



## OXFAM MEDIA BRIEFING

### July 22, 2020

# Pandemic Profits Exposed

*A COVID-19 Pandemic Profits Tax as one essential tool to reverse inequalities and rebuild better post-pandemic*

## Overview

*The COVID-19 pandemic has exposed the deep systemic inequalities and massive failures in our economic system, leaving tens of millions of people in the United States without jobs, devastating public services, and bankrupting countless small businesses. Yet as we face our deepest economic downturn since the Great Depression, a subset of companies is experiencing dramatic, windfall profits.*

*Seventeen of the top 25 most profitable US corporations, including Microsoft, Johnson & Johnson, Facebook, Pfizer, and Visa, are expected to make almost \$85 billion more in 2020 super-profits compared to previous years, new Oxfam estimates show. If we continue with business as usual, these windfall profits will not be handed out to workers in wages, won't be used to lower consumer prices, nor used to pay a bit more in taxes to fund healthcare workers. These profits will be paid to shareholders, a group of largely white, rich men who already control the vast majority of our country's corporate stock. The wealthiest 10 percent of Americans own 87 percent of all corporate stock in the US, compared to less than 1 percent of shares owned by the bottom half. Racial disparities are even more stark. Oxfam estimates that 9 out of every 10 dollars of pandemic profits will end up with white Americans in 2020. Black and Latinx families—already disproportionately affected by COVID-19—receive only 16 cents each.*

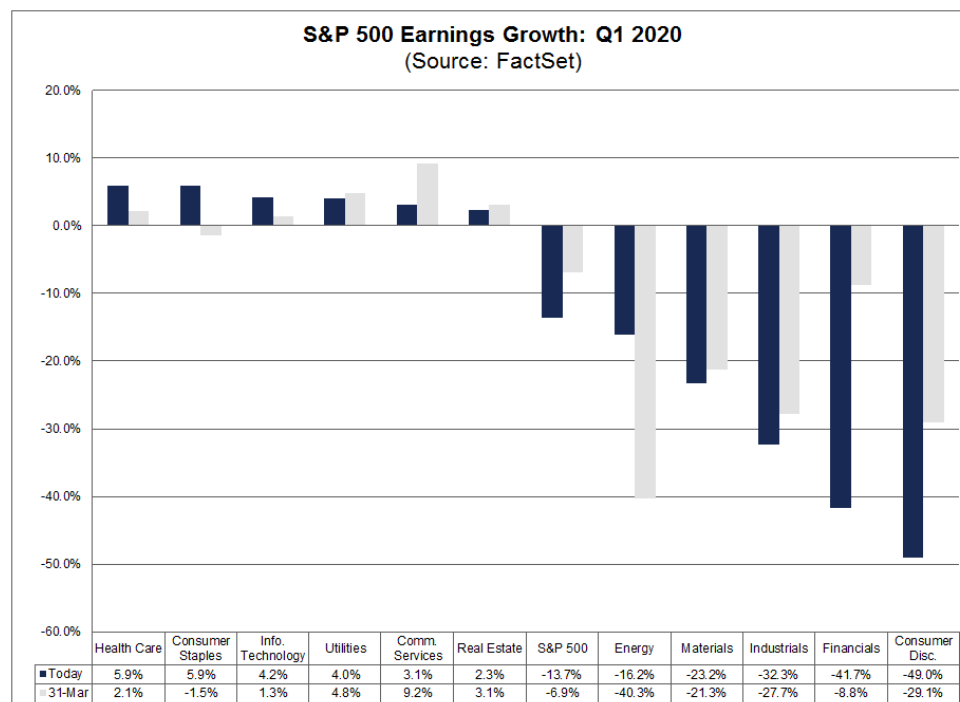
*COVID-19 presents us with a choice as a society: Do we want to continue distributing our economic resources to the already-wealthy and well-connected, or shall we choose to redeploy this money into the once-in-a-century fight against COVID-19 and the inequalities it brings in its wake? Resurrecting an emergency tax tool used during World War II, Oxfam estimates that temporarily taxing the excessive profits of the top 25 US companies could raise almost \$80 billion annually to re-invest in tackling COVID-19 inequalities across the US and around the world.*

## Many livelihoods in tatters amid runaway corporate profits

The COVID-19 public health crisis and the collapse in economic activity it has brought has pushed tens of millions of US workers onto unemployment, devastated funding for public services, and bankrupted countless companies. One in five Americans now report being laid off or furloughed since COVID-19 began, and a third don't expect to be rehired or retained.<sup>1</sup> Looking across the economy, the companies included in the S&P 500 Index saw a 12.5 percent decline in profits in the first quarter of 2020, with an expectation of a 39 percent drop in profits in the second quarter.<sup>2</sup> Even more alarming, small US companies are reporting a *49 percent drop* in earnings in the first quarter of 2020, with analysts expecting these small firms to *lose 85 percent in profits* in the second quarter.<sup>3</sup> While larger companies are receiving billions in COVID relief, only 12 percent of Black and Latinx business owners who applied for aid from the Small Business Administration reported receiving what they had asked for, according to a poll in mid-May. Nearly half of business owners of color say they will be permanently out of business by the end of the year.<sup>4</sup> These economic burdens are compounding the health burdens disproportionately faced by people of color in the US.<sup>5</sup> Because of pre-existing inequalities, Black and Latinx people have been three times as likely to become infected by, and twice as likely to die from, the virus.<sup>6</sup>

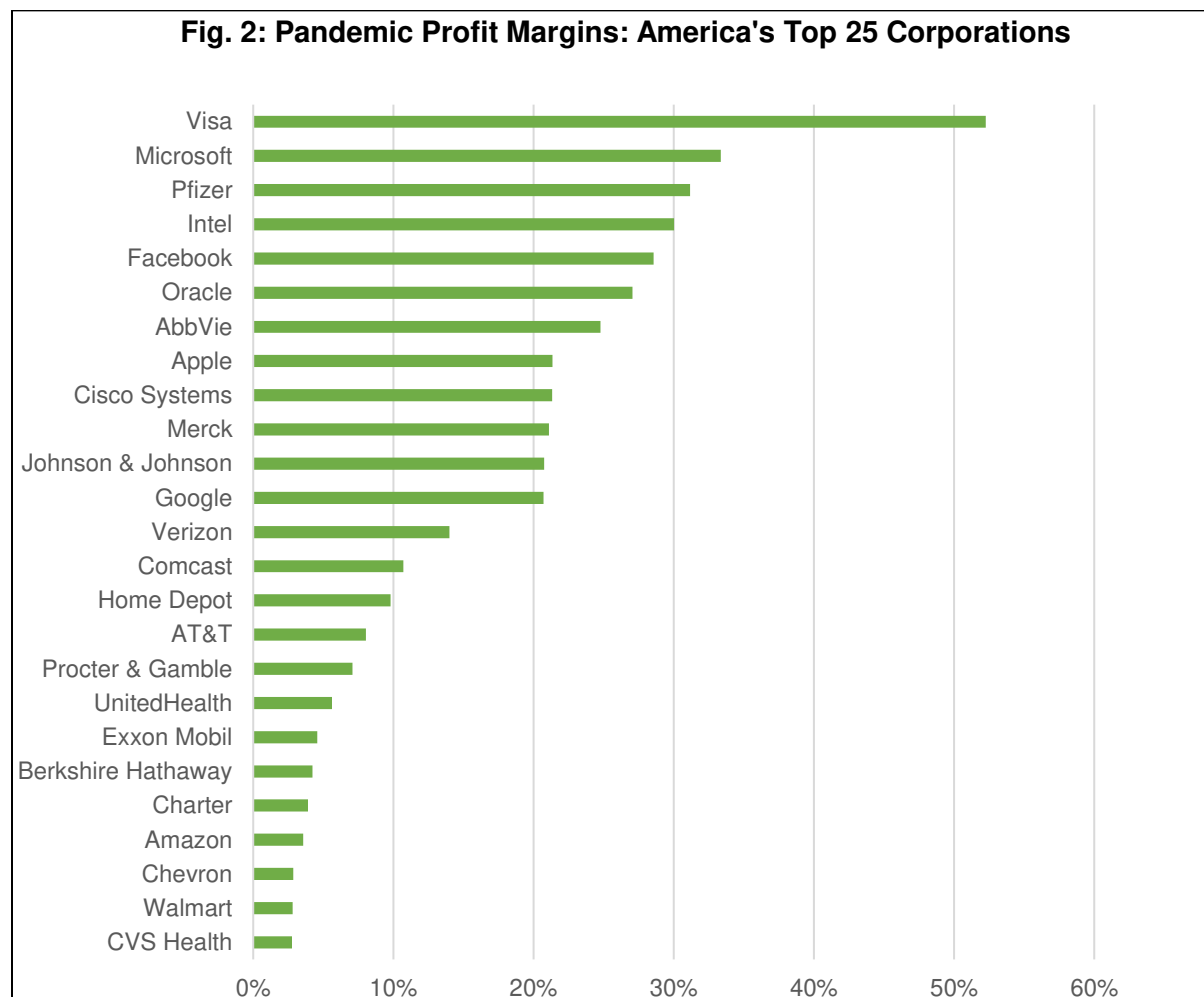
Yet, while we face our deepest economic downturn since the Great Depression, a subset of companies is experiencing dramatically outsized profits. In sectors like pharma, tech, utilities, and telecommunications that rely on the highly digitized economy, some companies are seeing their takeaway earnings soar.<sup>7</sup> Especially the largest companies.

