big bank.** 204 of these subsidiaries are incorporated in the Cayman Islands, which has a corporate tax rate of 0%.

Table 6: Big Bank Subsidiaries in Foreign Countries and Tax Havens

Company	Total Subsidiaries	Foreign Subsidiaries	Tax Haven Subsidiaries	% Foreign Subsidiaries in Tax Havens
Bank of America	2027	761	371	48.8%
Wells Fargo	1676	146	66	45.2%
Citigroup	174	108	25	23.1%
JPMorgan Chase	547	217	83	38.2%
Goldman Sachs	104	52	39	75.0%
Morgan Stanley	1209	587	344	58.6%
TOTAL	**5737**	**1871**	**928**	**49.6%**

Source: Exhibit 21 to 2010 annual reports for each bank, filed with the SEC.

- Citigroup claimed 113 Cayman Islands subsidiaries in its 2008 annual report; in its 2009 and 2010 annual reports, it claimed one such subsidiary. It is not clear whether Citigroup has actually shuttered 112 Cayman Island subsidiaries or altered its disclosure patterns.

See the Appendix for a full table of banks and their tax-sheltered subsidiaries.

A recent GAO analysis found that US corporations have in recent decades increased the share of their reported earnings coming from foreign countries for the purposes of tax avoidance.[30] Our survey suggests that the biggest banks have employed this strategy over the past ten years.[31]

- **During the last decade, the six banks reported around $238 billion in foreign earnings out of $620 billion in total earnings, or 38.4%.** Excluding Wells Fargo, which reports no foreign earnings, the proportion is 46.7%.

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[29] The list of offshore tax haven jurisdictions is drawn from the GAO's December 2008 report, "International Taxation: Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions," pp. 12-13. http://www.gao.gov/new.items/d09157.pdf

[30] GAO, "Multinational Corporations: Effective Tax Rates Are Correlated with Where Income Is Reported," August 2008, available at http://www.gao.gov/new.items/d08950.pdf

[31] Current foreign income taxes are reported in notes the banks' financial statements detailing components of income tax expense.

- **The share of the banks' total earnings reported as foreign earnings has risen in recent years.** 23.8% of total earnings were foreign earnings during 2001-2005, compared to 55.7% during 2006-2010.

- **During the last decade, about 36.1% of the six banks' total taxes have gone to foreign governments, and 40.1% excluding Wells Fargo, which reports no foreign earnings.**

- **The share of banks' total taxes going to foreign governments has also risen in recent years.** 25.6% of total taxes were paid to foreign governments from 2001-2005, compared to 50.7% over 2006-2010.

- **In recent years, the six banks have paid billions more in foreign taxes than domestic taxes.** Over the last three years, the six banks reported paying $27.2 billion in foreign taxes, compared to $15 billion in combined federal and state taxes. In 2010, the six banks paid $8.7 billion in foreign taxes, $2.2 billion more than they paid to the US government last year.

In general, US companies pay 35% in taxes on income from foreign subsidiaries when they bring it back to the US, but are credited for foreign taxes already paid on that income. By keeping the earnings offshore, they can defer US tax payments indefinitely.

As the big banks have shifted a larger share of total earnings to foreign countries, they have kept a growing pool of foreign earnings reinvested abroad, exempt from US taxation.

- **The six banks currently report a combined $93.7 billion in undistributed foreign income, about one-tenth of the estimated undistributed income for the entire S&P 500[32] and more than a third of their total foreign income reported since 2001.**

- **Due to credits on foreign taxes already paid on these earnings, the six banks estimate they would pay only $18.7 billion, or about 20%, in taxes if all their undistributed income were repatriated, compared to the statutory rate of 35%.** These figures suggests that the six banks may have only paid 15% in taxes so far to foreign governments on these accumulated foreign earnings.

