

UTILITIES PAY UP

HOW ENDING TAX DODGING BY AMERICA'S ELECTRIC UTILITIES CAN
HELP FUND A JOB-CREATING, CLEAN ENERGY TRANSITION

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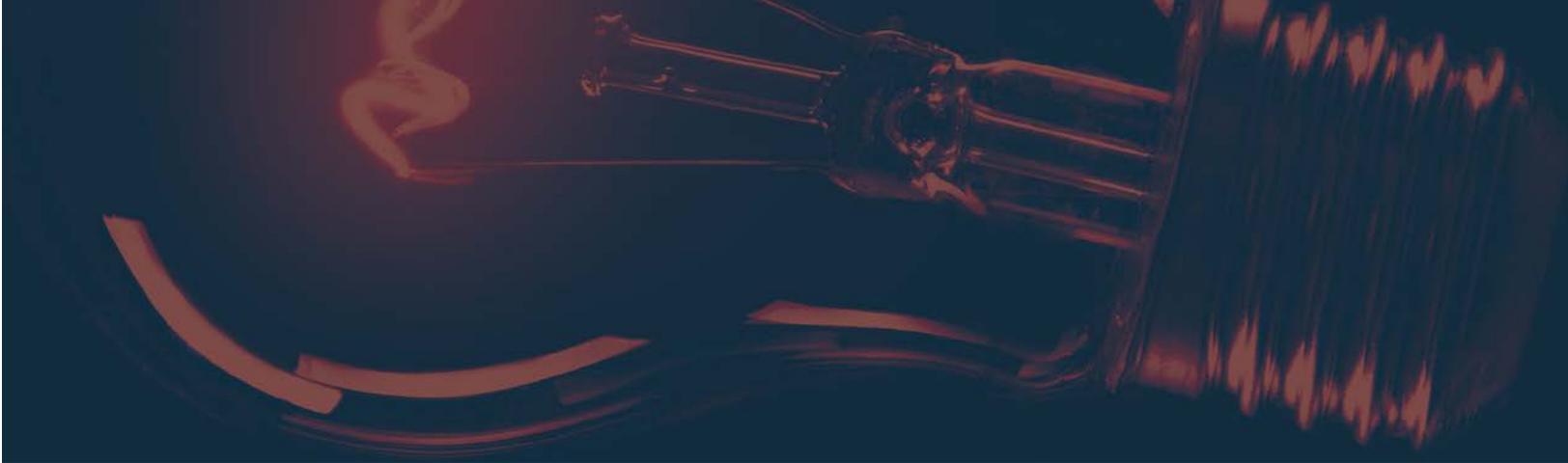
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Key Findings

Many utilities firms oppose the Obama administration initiative to cut power plant emissions on the grounds that it would require costly investments in clean energy generation. A cheaper, faster route to achieving the Clean Power Plan goals would be to reduce electricity demand through improved energy efficiency. This report calculates how much additional revenue would be available for investment in energy efficiency if utilities paid their fair share of taxes.

Utilities Are Even Better at Tax-Dodging than Multinationals

- The utilities industry pays the lowest effective federal tax rate of any business sector.¹ Of the 40 U.S. publicly held utilities companies that were profitable in 2015, 23 paid no federal income taxes and 16 paid no state taxes.
- The most extreme example of utilities tax-dodging in 2015 was Southern Company, a fierce Clean Power Plan opponent, which reaped \$210 million in federal and state tax refunds, despite \$3.6 billion in pre-tax income.
- The industry's low IRS bills are largely due to depreciation tax breaks. According to Citizens for Tax Justice, the 23 profitable utilities that paid no federal taxes in 2015 reported \$11.5 billion in benefits from special tax rules that allow corporations like utilities to write off the cost of their investments far faster than they wear out.

Revenue Potential from Fair Taxation of Utilities Companies

- It would be reasonable to expect utilities to pay at least as high a tax rate as retailers, which are similarly tethered to U.S. communities. If the 40 profitable utilities had paid the average rate retailers pay, they would've paid more than \$11.7 billion in additional federal taxes. At the state level, if these firms had paid the statutory rate, they would've paid an estimated additional \$2.3 billion— for a total of \$14.1 billion in additional federal and state revenue.

Energy Efficiency Costs that Could be Covered by Fairly Taxing Utilities

- The \$14.1 billion in extra revenue that could have been generated through fair taxation is nearly double the amount state governments and utilities spent on energy efficiency in 2015. It would be enough to create more than 88,000 energy efficiency jobs or weatherize homes for up to 3 million low-income families.