**Fig. 1: COVID-19's Winners and Losers So Far, By Sector<sup>8</sup>**



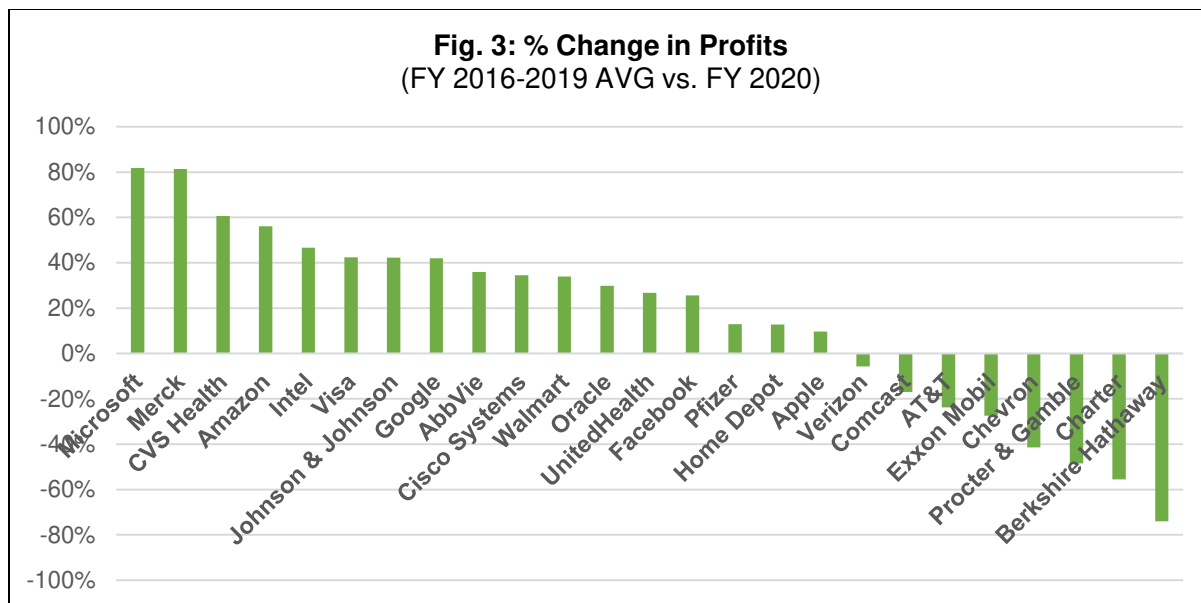
A new Oxfam analysis<sup>9</sup> of the top 25 most profitable US companies<sup>10</sup> found that, on the whole, America's top corporate titans are making out quite well this year, so far. Compared to steep

declines across the economy, the top US 25 companies are earning on average an 11 percent profit margin (net profits as a percentage of total revenue) in fiscal year 2020. While small firms are reporting a nearly 50 percent earnings plunge in the first months of this year, Visa is expected to make a 52 percent profit margin in FY 2020, followed by Microsoft at 33 percent, Pfizer at 31 percent, and Intel at 30 percent (Fig. 2).



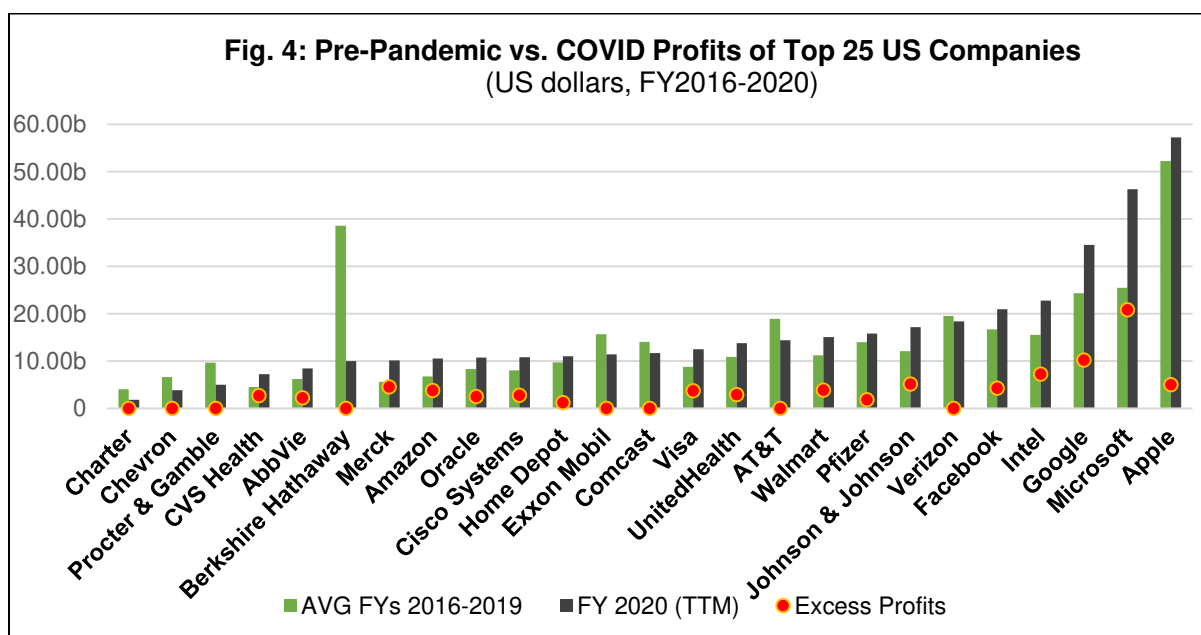
Source: Oxfam analysis of company earnings statements.

In dollar terms, these 25 companies as a whole are expected to earn 11 percent more profits in 2020 than they did on average in previous years. Some of the top companies' bottom lines have suffered, for sure. But others are earning more—sometimes much, much more. Microsoft is expected to make 82 percent more in net profits in 2020 than it averaged in the previous four years, Merck 81 percent more, and CVS Health<sup>11</sup> 61 percent more (Fig. 3).



Source: Oxfam analysis of company earnings statements.

Amidst the global COVID-19 pandemic, with small business crumbling and deep economic suffering across the nation, 17 of the top 25 US companies collectively are expected to earn together nearly \$85 billion *more* in 2020 than over the previous four years average.<sup>12</sup> Keep in mind that these companies were already some of the most profitable enterprises on the planet before the COVID-19 crisis. Big Tech and Big Pharma—two of the biggest pandemic winners so far—in particular are the sectors which have benefited the most from low taxes and the use of offshore locations before the pandemic, according to Morgan Stanley.<sup>13</sup> But somehow they're likely to exceed those extraordinary past profits: Microsoft is expected to earn \$20.8 billion more during the pandemic than in previous years; Google, \$10.2 billion more; Intel, \$7.2 billion more; and Johnson & Johnson, \$5.1 billion more.



Source: Oxfam analysis of company earnings statements.

Amid the deepest public health and economic crisis since World War II, this is hardly shared sacrifice from the nation's preeminent business elite.