[32] http://www.bloomberg.com/news/2010-12-29/dodging-repatriation-tax-lets-u-s-companies-bring-home-cash.html

Table 7: Undistributed Foreign Earnings of Big Banks

Company	Undistributed Foreign Earnings	Estimated Fed. Taxes if Repatriated	Estimated Tax Rate
Bank of America	$17.9	$2.6	14.5%
JP Morgan Chase	$19.3	$4.3	22.3%
Citigroup	$32.1	$8.6	26.8%
Wells Fargo	$1.6	$0.5	31.8%
Goldman Sachs	$17.7	$2.7	15.1%
Morgan Stanley	$5.1	-	-
TOTAL	**$93.7 billion**	**$18.7 billion**	**19.9%**

Source: 2010 annual reports for each bank, filed with the SEC.

* Morgan Stanley states that it is "impracticable" to estimate how much taxes would be paid upon repatriation.

III. Assisting Tax Dodgers

Banks facilitate tax avoidance by high net worth individuals in their private wealth management divisions. These divisions often advertise their tax avoidance capabilities euphemistically. For example, US Trust – the large private wealth management arm of Bank of America – touts an "uncompromising focus on tax efficiency" on its website:[33]

> A key aspect of wealth structuring is maximizing tax efficiency, a U.S. Trust strength, whether in converting low-basis assets, facilitating inheritance in a tax-efficient manner or managing taxable portfolios.

Another Bank of America - US Trust page, on **"Customized Yacht Financing,"** touts the benefits of registering yachts in foreign countries:

> Many of our clients choose to register their yachts in a foreign jurisdiction. The reasons are many and include tax considerations and crew hiring and estate planning issues. Our goal is to help ensure that you have all the information you need to make the decision that best fits your needs.[34]

Citigroup's International Personal Bank also openly promotes offshore investments as a way of gaining "tax advantages" – in addition to freedom and security – under the question, "Why Invest Offshore?"[35]

> **Freedom, security and access to investments**
> Offshore investing is ideal for international clients with global financial needs. We understand that our clients want to hold their money outside of their home country, whether to potentially gain tax advantages or to offer them more freedom in managing their wealth. And we help you to do this in the context of highly regulated, safe and secure markets.

The IRS lists "private banking (US and offshore)" in its list of entities used in "abusive offshore tax avoidance schemes."[36] These schemes, the IRS notes, "exploit secrecy laws of offshore jurisdictions in an attempt to conceal assets and income subject to tax by the United States." The IRS notes that authorities have estimated that $5 trillion in wealth is held offshore, costing the US at least $70 billion per year.

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[33] http://www.ustrust.com/UST/pages/wealthstructuring.aspx
[34] http://www.ustrust.com/ust/pages/Customized-Yacht-Financing.aspx
[35] http://www.citigroup.com/ipb/europe/whoweare/whyoffshore.htm
[36] http://www.irs.gov/businesses/small/article/0,,id=106568,00.html

IV. Other Wall Street Tax Breaks – And Revenue Sources

Wall Street bankers enjoy a number of other tax breaks that keep their taxes low, starving the public purse of revenue and shifting the tax burden onto working families. Before they even route their money to the Cayman Islands, they reap the benefits of low tax rates and loopholes. The following is a cursory review of tax breaks that financial firms fight to protect and sensible revenue-raising measures that Wall Street perennially opposes in order to protect profits. Undoing these tax breaks and implementing these taxes on financial firms would raise billions in public revenues.

Financial Speculation Tax

The financial speculation tax is a small tax on Wall Street trades such as sales and purchases of stock. According to the Center for Economic and Policy Research, such a tax could raise $100 billion per year in revenue.[37] The US levied a financial speculation tax from 1914 to 1966, and New York State has a financial speculation tax on the books that it refunds back to financial firms (last year, it refunded $14.5 billion in transfer taxes). The UK's financial markets have flourished and grown with a speculation tax in place.

In addition to raising much-needed revenue, the tax would reduce destructive, short-term speculation by Wall Street banks. A number of economists have supported versions of the tax, including Larry Summers and Joseph Stiglitz, and the financial speculation tax was named an "idea of the year" by the New York Times in 2008.[38]

Hedge Fund Loophole

The "carried interest tax break" is an IRS provision that allows executives at private partnerships – such as hedge funds and private equity firms – to treat much of their income as capital gains, rather than as ordinary income. This means that their income is taxed at 15%, the income tax rate for an individual making $34,000 or less.