Introduction: Utilities Tax-Dodging and Clean Energy Transition

The power sector is responsible for a third of U.S. greenhouse gas emissions, making it the country's single largest contributor to climate pollution.² In 2015, the Environmental Protection Agency released a Clean Power Plan (CPP) aimed at curbing these emissions, with specific state-by-state goals. Power companies and industry associations promptly went on the attack. Opponents filed lawsuits to block the plan and in February 2016 the U.S. Supreme Court issued an injunction halting implementation until a lower court rules on the case.

Utility industry opponents of the CPP say they're looking out for the public interest. They claim the EPA's rules will be expensive for ratepayers and detrimental to the overall economy. And yet if these firms were truly interested in what's best for ratepayers, they would be investing much more in energy efficiency, the cheapest and fastest route to reducing carbon emissions.

Utilities are required by law to invest in "demand-side" energy efficiency at the consumer end, but the patchwork of state and federal programs have not gone nearly far enough to mitigate climate change and move the country towards a clean energy future. Most of these efforts also require home and building owners to invest significant up-front capital and so low-income households often cannot participate. And since such programs potentially reduce utilities' profits by reducing energy demand, the firms have had little incentive to do more.

At the same time, the utilities sector has been undercutting the potential for strong public investment in job-creating, climate change-reducing efficiency programs. As this report documents, our nation's utilities companies have become expert tax dodgers at the federal and state levels. Despite strong profit levels and their status as regulated monopolies with fixed rates of return, these firms have used loopholes to contribute next to nothing to public coffers.

Because utilities are regulated, they have the good fortune of having their corporate taxes built in to the rates set by regulators. Thus, utilities collect taxes at the full rate from customers, but then are allowed to use loopholes to delay paying those taxes. In effect, this means customers are paying twice — once as ratepayers through the taxes in their monthly utilities bills and a second time as taxpayers when they have to make up for public service funding gaps because utilities are not paying their fair share of taxes.

While the Clean Power Plan remains tied up in the courts, climate threats compel us to find ways to reduce carbon emissions quickly. One strategy policymakers should consider is denying utilities costly and ineffective tax breaks, with revenue invested in demand-side energy efficiency programs that create good jobs and reduce energy bills for low-income families.

The Clean Power Plan and Energy Efficiency

The Clean Power Plan is by no means perfect, but it has the potential to benefit American families, especially low-income people and people of color. These households are disproportionately affected by fossil fuel-fired power plants³ and the effects of climate change.⁴

- By reducing greenhouse gas pollution, the plan is helping avert harmful impacts of climate change like heat waves, fires, flooding, and superstorms that cost money and lives. According to the Obama administration, the climate benefits over the life of the plan will reach \$20 billion.⁵
- The rule would de facto cut harmful co-pollutants from smokestacks, resulting in 90,000 fewer asthma attacks, 300,000 fewer missed work and school days, 3,600 premature deaths avoided and \$14-34 billion in savings.⁶ Health benefits are particularly important for correcting existing environmental racial and wealth inequities.⁷
- The shift to clean sources of energy is expected to spur innovation and create a net increase of 360,000 jobs by 2020.⁸
- The EPA estimates that the average American household will save \$80 on their electric bill every year as a result.⁹ For low-income families, who on average spend 15 percent of their income on energy bills (high-income families spend only 2 percent), this can make a difference at the end of the month.¹⁰

The Clean Power Plan aims to ensure that a portion of those savings is channeled to the low-income families that need them most. The plan allows states to meet pollution-cutting requirements by putting in place measures like renewable energy standards and programs to improve residential energy efficiency. States that take early action to put in place energy efficiency projects in low-income communities get a double incentive toward meeting their requirements through a Clean Energy Incentive Program (CEIP) under the EPA's rule.¹¹

The EPA has gone out of its way to be flexible in designing the CPP, including allowing every state to draw up its own unique plan to reach compliance (within federal guidelines). This means, however, that the EPA can't mandate that statehouses build social equity into their plans. The new incentive program is one way to encourage them to take often sidelined communities into account.

Energy efficiency upgrades and retrofits in low-income housing in particular have added health benefits to residents, like reduced rates of asthma, and create jobs that can be targeted to a local workforce. For every dollar invested, as much as \$2 goes back into the community economy.¹²

To strengthen race and income equity provisions in their incentive program, the EPA is considering including solar generation in low-income communities in the double-your-money deal under CEIP. Adding rooftop renewables would provide another pathway for families to generate wealth.

