

Why are you paying more tax than Amazon and Netflix?

This tax season, millions of Americans will be receiving smaller refunds from the IRS, or worse, a bill. At the same time, two of the most profitable companies in the country are not only avoiding paying taxes altogether, but one is receiving a federal rebate check of hundreds of millions of dollars.

Both corporations and individuals are subject to federal income taxes. For those individuals who earn their money through work, the rates are anywhere from 10% to 37%. For those of us who live off investment income, marginal tax rates are 0%, 15% and 20% (this sucks too, but I'll get into

that at another time).

On the other hand, the corporate tax rate is 21%. It would be reasonable to assume that companies like Amazon and Netflix would pay 21%, or at least close to that figure, after applying deductions and other tax credits. This has not been the case.

From 2012 to 2017, Amazon paid federal income tax at an average rate of 11.4% on over \$8 billion in profits, almost half the highest marginal tax rate for corporations now and less than one-third the marginal tax rate for corporations before 2018, which was 35%. In both 2017 and 2018, the company paid \$0, and this

year the company will be receiving a \$129 million rebate. Netflix didn't do much better, either. The streaming service paid \$0 in tax in 2017, and their tax rate was 1% for 2018. This is despite Netflix boasting 139 million paying subscribers in 2018, with a profit of about \$845 million.

Unfortunately, this is a longstanding problem with the tax code, not simply a result of Republicans' Tax Cuts and Jobs Act going into effect. In 2017, after raking in \$5.6 billion in US profits, Amazon paid \$0 in federal income tax. They achieved this zero-dollar tax bill in in part by claiming tax credits for executive

stock options.

The company gets a tax deduction when people with stock options exercise these options. To illustrate with an example, say two years ago (when the stock price was \$140) the company issued stock options with an exercise price of \$140. Say that now, the stock price is \$340, and the employees cash in their options. The company issues them shares of stock, and the company gets a tax deduction of \$200 per share even though the company does not actually have any cash expenses (on a cash basis, the company is actually up \$140 per share). In fact, for financial accounting purposes the company only has the much smaller expense of the value of the option at the time it is granted.

Netflix did the same, as

well as something even more ridiculous. To lower their tax contribution, Netflix claimed a number of research and development credits. This credit doesn't just mean that research is deductible (like any other expense), but that (for the eligible R&D costs) the federal government actually pays 100% of the costs one of two ways. A company can either take 100% of the eligible R&D costs and deduct it from whatever they owe, or have it added to their refund. Interestingly, in all of the discussions of that credit that I read, members of Congress were always talking about inventing lifesaving drugs to cure cancer or something similar. I never heard anyone discuss the need for taxpayers to pay for research into making better recommendations for

what shows you might like to stream, but alas.

Obviously, Netflix's effective tax rate of 1% is fundamentally unfair, and Amazon getting a refund is absurd. But, after Republicans' tax overhaul in late 2017, one can be sure their tax rate being lower than that of middle class Americans is now absolutely by design and not a mistake.

There's no reason why two extremely successful companies have lower effective tax rates than the average middle class American, but here we are.

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