## Few winners, many losers

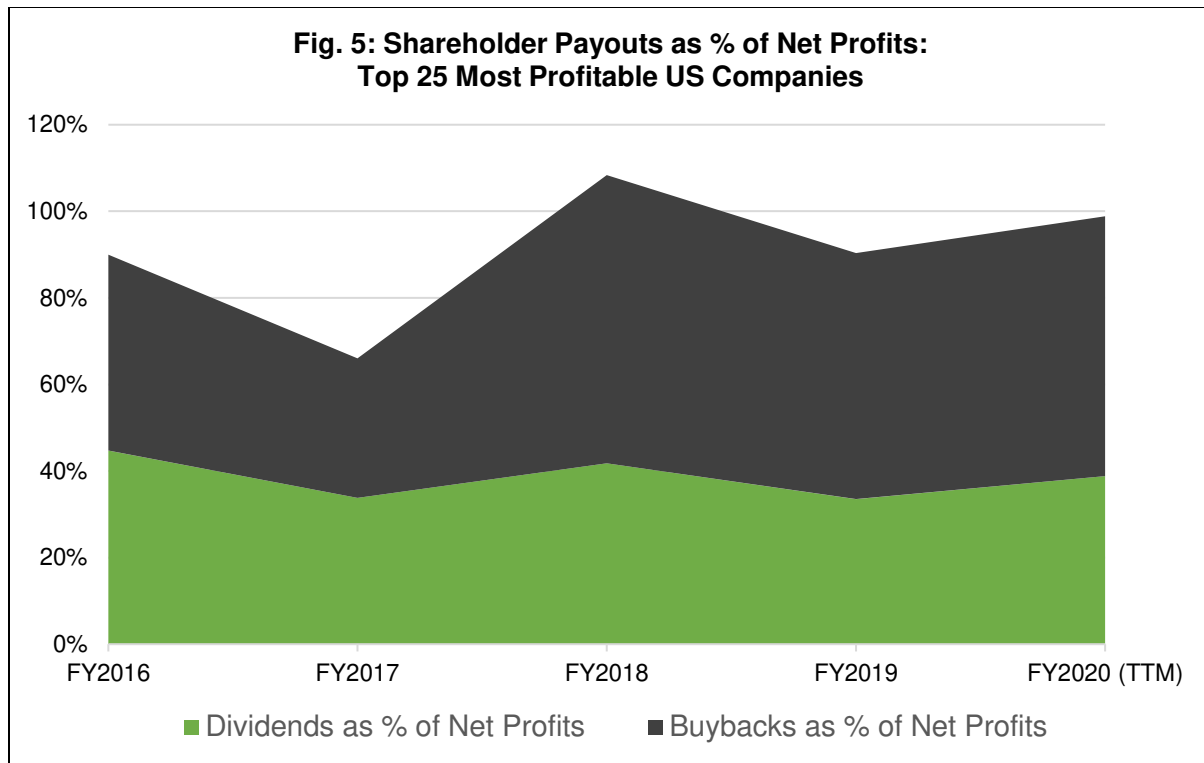
Why should we care about how much US mega-corporations make in profits? Don't these companies providing us such essential goods and services—like Internet communications, medicines, and consumer goods—deserve to make some money? Perhaps, but certainly not at the expense of others. Excessive profits—especially if gained from un-earned rents and through rigging the political system to their favor—have long been chastised as not only fundamentally unjust but economically inefficient.

For one, mammoth companies able to siphon off so much economic gain at a time in which the majority suffer can easily turn their position of privilege into a position of domination over other smaller companies. This limits fair competition and weakens workers' power.<sup>14</sup> Amazon, Apple, Facebook, Google, and Microsoft, for example, are flush with around \$557 billion in fresh cash,<sup>15</sup> giving them the dry-powder they need to continue to rewrite the rules in their favor while swallowing up key pieces of the US economy—deepening their market power at the expense of fair competition and many small businesses. This threatens to exacerbate corporate consolidation and political entrenchment by some of the world's largest companies.

Second, who benefits when the largest companies excessively profit hand-over-fist during this pandemic? To put it bluntly: rich, white, male shareholders do—at the expense of lower-income people of color.

The COVID-19 virus is exacerbating divisions by wealth, gender,<sup>16</sup> and race: disproportionately hitting working Black and Latinx families across the nation.<sup>17</sup> The economic fallout compounds these health inequalities, driving lower-income people of color even further behind.

Economic, gender, and racial inequality in America is even further deepened because of the ways in which large US companies distribute their outsized earnings. In 2020, Oxfam analysis has found, the same top 25 most profitable American companies are expected to distribute 99 percent of their profits to shareholders, in the form of buybacks and dividends (Fig. 5).<sup>18</sup> That's up from 90 percent in 2018 and leaves only 1 percent of profits for other stakeholders. Charter Communications, the telecom and mass media giant, leads the pack, distributing on average 278 percent of its net earnings to shareholders over the past five years. It is expected to distribute 457 percent of its profits to shareholders in 2020 in the form of stock buybacks. Apple is expected to buyback \$74 billion of its own stock in 2020, distributing over 150 percent of its net profits to shareholders this year—more than any other time in the past five years.<sup>19</sup>



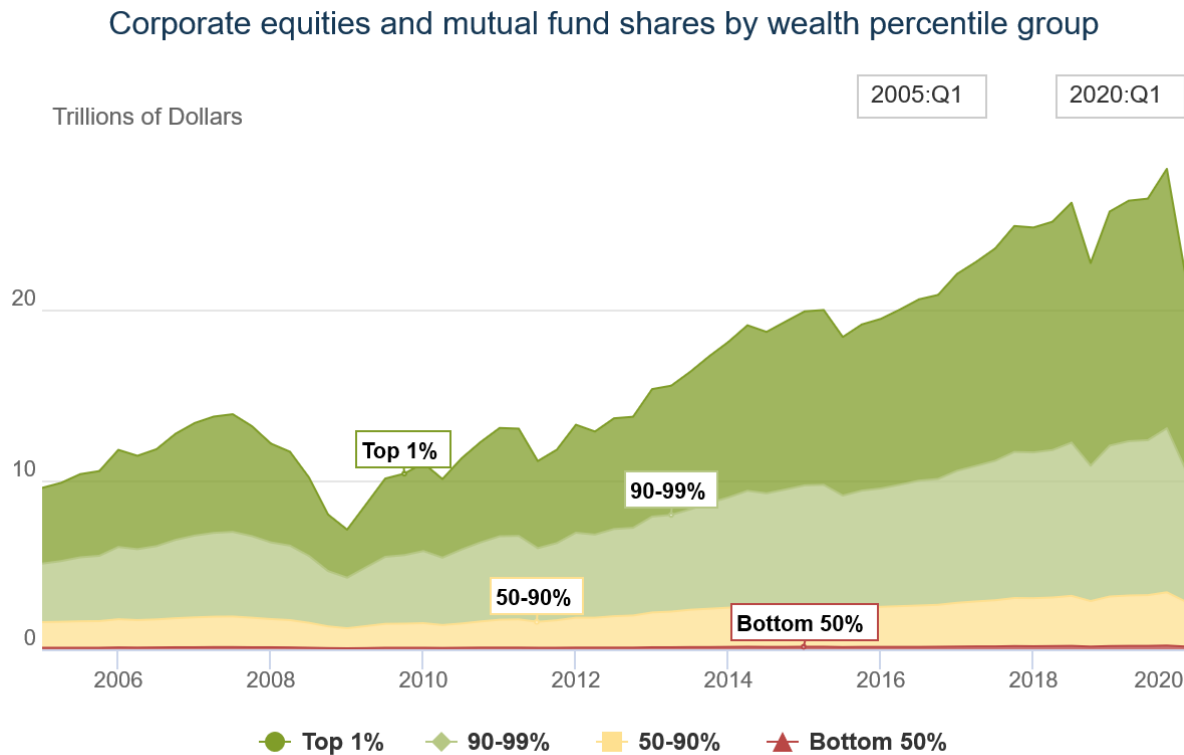
Source: Oxfam analysis of company earnings statements.

In the midst of a global economic crisis ravaging our nation, corporate America's top cats are expected to hand out essentially all of their profits—not to workers in wages or better retirement, not in lower prices for consumers, not to paying a bit more in tax to fund healthcare workers—but to a small cadre of shareholders at the expense of working families.