Also yet to be decided is the definition of "low-income communities." States want the flexibility to choose, but the EPA should pick a standard definition that maximizes the number of households that benefit from clean energy and energy efficiency incentives.¹³



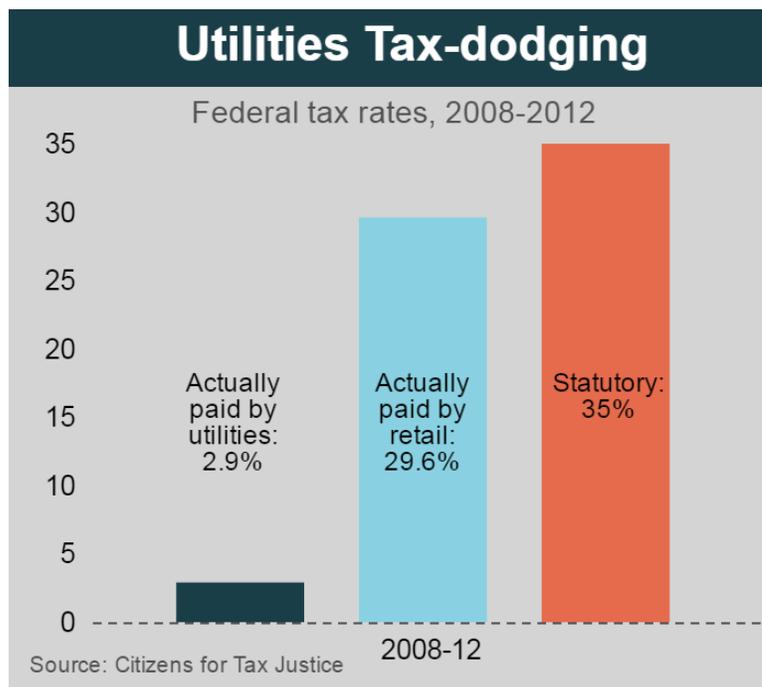
Utilities Company Tax-dodging in 2015

Utilities companies have been exceptionally adept at avoiding taxes at both the state and federal levels. In 2015, 40 U.S. publicly held utilities companies were in the black, earning a combined \$43.9 billion in pre-tax profits. Of these, 23 paid zero federal taxes on those profits. In fact, 15 of these 23 profitable firms actually received large tax refunds. In other words, they got more out of federal coffers in the form of tax credits and subsidies than they paid in that year.¹⁴

At the state level, 16 of these profitable utilities companies paid no state income taxes in 2015.¹⁵ Corporations, like individuals, begin their state tax forms with income figures taken from their federal taxes. So, unless state legislators specifically repeal federal tax deductions, credits, and subsidies, these federal supports reduce state taxes that otherwise would be owed as well.¹⁶

Potential Revenue from Fair Taxation of Utilities

In today's era of rampant corporate tax-dodging, few major U.S. corporations pay the full statutory 35 percent rate. Until these problems are fixed, what would be a realistic rate to expect utilities companies to pay? Retail firms, which, like utilities, are tethered to U.S. geographic regions, pay an average rate of 29.6 percent. It seems fair to expect utilities to pay just as much. And yet according to Citizens for Tax Justice (CTJ), electric and gas utilities pay a far lower rate than retailers— in fact they've had the lowest effective tax rate of any U.S. business sector. During the five-year period 2008-2012, CTJ found that utilities paid a tax rate of just 2.9 percent.¹⁷



If the 40 profitable utilities companies in 2015 had paid the same 29.6 percent average federal tax rate as retailers, they would've paid \$11.7 billion more in 2015. At the state level, if these 40 firms had paid taxes at the full established corporate state income tax rates, the states would have had an estimated extra \$2.3 billion last year alone to invest in energy efficiency programs.

The 40 Profitable U.S. Utilities Companies in 2015	
Actual and Potential Tax Payments (\$millions)	
Pre-Tax Income	\$42,950
Federal income tax paid	\$981
Additional federal revenue if utilities paid the average retail tax rate of 29.6%	\$11,732
State income tax paid	\$667
Additional state revenue if utilities paid full state taxes	\$2,327
Total potential additional federal and state revenue through fair taxation	\$14,059

Source: Institute for Policy Studies analysis of 10-K reports. For company-specific data, see Appendix 1.

Why Do Utilities Companies Pay Uncle Sam So Little?

Unlike globe-trotting multinationals, U.S.-based utilities lack the opportunity to lower their tax bills by hiding profits in offshore tax havens. And yet these firms still have no shortage of tax loopholes and subsidies available to them.

According to Citizens for Tax Justice, the most lucrative loophole for utilities companies is accelerated depreciation, which allows companies to write off the cost of their capital investments, for example on building new power plants or replacing power lines, much faster than these investments wear out. This does not reduce companies' long-term tax obligations, but rather allows them to perpetually delay their IRS payments, essentially giving them an interest-free loan until the taxes are ultimately paid.

