

## Unit 1 Activity – Exploring Corporation Tax Rate Variation in the USA

### 1.1 Variation of corporate tax

- Initial observation is that the data appears to be normally distributed – the median (overall) effective tax rate (ETR) is 29.1%.
- Majority of companies are taxed between 10 and 40%. Delving deeper, a large proportion seem to have a tax rate of between 20-30%.

### 1.2 Which types of companies pay less tax and high tax?

- Less tax: **utilities** with an effective tax rate at 12%. **Information Technology (IT)** has a 21% ETR.
- Most tax: insurance with an ETR of 51%, skewed by Genworth's 162% rate and AIG. **Energy** and **retailers** paid 37 and 34% respectively.

### 1.3 Why do some companies pay less tax than others?

- Beverage companies such as Coca-Cola and PepsiCo manufacture their products in low-tax companies, exploiting a loophole whereby they do not have to pay significantly more tax in the US.
- Some are large companies with a global presence and possess the internal accounting expertise and software to 'shift' earnings around different markets.
- Possession of intangible or portable assets (e.g., algorithms, pharmaceutical ingredients)

### 1.4 Other interesting discoveries

Type of visualisation:

- Ties in exploratory and exhibitory.
  - o Exploratory: an initial picture of the data is presented (bubble map), which the viewer can hover over to retrieve details into the tax rate of each company, plus the ability to identify companies with an outlier tax rate (e.g., AIG) and key patterns showing which industries are taxed at a higher rate.
  - o Exhibitory: the sentiment behind whether a company is taxed appropriately is up for debate with the audience. The visualisation is interactive (hovering over bubbles representing companies or using the search bar) and is quite enjoyable to explore.
- There is not an observable difference between the ETR of a company and their market capitalisation – there is a spread of companies with different capitalisations across all tax rates.