### Who benefits from COVID-19 excess profits - by wealth

In 2020, the wealthiest 10 percent of Americans own 87 percent of all corporate stock in the US, compared to less than 1 percent of shares owned by the bottom 50 percent.<sup>20</sup> Starker even, the top 1 percent own 52 percent of US company shares, while the bottom 90 percent of Americans own less than 13 percent of stock.<sup>21</sup> This explains a lot of the reason why the wealth of US billionaires grew by over \$500 billion during the first three months of the pandemic.<sup>22</sup>

**Fig. 6: Ownership of Company Shares by Wealth in US<sup>23</sup>**

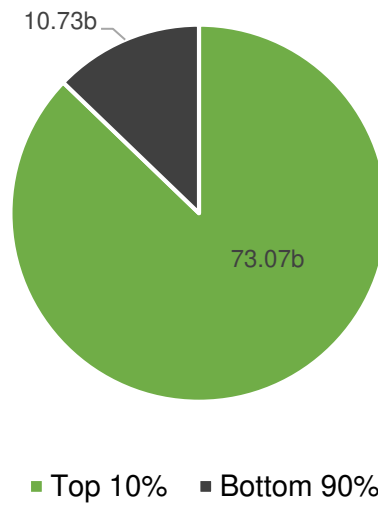


Source: Survey of Consumer Finances and Financial Accounts of the United States

Given what we've established above—namely that 99 percent of the top 25 companies' 2020 profits were distributed to shareholders—we can expect that over half of that \$85 billion in profits in excess of previous years captured by America's top 25 companies will be distributed to the top 1 percent. The top 10 percent has control over 88 percent of these excess profits, leaving only 12 percent for the bottom 90 percent and next to nothing for the bottom half.

Put differently, the wealthiest 10 percent of our nation will receive almost nine dollars of every 10 in pandemic profits from the 25 top US companies. The bottom half of our country will receive next to nothing.

**Fig. 7: Excess Pandemic Profits Payouts by Wealth, 2020**



Source: Oxfam analysis of company earnings statements, combined with Federal Reserve Distributional Financial Accounts data analysis.<sup>24</sup>

### **Who benefits from COVID-19 excess profits - by race**

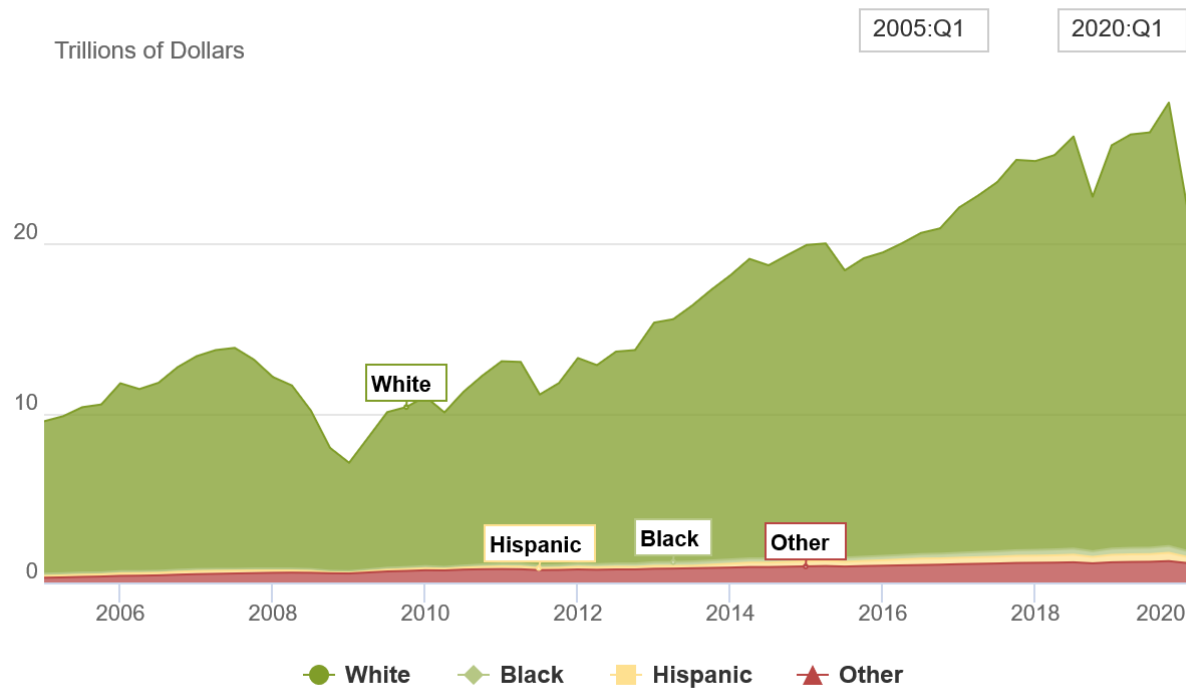
US company stock, and thus the financial benefits from the stock market, is overwhelmingly owned by white Americans—a pattern that stretches across all categories of wealth. The racial wealth gap in the US has widened since the Great Recession.<sup>25</sup> In 2016, the average wealth of all white Americans was approximately \$933,700. For Black Americans, it was \$138,200 and for Latinxs it was \$191,200.<sup>26</sup> If we look at the median instead of the average, Black households have only 10-cents in wealth for every dollar held by white households (median wealth was \$171,000 for White households and \$17,100 for Black households).<sup>27</sup> In fact, the 400 richest white Americans own more wealth than the entire Black community and a quarter of the Latinx community combined.<sup>28</sup>

The trend shown above of excessive profit-making during the COVID-19 pandemic threatens to push this wealth gap even further. This is because an estimated 97 percent of all shareholder payments between 2004 and 2019 accrued to white Americans, with Black and Latinx families only receiving 1.3 percent and 1.6 percent, respectively.<sup>29</sup>



**Fig. 8: Ownership of Company Shares by Race in US<sup>30</sup>**

Corporate equities and mutual fund shares by race

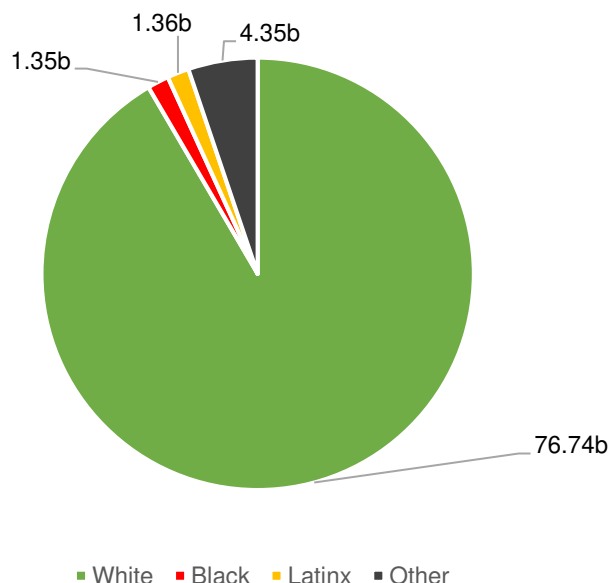


Source: Survey of Consumer Finances and Financial Accounts of the United States

In 2020, white Americans—only 60 percent of the US population<sup>31</sup>—own 92 percent of corporate shares.<sup>32</sup> Black families and Latinx families—which are 13 and 18 percent of the population, respectively,<sup>33</sup> yet face the disproportionate COVID-19 burden<sup>34</sup>—own only 1.6 percent of corporate shares each. Combining the excess profits and the shareholder payout ratios with these shocking discrepancies in stock ownership leads us to the fact that white Americans will receive an estimated \$77 billion of the excess pandemic profits of America's top 25 companies, with Black and Latinx families getting only \$1.3 billion and \$1.4 billion, respectively.