CTJ analyzed the 23 utilities companies that paid no federal taxes in 2015 and found that they received a combined total of \$11.5 billion in tax benefits from depreciation that year alone. For example, the firm with the largest 2015 federal tax refund, Southern Company, had \$3.6 billion in U.S. pre-tax income, and yet received a net tax benefit of \$177 million. Part of the explanation: Southern's \$1.8 billion in depreciation tax benefits.

The most generous form of accelerated depreciation is so-called "bonus depreciation." This tax break has generally been available since 2001, allowing firms to write off between 30 percent and 100 percent of the cost of their capital investments in the year of purchase.¹⁸ The rationale behind accelerated depreciation is that it encourages corporations to buy new equipment, which will boost the economy. But according to the Congressional Research Service, this tax break is a "relatively ineffective tool" for stimulating the economy.¹⁹ These researchers also warn it may actually make companies less efficient by diverting capital away from more productive uses. And for utility companies, this tax break is even harder to justify, since their investment

decisions are driven much more by anticipated demand for power rather than tax incentives. (For more detail on depreciation, see Appendix 3).

Value of Depreciation Tax Breaks Among Utilities that Paid No Federal Taxes in 2015			
Company	Depreciation tax break in 2015 (\$mill)	Company	Depreciation tax break in 2015 (\$mill)
Southern	1,853	CMS Energy	212
WEC Energy Group	1,670	Allete	180
Duke Energy	1,355	Pinnacle West Capital	158
Consolidated Edison	1,104	TECO Energy	128
PG&E Corp.	973	Westar Energy	123
Xcel Energy	862	PNM Resources	112
PPL	796	OG&E Energy	81
Dominion Resources	404	NorthWestern	64
DTE Energy	379	Otter Tail	53
Ameren	370	Unitil	21
Great Plains Energy	319	Empire District Electric	18
Pepco	311	Total	11,546

Source: Citizens for Tax Justice analysis of corporate 10-K reports files with the SEC.

Utilities Using Tax-dodging Proceeds to Fight the Clean Power Plan

Utilities companies have responded in various ways to the Clean Power Plan. A small handful have been supportive, but most have either publicly attacked the plan or engaged in double-speak, with executives mouthing support while at the same time backing a well-coordinated network of industry front groups and conservative think tanks and law firms that are working to block the CPP. Here are several examples of utilities companies that have been using part of their gains from tax-dodging to fund opposition to the Clean Power Plan.

Southern Company	
Pre-tax income:	\$3.6 billion
Federal income tax:	\$177 million refund
State income tax:	\$33 million refund

This Georgia-based firm received the largest federal tax refund of any publicly held utilities company in 2015, as well as a sizeable combined tax refund in the five states in which it operates. If Southern had paid the full statutory federal and state tax rates, they would've contributed nearly \$1.5 billion to public coffers, enough to create more than 9,000 energy efficiency jobs for a year.²⁰

While Southern has not been paying income taxes, it has been investing heavily in blocking the Clean Power Plan. The company spent more than \$25 million in federal lobbying in 2013-2014.²¹

It also supports industry groups working against the CPP. One of these anti-CPP lobby groups, the American Coalition for Clean Coal Electricity,²² is, in turn, a member of the Utility Air Regulatory Group, a petitioner in a 2015 U.S. Chamber of Commerce lawsuit to overturn the Clean Power Plan, along with numerous other industry groups and 27 state governments.²³

Unlike some of the other utilities, however, Southern Company has not hidden behind surrogates in the public fight over CPP. In comments to the EPA, the firm declared the plan “unworkable” and warned it would result in “a complete deconstruction of the nation’s electric sector and negatively impact America’s energy security.”²⁴ Southern also claimed the CPP would harm ordinary Americans by putting more than \$35 billion in “upward pressure” on their customers’ rates over the 2016-2030 period.

NorthWestern	
Pre-tax income:	\$181 million
Federal income tax:	\$4 million refund
State income tax:	\$90,000 refund

Not paying income taxes leaves more money in corporate coffers for pushing back against environmental regulations. NorthWestern has devoted significant resources to the fight against the CPP. Through its NorthWestern Energy subsidiary, it joined the legal challenge that succeeded in obtaining a stay of the EPA’s program.²⁵ It also funded researchers who produced dire predictions about job loss and other economic costs of the CPP in Montana, one of the three states in which NorthWestern operates. These predictions have been widely criticized as exaggerated and based on incomplete data.²⁶ According to Tom Schneider, a former Montana public service commissioner, “The report never even mentions increasing energy efficiency and renewable energy – the two lowest-cost ways to reduce Montana’s carbon pollution and comply with the clean power plan.”²⁷