In its recent budget, the White House estimates that removing the loophole would raise $10.1 billion over the next five years and nearly $15 billion over the next ten years.[39]

Bush Tax Cut Extensions

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[37] See CEPR's "Facts and Myths about Financial Speculation Tax" at its website: http://www.cepr.net/documents/fst-facts-myths-12-10.pdf

[38] http://www.nytimes.com/2008/12/14/magazine/14Ideas-section4-t-005.html?_r=1&scp=1&sq=dean%20baker%20stock%20transfer%20tax&st=cse

[39] http://blogs.wsj.com/privateequity/2011/02/14/once-more-unto-the-carried-interest-tax-breach/

Because of their extraordinarily high incomes, bankers are some of the top beneficiaries of the Bush tax cuts and the two-year extension of the cuts passed in late 2010. The extension of the cuts means that the highest tax rate will continue to be 35%, rather than revert to 39.6%.

The *New York Times* reported in December that Wall Street banks like Goldman Sachs were "nervously eyeing the calendar" as Congress debated the tax cuts – they were considering whether to pay year-end bonuses before the new year in order to avoid the tax increase. The *Times* estimated that letting the Bush tax cuts lapse would cost a banker earning a $1 million bonus $40,000 to $50,000.

Bank Tax

Recognizing the extraordinary burden big banks place on the public purse, the Obama administration is attempting to levy a tax on financial firms. The tax on banks with more than $50 billion in assets would generate $30 billion over the next ten years, according to the Obama administration.

In June 2010, Senator Scott Brown forced the removal of a similar, $19 billion tax on financial firms from the financial reform package making its way through Congress.[40] Contributions from the finance, insurance, and real estate (FIRE) industry – a rough approximation for Wall Street – made up the largest component of Brown's fundraising take in the 2010 election cycle, according to the Center for Responsive Politics.[41]

[40] http://www.boston.com/news/nation/washington/articles/2010/06/30/browns_threat_gets_bank_tax_removed/

[41] http://www.opensecrets.org/politicians/industries.php?cycle=Career&cid=N00031174&type=I

Appendix

An Important Note on Methodology

The calculations of taxes paid in this study should be considered rough approximations of what the financial firms discussed are actually paying.

Corporations are not required to make income tax returns public, so it is quite challenging to determine how much they actually pay in taxes. Publicly held corporations are, however, required to make certain tax-related disclosures in filings with the Securities and Exchange Commission (SEC). These figures can be used to estimate income taxes paid to the federal government, state and local governments, and foreign governments for a particular period.

This study determined federal, state, and foreign tax payments using the *current* payable tax figures reported by publicly held corporations in the notes to their annual reports (filed with the SEC). The study disregarded *deferred* taxes, which are tax payments anticipated to be due in the future.[42] According to Citizens for Tax Justice, "to get a sense of what a corporation pays each year, we should include the *current* U.S. taxes paid, but *not* the *deferred* U.S. taxes. "Deferred" is a euphemism for "not paid.""[43]

Rather than calculate an "effective tax rate" for the banks, the study presents pre-tax earnings and pre-tax US earnings where available in order to contextualize current payable income tax figures found in the banks' annual reports. Federal and state income taxes as a percentage of pre-tax US earnings should be considered a ***rough* approximation of the corporations' US tax rates** (US corporations are not required to pay federal income taxes on foreign earnings unless they are repatriated to the US, so it is necessary to consider *pre-tax U.S. earnings* when estimating these rates.) These rates also help approximate the extent to which these rates depart from the statutory federal rate of 35% through various tax avoidance strategies. In some cases, where corporations did not report pre-tax US earnings, it is necessary to estimate the US component of income. We made no adjustments to reported pre-tax earnings or current payable federal taxes; as a result, our estimates of tax rates are likely conservative.[44]

An international effective tax rate can also be calculated using cash paid for income taxes figures in the banks' "Consolidated Statements of Cash Flows" in their annual reports.