That is, over nine out of every 10 dollars of pandemic profits end up with white Americans. By comparison, Black and Latinx families—already disproportionately affected by COVID-19—receive 16 cents each.<sup>35</sup>

**Fig. 9: Excess Pandemic Profits Payouts by Race, 2020**



Source: Oxfam analysis of company earnings statements, combined with Federal Reserve Distributional Financial Accounts data analysis.<sup>36</sup>

### Who benefits from corporate stock - by gender

Finally, excess profiteering during the pandemic may well also end up compounding the gender wealth gap. Men own significantly more equity in US companies than women. Simply looking at equity ownership between men and women is revealing: For every \$1 in company equity held by men, women hold 47 cents.<sup>37</sup> For Black women, the effects are especially eye-opening. Black women already experience a gender-based wage gap driven by factors including racial and gender discrimination, lack of workplace policies supporting family care, and workplace harassment and job segregation.<sup>38</sup> Whereas full-time women are generally paid 80 cents for every dollar paid to a man, Black women receive just 61 cents compared to white, non-Hispanic men.<sup>39</sup> On top of this, women of color benefit much less from tax-induced stock price gains, as they simply own less stock than their white male counterparts. Only 14 percent of single Latinx women own stock, according to the latest data available, compared with over 50 percent of single white men.<sup>40</sup>

### All in it together?

Economic inequality in the United States persists in part because of long-standing and systemic racial and gender discrimination and bias. The outsized pandemic profits of America's corporate giants seem to be widening these divisions—even as the COVID-19 crisis continues to threaten the future work, educational, and health opportunities for women, especially Black women and people of color, to realize the American dream.

In moments of deep crisis, we can learn much from our history. Looking back to look forward, the US was the first to use tax revenue to provide free and universal education, permitting millions of families to acquire skills that improved their standard of living. The world's first progressive income tax was deployed to help defeat slavery during the Civil War. And at the height of World War II,

as a key tool to fight fascism and build public trust, the United States decided to enact a new tax on excess profits. This is an idea whose time has come again.

## Tax COVID-19 excessive profits for the greater good

With millions out of work, stark economic, racial, and gender divisions ripping apart our nation, and with local education and health infrastructure crumbling from decades of neglect, no company should feel good about earning exorbitant profits only to have those profits end up in the pockets of the already wealthy and well-connected. Whether these outsized gains were made unjustly or were simply a matter of luck, none of the most profitable companies have worked harder or made better decisions than the millions of small businesses across the nation about to enter bankruptcy. Americans should expect the companies who have benefitted most to give back in meaningful and democratic ways. During this crisis already, thousands of companies have received temporary relief under the CARES Act to prevent them, and their workers, from going under. The largest and most profitable companies have received significant indirect public assistance, such as stimulus checks to consumers and Federal Reserve promises to buy all corporate debt. To level the playing field and prevent super-profitable companies from manipulating their position of strength, it is high time we consider revisiting the postwar playbook by taxing excess corporate profits during the pandemic.

While timely, it's not a new concept. The US has a long history of creating temporary profits taxes to confront crises, including a tax on excess corporate profits during the World Wars. In fact, more than 22 countries used an excess profits tax during WWI.<sup>41</sup> Beyond the revenue and redistributive value, it also represented a significant tool to empower workers to demand wages that kept up with the increased prices for key goods during the War,<sup>42</sup> as well as to check the increasing concentration of economic power of a few super-sized corporations.<sup>43</sup> Showing its staying power as a core instrument to help mobilize resources, shared sacrifice and trust during WWII, the "Greatest Generation" first enacted an excess profits tax in the US in 1940, then adapted it in 1941, 1942, 1943, and 1945, lasting through the post-war period until 1950.<sup>44</sup> "It was an answer to those who sought insurance that none would profit from the nation's misfortune," explained a prominent economist of the period, Harold Groves.<sup>45</sup>

*"It is unconscionable that some corporations would profit from the current crisis while everyone else suffers. There is no reason not to use this opportunity to revive the excess profit tax and apply it to profits that derive entirely from the pandemic." ~ Prof. Avi-Yonah<sup>46</sup>*

An excess profits tax is designed to tax the portion of profits that derive not from hard work, but from an external event the taxpayer had no hand in making. Under current circumstances with unemployment, debt, and public distrust at all-time highs, a COVID-19 Pandemic Profits Tax can serve four main aims:

1. Decrease incentives companies have during this economic crisis to spike prices, especially on necessary goods and services people depend on
2. Redistribute the oversized gains from rent-seeking and luck toward more productive aims of combatting the un-equalizing effects of COVID-19
3. Level the business playing field by decreasing the financial firepower super-profitable companies have to take advantage of a crisis to gain market power by buying up struggling companies

#### 4. Raise revenue to pay for key equalizing public services

How might the tax be designed? A leading proposal by Prof. Avi-Yonah<sup>47</sup> would organize the excess profits tax along these lines:

- Applies only to large corporations with \$500 million or more in annual gross receipts.
- Routine profits would not be affected. Excess COVID-19 profits are defined as those 2020 net profits exceeding the four-year (2016-2019) average of the particular company itself.
- Research is a major capital investment in today's economy, so companies would receive a credit of 8 percent of R&D. Other credits could also be included for socially and economically useful activities, such as increasing wages and keeping workers on payroll.
- The resulting excess profits after credits would be taxed at 95 percent, with total combined tax liability (of regular corporate tax and excess profits tax) capped at 80 percent of net earnings. A high rate is important to disincentivize companies to take advantage of the crisis to excessively profit.
- The temporary tax would apply only during the duration of the pandemic and/or economic crisis and would need to prevent companies from deferring profits, or using loss carry forwards, until the crisis is over. To do so, the tax could, for example, extend five years beyond the pandemic.
- Disallows companies from moving their headquarters overseas to prevent companies from abandoning their country in a crisis to cut their tax contributions. Further towards preventing tax avoidance, the tax could apply to book income as shown in company's financial earnings statements.

#### **How would a temporary COVID-19 Pandemic Profits Tax work? And who would it affect?**

Let's start with what this tax would *not* do. It would *not* apply to most businesses in the US, that is, those that have less than \$500 million in revenue. Even for the largest of US corporations, this tax would *not* apply at all if they earn the same or less in net profits in 2020 compared to previous years. That is, their average routine profits would be treated with exactly the same (low) rate as before the pandemic. Let's remember that 2016-2019 was already a banner year for most large US corporations, with many benefitting from the Trump tax cuts. These high earnings from previous years would not be affected, so company productivity shouldn't suffer. The main change for the largest corporations would be that any super-profits made in excess of their average four-year profit levels would be taxed at a high rate to prevent price-gouging and better deploy our economic resources into more productive uses.

Here's an illustration: Corporation A has \$550 million in revenue. Its average net earnings from 2016-2019 were \$95 million. Yet, in 2020, its net profits jumped to \$100 million. \$95 million in profits would be treated exactly as before, with no tax hikes at all. Only the difference (\$5 million) would be subject to the COVID-19 Pandemic Profits Tax, and only during the course of the public health and economic crisis.

In sum, the COVID-19 Pandemic Profits Tax is targeted at the largest and most profitable companies: precisely those that are both benefitting most during the crisis and have the ability to pay to help offset the deep economic scars being inflicted by this virus.

This method is simple, objective, and effective at reaching the four aims above. Companies that are losing money, or merely at a break-even point compared to previous years, would not be affected, and therefore productivity not affected. This instrument would not involve double taxation