Ameren	
Pre-tax income:	\$948 million
Federal income tax:	\$2 million refund
State income tax:	\$4 million refund

Ameren, which delivers power to customers in southern Illinois and Missouri, applauded the U.S. Supreme Court’s decision to delay implementation of the Clean Power Plan.²⁸ Before the ruling, Ameren CEO Warner Baxter had written in the *Wall Street Journal* that the EPA’s plan would “jeopardize the reliability that Americans and businesses have come to depend upon” and even hinted that under the CPP, we may no longer be able to rely on emergency room medical equipment to function.²⁹ According to the Energy and Policy Institute, Ameren provides financial support for the Electric Reliability Coordinating Council, yet another anti-CPP lobby group run out of the law firm Bracewell & Giuliani.³⁰ The ERCC is among the industry groups that funded a report³¹ by NERA Economic Consulting, “Potential Energy Impacts of the EPA Proposed Clean Power Plan,” which has been criticized for understating CPP benefits and inflating the cost of energy efficiency solutions.³²

Duke Energy

Pre-tax income:	\$4.2 billion
Federal income tax:	\$0
State income tax:	\$12 million refund

Duke Energy, the largest U.S. electric power company with operations in 13 states, has shifted from being openly critical of the CPP³³ to publicly supporting it.³⁴ Behind the scenes, however, the firm has used some of its gains from not paying income taxes to fund a number of anti-CPP industry groups, including the Electric Reliability Coordinating Council.³⁵ Duke CEO Lynn Good³⁶ is a member of the executive committee of another fossil fuel group, the Edison Electric Institute, well known for their utility company-backed campaign to block rooftop solar.³⁷

According to the Center for Media and Democracy, Duke Energy has also been a funder of the American Legislative Exchange Council (ALEC),³⁸ which has been working behind the scenes to urge state legislators to work with their attorneys general to block the EPA's greenhouse gas pollution controls since 2013.³⁹ Duke has served as ALEC's state corporate co-chair of Indiana and South Carolina and as a member of the group's Energy, Environment and Agriculture Task Force. The Energy and Policy Institute has documented how ALEC's legislative work is supported by research from fossil fuel-funded outfits like NERA Economic Consulting and Beacon Hill Institute. This misinformation also feeds anti-regulation political pressure groups like Americans for Prosperity.⁴⁰



Energy Transition Costs that Could Be Covered by Fairly Taxing Utilities

Cutting carbon pollution is critical if we are to attain U.S. and international goals to prevent climate catastrophes such as extreme heat waves, fires, flooding, and superstorms that cost money and lives. Federal regulation through the Clean Power Plan is an important step in getting us there.

Investing in improved energy efficiency is the fastest and cheapest way to reduce carbon, and can help cut the cost of compliance.⁴¹ These investments usually pay for themselves in a matter of years.

Lighting, heating and cooling systems, together with appliances in residential and commercial buildings, account for more than 30 percent of greenhouse gas emissions from electricity consumption.⁴² Older housing stock, where low-income families tend to live, is more likely to be in need of energy efficiency improvements than new structures. Race and age play a role, too. African Americans, Latinos, and the elderly are most likely to live in distressed housing.⁴³

While putting money into making homes more energy efficient is good for the planet, when incentives are directed at single family or multi-unit affordable housing, they can be extremely important for reducing the strain of energy costs for low-income families. On average, low-income families spend 15 percent of their income on energy, while high-income families spend only 2 percent.⁴⁴

By cutting electricity bills and lowering rents, families have more money to spend on non-energy necessities like food and health care. Energy efficiency upgrades help curb housing abandonment, homelessness and even fire deaths.⁴⁵ Residents – especially young children – experience improved health, wellness and comfort.⁴⁶ Building owners benefit from renter stability. Stability and increased spending on other needs may, in turn, help the local economy.⁴⁷ In other words, energy efficiency in affordable housing is an all-around win.

As noted in the previous section, if utilities had merely paid the same average federal tax rate as retailers and the full state rate, they would've paid an estimated \$14.1 billion more in 2015. This is almost double the \$7.6 billion that utilities and state governments spent on energy efficiency programs in 2014, according to the Consortium for Energy Efficiency.⁴⁸

This \$14.1 billion in additional revenue would go a long way towards expanding our country's investment in energy efficiency, creating good sustainable jobs and making energy more affordable for low-income families.