[42] From Bank of America's 2010 10-k: "There are two components of income tax expense: current and deferred. **Current income tax expense approximates taxes to be paid or refunded for the current period.** Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. These gross deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences in the bases of assets and liabilities as measured by tax laws and their bases as reported in the financial statements."

[43] http://www.ctj.org/taxjusticedigest/archive/2011/02/us_corporations_are_paying_eve_1.php

[44] The notes to CTJ's 2004 report include details of the range of adjustments that can be made as part of an analysis of effective tax rates: http://www.ctj.org/corpfed04an.pdf

Several economists have calculated these rates recently and found low worldwide effective tax rates, and we find similarly low rates for the banks in the study.[45]

The challenges encountered in the course of parsing these financial statements and determining tax payments highlight the need for more transparent corporate tax disclosures. In the meantime, big banks should come clean and disclose their tax returns to save the public from labyrinthine tax sleuthing.

[45] http://www.nytimes.com/2011/02/02/business/economy/02leonhardt.html

Table 8: Bank Subsidiaries Incorporated in Offshore Tax Havens

Source: SEC 2010 10-k filings (annual reports), exhibit 21 – list of subsidiaries – for each bank. Accessed at SEC EDGAR.

Bank	Total Reported Subsidiaries	Subsidiaries in Offshore Tax Havens	Offshore Subsidiaries by Jurisdiction of Incorporation
Bank of America	2027	371	Bahamas (3); Bermuda (5); Cayman Islands (204); Costa Rica (1); Gibraltar (6); Guernsey (2); Hong Kong (3); Ireland (18); Isle of Man (1); Jersey (20); Lebanon (1); Luxembourg (32); Mauritius (10); Monaco (1); Netherlands (41); Netherlands Antilles (1); Panama (1); Singapore (12); Switzerland (4); Virgin Islands (5)
Morgan Stanley	1209	298	Bermuda (5); Cayman Islands (169); Cyprus (3); Gibraltar (9); Hong Kong (14); Ireland (8); Isle of Man (1); Jersey (21); Luxembourg (49); Malta (1); Mauritius (5); Netherlands (1); Singapore (10); Switzerland (2)
JPMorgan Chase	551	166	Barbados (1); Bermuda (5); British Virgin Islands (3); British Virgin Islands (1); Cayman Islands (11); Hong Kong (9); Ireland (8); Jersey (5); Luxembourg (9); Mauritius (13); Netherlands (4); Singapore (10); Switzerland (4)
Wells Fargo	1676	66	Aruba (1); Barbados (1); Bermuda (5); British Virgin Islands (1); Cayman Islands (19); Cyprus (1); Hong Kong (7); Ireland (2); Luxembourg (4); Mauritius (11); Netherlands (8); Singapore (4); Virgin Islands (2)
Goldman Sachs	105	39	Bermuda (3); British Virgin Islands (2); Cayman Islands (17); Hong Kong (2); Ireland (4); Mauritius (9); Netherlands (2)
Citigroup	174	25	Bahamas (3); Bermuda (2); Costa Rica (3); Hong Kong (3); Ireland (3); Mauritius (2); Netherlands (2); Singapore (3); Switzerland (3); Cayman Islands (1)

Table 9: State Budget Deficits, 2009 – 2013
Source: Center for Budget and Policy Priorities
(all numbers in millions of dollars)