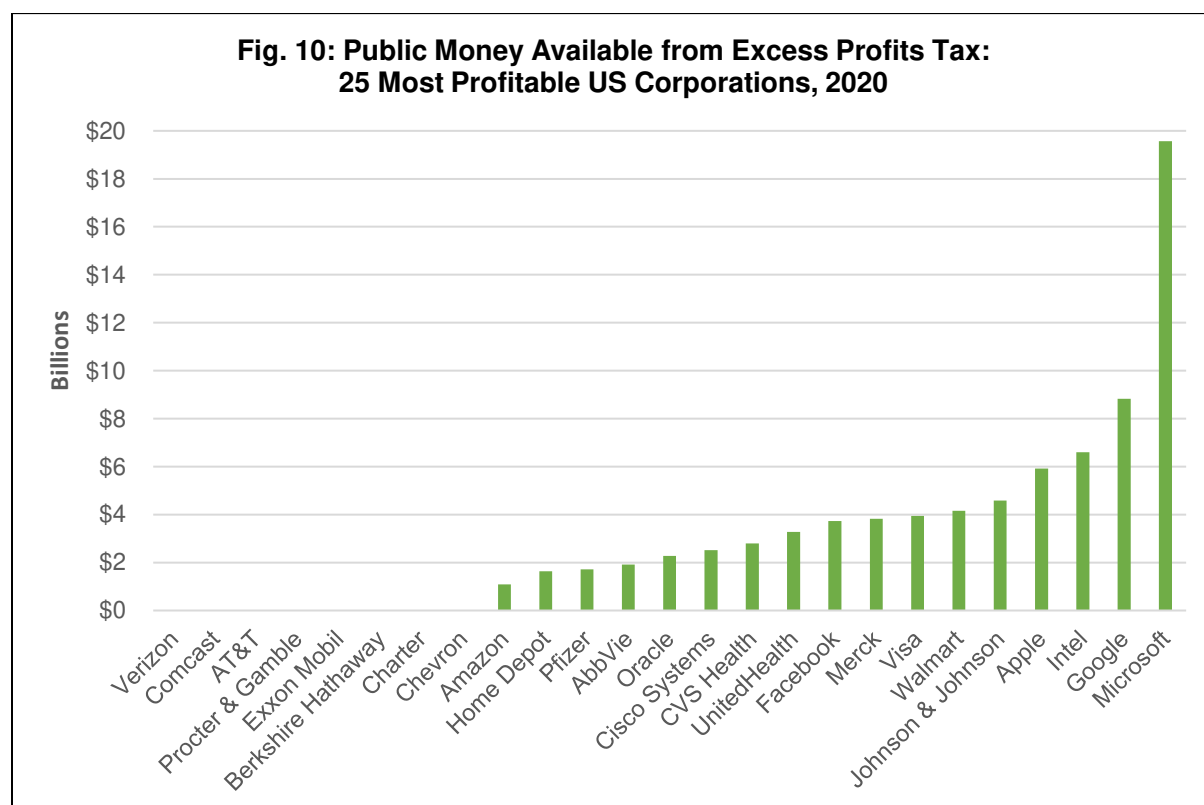
because the regular profits are taxed at normal rates, while only the income above the credit amount is separately taxed as excess profits at a higher rate.

The temporary nature of the tax would reduce the temptation some global companies might have to shift their profits to other jurisdictions without such a tax. Recognizing that much of the value these companies derive from global interactions and that the proceeds of this tax are in many ways a global public good, governments that adopt this tax should move toward agreeing to a fair way to apportion these excess profits between countries.

*“Excess profits taxes can be a satisfying policy prescription in a time when a few bask in windfalls while the masses are gripped by fear and loss, and those on the front lines of public health sacrifice everything to keep the novel coronavirus at bay.” ~ Prof. Allison Christians<sup>48</sup>*

Finally, a COVID-19 Pandemic Profits Tax is justified as a necessary measure toward fighting the virus of inequality, limiting price-gouging, dampening corporate concentration and starting to rebuild people’s trust that public institutions can ensure a measure of shared sacrifice during an ever-deepening crisis affecting people’s lives and livelihoods now and into the future.

What’s more, this new tax would raise billions of dollars in fresh revenue needed to rebuild better post-pandemic. Looking at just the 25 most profitable companies analyzed above, the US could raise nearly \$80 billion in 2020 to address COVID-19 (Fig. 8). In practice, a Pandemic Profits Tax implemented across all large US corporations would raise much more. Rather than distributed to wealthy shareholders, these economic resources could be more usefully redeployed in the fight against growing COVID-19 inequalities.



Source: Oxfam analysis, using company earnings statements.

## Redeploying extraordinary pandemic profits to fund essential COVID-19 relief and recovery efforts

Business-as-usual has failed us. After decades of extreme growth in wealth and profits alongside obscene levels of inequality, the time has come to reverse these trends. A COVID-19 Pandemic Profits Tax would reverse extreme inequalities between people and between companies by investing at least \$80 billion in excessive earnings into programs that mitigate the gender, racial and economic inequalities exacerbated by the COVID-19 crisis.

For perspective, Oxfam drew up a menu of different options for spending the proceeds of taxing the excess profits of the top 25 US companies to counter COVID inequalities across the US and around the world. The COVID-19 Pandemic Profits Tax could fund any **one** of these packages:

**COVID-19 TESTING AND VACCINES FOR ALL:**<sup>49</sup> Redeploying the excess pandemic profits of these 25 US corporations using this tax could be instrumental in the public health battle against COVID-19 at home and abroad. The \$78 billion raised could save lives and speed up the recovery by funding (*Estimated cost: \$77 billion / year*):

- Immediate and ongoing global **coronavirus testing needs**, estimated at \$6 billion,<sup>50</sup> *and*
- Delivery of a **COVID-19 vaccine to everyone on the planet**, including necessary R&D, manufacturing, procurement, distribution and delivery, estimated at \$71 billion.<sup>51</sup>

The four most profitable US pharmaceutical companies (Johnson & Johnson, Pfizer, Merck, and AbbVie) enjoyed extraordinary profit margins of 19 percent in the four years before COVID-19. In 2020, in the midst of a global pandemic, these four companies are expected to gain on average 24 percent in profits. Taxing this difference would provide \$12 billion in fresh revenue to *more than double the Center for Disease Control's budget*: funding a war-time mobilization of public-interest driven scientists and epidemiologists to bring this virus to its knees.<sup>52</sup>

## ESSENTIAL WORKER SUPPORT AND DEMOCRACY DEFENSE PACKAGE (*Estimated cost: \$75.9 billion / year*), including:

- **Extend Paid Sick and Family Leave through 2021:** For a \$3 billion investment<sup>53</sup> we could close the loophole from previous coronavirus relief packages that excluded large employers from paid leave requirements and expand reasons for which people can take the leave. Paid leave is needed for workers at all times, in order to allow them to balance work and caregiving responsibilities, but it is especially vital during the pandemic;
- **Kick-start the National Paid Family and Medical Leave Program:** Alongside this first urgent step, an additional \$54.7 billion investment could fully resource the first year of a Paid Family and Medical Leave Program that would help working families across America balance work and caregiving responsibilities;<sup>54</sup>
- **Prevent a spike in food insecurity** by investing \$10 billion to the Supplemental Nutrition Assistance Program (SNAP);<sup>55</sup>

- Enhance access to **nutritious foods to low-income pregnant women or mothers with young children** who lose their jobs or are laid off due to the COVID-19 emergency by increasing support to the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) by \$1.1 billion;<sup>56</sup>
- **Protect worker safety and fight wage theft:** We could invest \$3.49 billion to quadruple the budgets of the Occupational Safety and Health Administration (OSHA) and the Wage and Hour Division in the Department of Labor, enabling these agencies to enforce laws that keep workers safe and prevent their exploitation. Civil labor enforcement holds corporations to account by imposing fines to deter employers from preying on workers, while avoiding criminal law enforcement and policing;<sup>57</sup> *and*

Taxing the excess pandemic profits of Amazon alone could almost triple the budget of OSHA overnight, *protecting the safety of all American workers* facing the brunt of the COVID-19 crisis.<sup>58</sup>

- **Defend our democracy:** Provide a \$3.6 billion down payment to bolster our election system to support efforts to make voting safer and more accessible during the pandemic, including enhanced systems for vote-by-mail, raising voter awareness of how to vote, and shoring up vulnerabilities in election systems across the country.<sup>59</sup>

Taxing the excess pandemic profits of Facebook alone would cover the \$3.6 billion needed to bolster our election system by making voting safer and more accessible despite the pandemic, including *enhanced systems for vote-by-mail*, raising *voter awareness of how to vote*, and shoring up vulnerabilities in election systems across the country.<sup>60</sup>

**FUND ALMOST HALF THE COST OF PANDEMIC PREMIUM PAY FOR ESSENTIAL WORKERS:** To give back to those who are risking life and limb performing essential functions to keep our economy running during the pandemic. (*Estimated cost: \$190 billion / year*)<sup>61</sup>

**UNIVERSAL CHILDCARE AND EARLY LEARNING PROGRAMS,** *with pay parity for childcare workers* A proven way to invest in both the fight against economic and gender inequality.<sup>62</sup> More women are being pushed out of work as result of COVID-19, diminishing their lifelong economic potential. The impact of access to universal childcare to unleash the constrained potential to enhance the well-being and economic stability of American working families and improve educational outcomes of our children is difficult to overstate. (*Estimated cost: \$70 billion / year*)