According to the U.S. Department of Housing and Urban Development's most recent estimates from 2010, potential capital expenditures to repair and replace items (such as windows, kitchens, bathrooms, and roofs at current energy efficiency standards) and to enhance energy and water efficiency at public housing properties (both privately and publicly owned) were about \$25 billion and projected to grow at a rate of \$3 billion annually.⁴⁹

This means that today, HUD would need \$43 billion to upgrade all of the nation's public housing stock and carry out deferred maintenance. If investor-owned utilities paid their fair share of federal taxes, we could close the gap and raise the money to transform public housing in just four years.

A review of the U.S. Department of Energy's Weatherization Assistance Program by the Oak Ridge National Laboratory found that the weatherization of low-income homes (a combination of single family, small and large multi family and mobile units) costs about \$4,700 per unit on average.⁵⁰ If utilities had paid even the average retail tax rate in 2015, the additional revenue could have helped 2.5 million low-income families save money and reduce pollution by weatherizing their homes.

In rural America, electricity cooperative member-owners could benefit from the revenue generated by investor-owned utilities paying their fair tax share, too. Electricity co-ops serve almost 18.5 million customers, constituting around 12 percent of the nation's electricity meters.⁵¹ Ninety-three percent of rural electricity co-op customers have average household incomes below the national average and one in six live at or below the poverty line.⁵² Energy efficiency upgrades would help lower their energy bills.

If investor-owned utilities paid their fair share of federal taxes, a portion of the revenue could be channeled to provide a reliable and sustainable source of funding for programs at the USDA's Rural Utilities Service (like the Energy Efficiency and Conservation Loan Program, Rural Economic Development Loan and Grant Program, and Rural Energy Savings Program) to help co-ops make improvements to residents' homes.

The Roanoke Electric Cooperative, which serves 14,000 residential member-owners in North Carolina, has used federal funds to support debt-free, inclusive financing to pay for upgrades at 167 of their customers' homes, at an average cost of \$7,000. With the \$11.7 billion in additional revenue that could be generated through fair taxation of utilities, this level of "Pay As You Save" financing⁵³ could be provided to almost two million rural households each year.⁵⁴

According to a formula developed by researchers at UMass Amherst and the Center for American Progress, this \$14.1 billion in extra revenue would be enough to cover the annual cost of directly creating 88,573 energy efficiency jobs paying around \$50,000 per year.⁵⁵ These could include positions at businesses working to reduce carbon emissions by retrofitting homes or

If Utilities Paid Up

What \$14.1 billion in additional federal and state revenue from fair taxation of utilities could pay for:

- Direct creation of **88,573 energy efficiency jobs**, such as retrofitting homes or building wind turbines, for a year.
- Indirect creation of an **additional 117,000 jobs**, either at supplier firms or through economic multiplier effects.
- Nearly **doubling the amount of energy efficiency spending** by utilities and state governments in 2014.

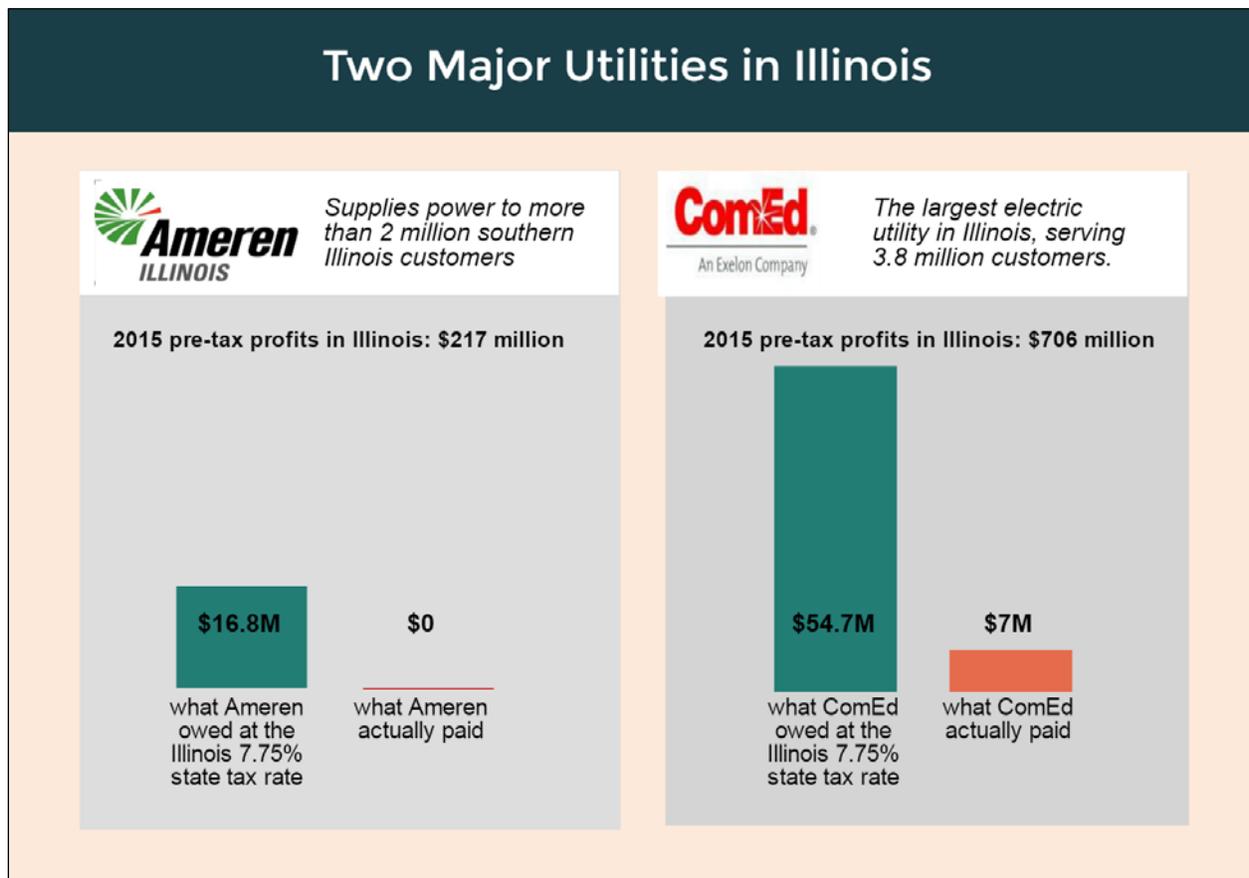
What \$11.7 billion in additional federal revenue from fair taxation of utilities could pay for:

- Retrofitting **25 percent of the nation's public housing** stock.
- Weatherizing **2.5 million low-income residences** in single and multifamily buildings.⁵⁶
- Providing \$7,000 in debt-free on-bill financing for energy efficiency improvements to **1.7 million households** in rural communities.



installing solar panels on local schools and businesses. According to their analysis, this level of investment would indirectly create about 117,000 additional jobs, either at supplier firms or through economic multiplier effects from well-paid workers spending their wages.

The tradeoffs at the state level are just as dramatic. The graphic below provides an example of the potential benefits of fair state taxation, looking at two major utilities in Illinois. If Ameren and ComEd had paid the full 7.75 percent Illinois state tax rate, they would've paid an additional \$65 million in 2015. This revenue could've covered the cost of weatherizing 13,800 low-income residences in single and multi-family buildings, reaching 17 percent of all low-income families in Illinois. Sliced another way, the money could've created 1,000 jobs, 400 directly through clean energy projects and another 600 indirectly at suppliers and through economic ripple effects.





Recommendations

We can afford a clean environment and sustainable jobs. The problem is misguided policies that prioritize corporate profits over the interests of ordinary families, especially low-income people of color.

Tax Reform

1. Policymakers should deny utilities costly and ineffective tax breaks and invest the proceeds in energy efficiency programs that create good jobs and reduce energy bills for low-income families. At the very least, Congress should not extend “bonus depreciation” tax breaks that are currently set to phase out at the end of 2019.
2. In addition, utilities should be required to report the taxes they pay not just at the federal level, but also in each state. These companies benefit from the public trust, and the taxpayers that support them should be able to see what utilities are giving back in return.

Clean Power Plan Reform

3. The Clean Power Plan’s Clean Energy Incentive Program should be expanded to include renewable power generation by and for low-income communities at municipal, residential, and small business scales. The EPA should require states to use a standard definition of “low-income” that maximizes the number of households that benefit from clean energy and energy efficiency incentives under this plan.
4. The EPA should be encouraging states in their clean power planning to develop energy efficiency programs for public housing that revitalize the housing stock while providing good green jobs to residents.
5. The EPA should outline clear, enforceable guidelines for meaningful engagement of people in low-income communities, communities of color and tribal communities so that they can have a strong voice in the development and execution of clean power plans.