State	2009 deficit	2010 deficit	2011 deficit	Total So Far	2012 deficit	2013 deficit	Total Projected
US TOTAL	**$109,900**	**$190,800**	**$122,600**	**$423,300**	**$124,700**	**$70,400**	**$195,100**
Alabama	1,100	1,600	586	3,286	-	-	-
Alaska	360	1,300	0	1,660	-	-	-
Arizona	3,700	5,100	3,100	11,900	974	612	1,586
Arkansas	107	395	0	502	-	-	-
California	37,100	45,500	17,900	100,500	25,400	19,200	44,600
Colorado	1,100	1,600	1,500	4,200	988	-	988
Connecticut	2,700	4,700	5,100	12,500	3,700	3,600	7,300
Delaware	443	557	377	1,377	208	-	208
Florida	5,700	6,000	4,700	16,400	3,600	-	3,600
Georgia	2,400	4,500	4,200	11,100	1,700	-	1,700
Hawaii	417	1,200	594	2,211	410	362	772
Idaho	452	562	84	1,098	300	-	300
Illinois	4,300	14,300	13,500	32,100	15,000	-	15,000
Indiana	1,200	1,400	1,300	3,900	270	-	270
Iowa	484	1,300	1,100	2,884	294	-	294
Kansas	186	1,800	510	2,496	492	-	492
Kentucky	722	1,200	780	2,702	780	-	780
Louisiana	341	2,500	1,000	3,841	1,700	1,600	3,300
Maine	265	849	940	2,054	436	368	804
Maryland	1,500	2,800	2,000	6,300	1,600	1,900	3,500
Massachusetts	5,200	5,600	2,700	13,500	1,800	-	1,800
Michigan	2,000	3,300	2,000	7,300	1,800	-	1,800
Minnesota	1,600	3,400	4,000	9,000	3,900	2,000	5,900
Mississippi	453	917	716	2,086	634	-	634
Missouri	542	1,700	730	2,972	1,100	-	1,100
Montana	0	0	0	0	80	227	307
Nebraska	0	305	329	634	314	472	786
Nevada	1,600	1,500	1,800	4,900	1,500	1,500	3,000
New Hampshire	250	430	365	1,045	-	-	-
New Jersey	6,100	11,000	10,700	27,800	10,500	-	10,500
New Mexico	454	995	333	1,782	410	-	410
New York	7,400	21,000	8,500	36,900	9,000	14,600	23,600
North Carolina	3,200	5,000	5,800	14,000	3,800	-	3,800
North Dakota	0	0	0	0	-	-	-
Ohio	2,600	3,600	3,000	9,200	3,000	-	3,000
Oklahoma	114	1,600	725	2,439	600	-	600
Oregon	442	4,200	1,800	6,442	1,800	-	1,800

State	2009 deficit	2010 deficit	2011 deficit	Total So Far	2012 deficit	2013 deficit	Total Projected
Pennsylvania	3,200	5,900	4,100	13,200	4,500	2,500	7,000
Rhode Island	872	990	395	2,257	290	328	618
South Carolina	1,100	1,200	1,300	3,600	877	1,200	2,077
South Dakota	27	48	102	177	127	-	127
Tennessee	1,500	1,200	1,000	3,700	-	-	-
Texas	0	3,500	4,600	8,100	13,400	13,400	26,800
Utah	620	1,000	700	2,320	437	-	437
Vermont	141	306	338	785	150	126	276
Virginia	2,300	3,600	1,300	7,200	2,300	-	2,300
Washington	1,300	4,800	3,500	9,600	2,900	2,900	5,800
West Virginia	0	304	134	438	155	-	155
Wisconsin	1,700	3,200	3,400	8,300	1,800	1,700	3,500
Wyoming	119	32	147	298	-	-	-
Washington D.C.	679	817	104	1,600	-	-	-

Data Index

Much of the data analyzed in this report was drawn from annual reports filed by each bank. Annual reports for each of the banks can be found the following pages:

Bank of America:
http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000070858&type=10-k

Citigroup:
http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000831001&type=10-k

Goldman Sachs:
http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000886982&type=10-k

JPMorgan Chase:
http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000019617&type=10-k

Morgan Stanley:
http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000895421&type=10-k

Wells Fargo:
http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000072971&type=10-k

Information on income taxes, and amounts currently payable for federal, state and local, and foreign income taxes, can be found in the notes to each bank's financial statements. Cash paid for income taxes in any given year is an item in the "Consolidated Statements of Cash Flows" for each bank. Pre-tax earnings can be found in the Consolidated Statements of Income/Earnings. Pre-tax US earnings are sometimes provided, and in other cases need to be deduced from statements of foreign earnings.