**SUPPORT POORER COUNTRIES IN THE FIGHT AGAINST CLIMATE CHANGE:** Led by the US, rich countries pledged to mobilize \$100 billion annually to help poorer countries deal with the devastating effects of climate change. Yet, this goal remains stubbornly unmet.<sup>63</sup> Proceeds from a COVID-19 Excess Profits Tax from just 25 US companies could *quadruple* the grants available to support climate adaptation among the poorest countries.<sup>64</sup>

## **CONTRIBUTE TO AN URGENT INTERNATIONAL AID PACKAGE TO SAVE LIVES AND LIVELIHOODS AT THREAT FROM COVID-19:**

The proceeds of the Pandemic Profits Tax on just 25 super-profitable companies could be provided as official international development assistance, adding a significant *15 percent boost* towards filling the UNCTAD-estimated<sup>65</sup> global pandemic need to provide COVID-19 prevention measures, strengthen health systems, social protection, and food security. (Estimated cost: \$500 billion)

## Recommendations for policy and practice

### **Oxfam calls on the US government and others to:**

**Meet the moment by enacting a COVID-19 Pandemic Profits Tax for large companies.** This is an essential and time-tested tool to level the playing field, prevent pandemic profiteering, curb corporate consolidation, and raise public revenue to tackle inequalities and rebuild a better post-pandemic economic and society.

With an aim of reducing COVID-19 inequalities within and between countries, the public money produced by this tax should benefit countries where the companies' economic activity takes place as well as where the COVID-19 crisis is deepest.

**Restore public confidence in the tax system by requiring multinational companies to be fully transparent** by requiring companies to publish country-by-country tax and financial reports, which all large multinational corporations are already preparing.

**Create a level playing field by ensuring large multinational companies pay their fair share of taxes where economic activity takes place**—rather than shifting the tax burden onto consumers and workers. In the US this would mean combatting offshore tax avoidance by equalizing the rates at which US multinational companies' domestic and foreign profits are taxed and better cracking down on “inversions,” whereby US multinational companies move their residence (on paper) to tax havens to lower their tax bill.

**Commission an independent evaluation to assess and address the impacts on gender, racial, and economic inequality in the US and abroad of major corporate tax reforms**—improving upon the tax spillover assessments the Republic of Ireland, the Netherlands, and the IMF have already carried out.

### **Oxfam calls on all the companies listed to:**

**Act more transparently**—by publishing their full country-by-country reports (CBCR) of key tax and financial information necessary for the public to understand and assess the company's tax practices.

**Pay their fair share**—by publicly committing to pay tax on profits where economic activity takes place, and to stop shifting profits to low-tax jurisdictions.

**Use their influence responsibly**—to shape a more equitable tax system for sustainable and inclusive growth. This would include publicly disclosing all contributions made to political candidates, policymakers, trade associations, think tanks, coalitions, and other political entities to influence policy in the US and abroad, and publicly committing to align the corporations'



financial contributions and private advocacy with their credos and codes of conduct on tax policy and access to medicines.

**Immediately adopt the Global Reporting Initiative (GRI)'s Tax Standard**—the first global standard for comprehensive tax disclosure at the country-by-country level, this reporting standard represents the gold-standard in tax transparency reporting standard and includes a public country-by-country report on tax payments and economic activity.

**We call on investors to:**

**Engage with multinational companies**—on how they can become more responsible and transparent taxpayers.

**Support efforts to require companies to publish country-by-country tax and financial reports and to report to the GRI Tax Standard**—as necessary information for more nuanced financial, risk and governance analysis.

**We call on people around the world to:**

**Join Oxfam to demand that all companies pay their fair share of taxes and stop cheating women and girls out of the chance to beat poverty and smash inequality.**

## Research methodology

The research results were based on a careful analysis of 10-K and 10-Q financial reports filed with the Securities and Exchange Commission by the companies listed, then cross-checked with YahooFinance. These filings contain financial statements for the companies' global operations with specific data on total revenue, earnings before interest, taxes, depreciation, and amortization (EBDITA), net income/earnings, research and development, total dividends paid, share repurchases and other disclosures. The 10-K and 10-Q reports also include qualitative information on various issues, including business, geographical, segment, and financial overviews. This information was reviewed to better understand the underlying data trends and to identify information relevant to the research. All data is in the fiscal year reported by the firms. To determine FY 2020 to compare to previous years, we use the common Trailing Twelve Months (TTM) method, equivalent to  $FY2020 (TTM) = 2020Q1 + 2019Q1,2,3,4 + 2019Q1$ . With these data sources, Oxfam took the following steps to conduct this research over the course of March, April, and May of 2020.

First, we constructed a sample of the 25 most profitable US companies. To do so, a commonly used indicator of profits (EBIDTA) was used to rank the top 25 US companies in the S&P 500 Index, using Q1 FY2020 data.

Next, the researcher collected the following data points:

- Net Income: FYs 2016-2019, FY2020 (TTM)<sup>66</sup>
- Revenue FY2020 (TTM)
- R&D FY2019

Then, using the method and data described above, the following key indicators were calculated:

- Pandemic Profit Ratio = FY2020Q1 TTM Net Income / FY2020Q1 Total Revenue
- Pandemic Excess Profits = Net Income FY2020 TTM - AVG FY2016, 2017, 2018, 2019

We then computed, for the period, the percentage of net profits paid out to shareholders (Total Dividends Paid + Repurchase of Common and Preferred Stock (Gross) / Net Income). Shareholder payout ratio results above 500 percent were stripped out as outliers for computing each average companies' shareholder payout ratios over the period.

To explore the distribution of the FY2020 TTM excess profits by wealth and race, we used the average shareholder payout ratio for the company sample above and applied that percentage to the excess net profits to compute an estimate of the amount of USD being distributed to shareholders by these companies in FY2020. Then, we used Federal Reserve Distributional Financial Accounts (DFA) data<sup>67</sup> to determine the shares of corporate equities and mutual funds belonging to different groups by wealth and by race/ethnicity. These shares were integrated with the average shareholder payout ratio and the total excess profits data to identify the excess profits distribution by race and by wealth status. Unfortunately, the Fed's DFA data does not disaggregate by gender, so we could not perform the same operation here. Instead, we used secondary literature to shed light on how corporate stock is disaggregated between men and women.

Next, Oxfam applied the design of a modern excess profits tax proposed by Prof. Avi-Yonah,<sup>68</sup> using the average earnings method for calculating excess profits tax income, the excess profits tax credit including the R&D tax credits, deducting the credit from the base, and then calculating the excess profit tax liability. We also checked to ensure that each company's total tax liability (both the regular and the excess profits tax liability) would not exceed the cap proposed by Prof. Avi-Yonah. Note that these estimates do not include any carry-back or carry-forward of unused credits, and do not deduct a *de minimis* exemption, as these variables are not publicly available or objectively verifiable. Further, the estimates are not adjusted for any mergers or acquisitions the companies may have entered in the period, nor for any material changes to the US or global tax environment. Finally, Prof. Avi-Yonah suggests a total combined tax liability (of regular corporate tax and excess profits tax) should be no more than 80 percent of net income. We do not have data on 2020 regular corporate tax liability, so use instead the credit applied to the FY2020 tax base (21 percent of the average earnings credit for FYs 2016-2019) as a proxy indicator.

Lastly, we compared the results of the revenue potential by company, sector and total sample to certain under-resourced areas, especially those which would help mitigate the gender, racial, and economic inequalities exacerbated by the COVID-19 crisis. These include many of Oxfam COVID-19 policy priorities.

All these figures and calculations can be found in the accompanying datafile.<sup>69</sup>

## Company engagement

Oxfam reached out to all the companies named in this briefing to share the data gathered, the methodology employed, and the findings of our research. Several companies provided constructive feedback that has been incorporated into this analysis. Other companies neither

confirmed nor denied the research findings. Several of the companies also shared their efforts to address COVID-19.

## Acknowledgements

To better understand the ways in which companies arrange their financial and tax operations, Oxfam has over the years spoken with current and former executives from the top 10 corporate and accounting firms on the condition of anonymity, as well as many other tax experts. For this research, Oxfam expresses deep gratitude to the people who were instrumental to making this publication a success, including:

- Prof. Reuven Avi-Yonah, Irwin I. Cohn Professor of Law and director of the International Tax LLM Program, at the University of Michigan Law School
- Prof. Allison Christians, H. Heward Stikeman Chair in Tax Law at the McGill University Faculty of Law
- Alex Cobham, Chief Executive, Tax Justice Network
- Lenore Palladino, Assistant Professor of Economics and Public Policy at the University of Massachusetts Amherst and Senior Economist at the Roosevelt Institute

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## Annex: pandemic profits of the 25 most profitable US corporations

Company	Industry	Net Profits AVG FYs 2016-2019	Net Profits FY 2020 (TTM)	% Change in Profits	% Change in Profit Margins	Excess Pandemic Profits	Pandemic Profits Tax liability	Sharehold er Payout Ratio AVG FYs 2016- 2020	Shareholder Payout Ratio FY2020 (TTM)
Microsoft	Tech	\$25.46bn	\$46.27bn	82%	9%	\$20.81bn	\$19.56bn	106%	79%
Google	Tech	\$24.30bn	\$34.52b	42%	1%	\$10.22bn	\$8.82bn	42%	69%
Intel	Tech	\$15.50bn	\$22.74b	47%	7%	\$7.23bn	\$6.59bn	85%	92%
Apple	Tech	\$52.21bn	\$57.22b	10%	0%	\$5.01bn	\$5.92bn	127%	153%
J&J	Pharma	\$12.06bn	\$17.17bn	42%	5%	\$5.10bn	\$4.58bn	103%	95%
Walmart	Retail	\$11.22bn	\$15.03bn	34%	1%	\$3.81bn	\$4.15bn	119%	69%
Visa	Finance	\$8.77bn	\$12.48bn	42%	7%	\$3.71bn	\$3.95bn	109%	98%
Merck	Pharma	\$5.59bn	\$10.15bn	81%	8%	\$4.55bn	\$3.82bn	209%	106%
Facebook	Tech	\$16.69bn	\$20.96bn	26%	-6%	\$4.27bn	\$3.73bn	23%	23%
UnitedHealth	Health	\$10.85bn	\$13.75bn	27%	1%	\$2.90bn	\$3.27bn	57%	60%
CVS Health	Health	\$4.49bn	\$7.22bn	61%	1%	\$2.73bn	\$2.80bn	-11%	36%
Cisco Systems	Tech	\$8.02bn	\$10.78bn	34%	5%	\$2.76bn	\$2.51bn	139%	131%
Oracle	Tech	\$8.29bn	\$10.76bn	30%	6%	\$2.47bn	\$2.28bn	238%	223%
AbbVie	Pharma	\$6.21bn	\$8.44bn	36%	4%	\$2.23bn	\$1.91bn	150%	85%
Pfizer	Pharma	\$13.99bn	\$15.79bn	13%	5%	\$1.80bn	\$1.72bn	113%	51%
Home Depot	Retail	\$9.74bn	\$10.97bn	13%	0%	\$1.24bn	\$1.64bn	120%	114%
Amazon	Retail	\$6.77bn	\$10.56bn	56%	0%	\$3.80bn	\$1.09bn	0%	0%
Comcast	Telec	\$14.05bn	\$11.65bn	-17%	-5%	0	0	38%	33%
Charter	Telec	\$4.08bn	\$1.81bn	-56%	-6%	0	0	278%	458%
AT&T	Telec	\$18.92bn	\$14.42bn	-24%	-3%	0	0	98%	157%
Berkshire Hathaway	Finance	\$38.61bn	\$10.01bn	-74%	-11%	0	0	18%	50%
Procter & Gamble	Consu mer goods	\$9.68bn	\$4.99bn	-48%	-8%	0	0	201%	338%
Exxon Mobil	Oil	\$15.68bn	\$11.38bn	-27%	-2%	0	0	110%	135%
Chevron	Oil	\$6.61bn	\$3.87bn	-41%	-2%	0	0	241%	371%
Verizon	Telec	\$19.51bn	\$18.39bn	-6%	-1%	0	0	54%	55%
<b>AVG</b>		\$14.69bn	\$16.05bn	<b>11%</b>				91%	<b>99%</b>
<b>TOTAL</b>						<b>\$84.64 bn</b>	<b>\$78.35 bn</b>		

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- <sup>10</sup> This sample of the top most profitable US companies was chosen by ranking the US-based companies listed in the S&P 500 by EBIDTA (earnings before interest, taxes, depreciation, and amortization) in the first quarter of FY2020, then selecting the top 25. The study below uses Net Income for analytical purposes.
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at <https://www.dol.gov/sites/dolgov/files/general/budget/2021/CBJ-2021-V2-09.pdf> FY 2021 Congressional Budget Justification)

<sup>58</sup> OSHA FY2020 budget is approximately \$576 million, while Amazon's excess profits tax liability is calculated above at 1.1 billion.

<sup>59</sup> The cost is estimated to be \$3.6 billion. Democratic staff of the House Committee on Appropriations, "H.R. 6800, The HEROES Act: Title-By-Title Summary," at

<https://appropriations.house.gov/sites/democrats.appropriations.house.gov/files/documents/Heroes%20Act%20Summary.pdf> Cost = \$3.6 billion (H.R. 6800, The HEROES Act, Division A, Title III

<sup>60</sup> As outlined in H.R. 6800, The HEROES Act, Division A, Title III, providing \$3.6 billion to the Election Commission to enable states to provide for contingency planning, preparation of, and resiliency of elections for Federal office. Idem.

<sup>61</sup> Policy would provide essential workers at risk of exposure to COVID-19 with a \$13 per hour premium pay on top of their regular wages. Cost = \$190 billion proposed in the HEROES Act, Table 3, Division Q. (CBO Estimate for H.R. 6800)

<sup>62</sup> See, for example, the Universal Childcare and Early Learning Act, estimated to cost \$70 billion per year.

[https://www.warren.senate.gov/imo/media/doc/Universal\\_Child\\_Care\\_Policy\\_Brief\\_2019.pdf](https://www.warren.senate.gov/imo/media/doc/Universal_Child_Care_Policy_Brief_2019.pdf)

<sup>63</sup> OECD, "Climate Finance Provided and Mobilised by Developed Countries in 2013-17," at [https://www.oecd-ilibrary.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-17\\_39faf4a7-en;jsessionid=vstKE6ErMchYTRAtwwigci04.ip-10-240-5-97](https://www.oecd-ilibrary.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-17_39faf4a7-en;jsessionid=vstKE6ErMchYTRAtwwigci04.ip-10-240-5-97)

<sup>64</sup> OECD, "Climate Finance Provided and Mobilised by Developed Countries in 2013-17," at [https://www.oecd-ilibrary.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-17\\_39faf4a7-en;jsessionid=vstKE6ErMchYTRAtwwigci04.ip-10-240-5-97](https://www.oecd-ilibrary.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-17_39faf4a7-en;jsessionid=vstKE6ErMchYTRAtwwigci04.ip-10-240-5-97)

<sup>65</sup> For more on UNCTAD's estimates of international assistance needs, see Oxfam, "Whatever It Takes: A rapid and massive increase in aid is needed to save millions of lives and bring our divided world together amid the coronavirus pandemic," May 2020 at <https://www.oxfamamerica.org/explore/research-publications/whatever-it-takes-rapid-and-massive-increase-aid-needed>

<sup>66</sup> Net income, not operating income, was chosen as the best measure of profitability for the purposes of this paper as it includes all of income and expenses of a company, including its tax expenses in the fiscal year in question.

<sup>67</sup> Federal Reserve Distributional Financial Accounts, Distribution of Household Wealth in the U.S. since 1989 at <https://www.federalreserve.gov/releases/efa/efa-distributional-financial-accounts.htm>

<sup>68</sup> Reuven S. Avi-Yonah, "Taxes in the Time of Coronavirus: Is It Time to Revive the Excess Profits Tax?" (May 19, 2020). U of Michigan Public Law Research Paper No. 671; U of Michigan Law & Econ Research Paper No. 20-008. <http://dx.doi.org/10.2139/ssrn.3560806>, p. 3

<sup>69</sup> Oxfam datasheet <http://assets.oxfamamerica.org/media/documents/Oxfam-USPandemicProfitsTax-PayoutRatios-final.xlsx>