Appendix 1: Publicly held utilities companies, effective and potential taxes, 2015

The 40 profitable U.S. publicly held utilities in 2015							
Company	FEDERAL			STATE			Total federal and state additional revenue potential (\$mill)
	Pre-Tax Income (\$ mill)	Income tax paid (\$ mill)	Add'l revenue at 29.6% retail tax rate (\$mill)	Income tax paid (\$mill)	Add'l est. revenue at full state tax rate (\$mill)	States of Operation	
Allete	167	0	49	0	16	MN	66
Alliant Energy	461	2	134	3	43	IA, WI	177
Ameren	948	-2	283	-4	70	IL, MO,	353
American Electric Power	2,623	107	669	15	127	OH,TX, VA,WV,TN,I N,MI, KY,OK,AR, LA	796
Avista Utilities	186	11	44	1	8	WA,OR,ID	52
CMS Energy	796	0	236	24	24	MI	259
Consolidated Edison	1,798	-9	541	38	90	NY	631
Dominion Resources	2,828	-24	861	75	119	VA, NC, PA, WV	980
DTE Energy	950	-3	284	-4	61	MI	345
Duke Energy	4,137	0	1,225	-12	248	NC, SC,KY,IN,F L OH, INTL	1,472
Edison International	1,568	90	374	146	-7	CA	367
El Paso Electric	117	2	32	2	2	TX, NM	35
Empire District Electric	131	0	39	0	8	MO,KS, OK,AR	47
Eversource Energy	1,426	6	416	46	76	CT,MA, NH	491
Exelon	3,330	407	579	-86	377	IL,MD,PA,D E,NJ	956
First Energy	893	1	263	30	30	OH,PA, WV,VA,MD, NJ,NY	293
Great Plains Energy	335	0	99	-1	22	MO	121

The 40 profitable U.S. publicly held utilities in 2015

Company	FEDERAL			STATE			Total federal and state additional revenue potential (\$mill)
	Pre-Tax Income (\$ mill)	Income tax paid (\$ mill)	Add'l revenue at 29.6% retail tax rate (\$mill)	Income tax paid (\$mill)	Add'l est. revenue at full tax rate (\$mill)	States of Operation	
IDA Corp	240	21	50	9	9	ID	59
MDU Resources	180	59	-6	6	2	ID,MN, MT,ND,OR, SD,WA,WY	-4
NextEra Energy	3,990	10	1,171	31	206	FL, HI	1,377
NorthWestern	181	-4	57	0	9	MT, SD, NE	66
OG&E Energy	369	0	109	-5	28	OK,AR	137
Otter Tail	84	0	25	0	4	MN, SD, ND	29
Pepco	447	-3	135	12	27	DC, MD	163
PG&E	861	-89	344	11	65	CA	409
Pinnacle West Capital	694	-6	211	13	29	AZ	240
PNM Resources	46	0	14	-1	3	NM, TX	17
Portland General Electric	217	4	60	1	15	OR	76
PPL Corp	968	-26	313	25	52	PA, KY, UK	365
Public Services Enterprise Group	1,679	243	254	85	66	NJ	320
SCANA	1,139	382	-45	57	4	SC, NC, GA	-41
SEMPRA	1,189	3	349	-24	129	CA	478
Southern Company	3,629	-177	1,251	-33	242	AL, MS, GA, FL	1,493
TECO Energy	397	-1	118	0	25	FL, NM	143
UGI Corp	552	97	66	32	23	PA	90
Unitil	42	0	12	4	0	NH, MA, ME	12
Vectren	297	11	77	9	2	IN, OH	79
WEC Energy Group	1,074	-97	415	113	-32	WI, MI, MN, IL	383
Westar Energy	454	0	134	0	31	KS	166
XCEL Energy	1,527	-36	488	2	74	MN, MI, WI, SD, ND, CO, TX, NM	562
TOTAL	42,950	981	11,732	619	2,237		14,059

Appendix 2: Sources and Methodology

Pre-tax income: Domestic pre-tax profits are those reported by corporations in the tax footnote of their 10-K reports filed annually with the Securities and Exchange Commission. No attempt has been made to adjust for the domestic profits shifted to offshore subsidiaries through transfer pricing and other aggressive accounting techniques. Insufficient information is provided to accomplish this adjustment with any degree of certainty. It is, however, informative to compare the geographic breakdown of revenue, assets, employees, and reported domestic net profit for clues to companies' profit-shifting behavior.

Federal corporate income tax paid: Based on the "current U.S. taxes paid" data reported in the tax footnote of corporate Form 10-Ks. The corporate provision for income taxes is comprised of two numbers: the current taxes paid in a given year and the deferred taxes that may or may not be paid in the future. "Current U.S. taxes paid" are the best approximation of the net result of what corporations actually paid in a given year. There are reasons why this number still may be overstated. One of the most significant of these is the tax deduction companies receive for excess executive compensation through the stock option accounting double standard. The deduction for excess executive compensation is reported in such a manner that it appears that some of the stock-based compensation paid to executives is taxes paid instead to the U.S. government.

One more word here: even the current tax reported is an approximation. For companies with a fiscal year ending in December, tax filings are generally made in September, while 10-K reports with the SEC are filed in February or March. Thus, what makes its way into the 10-K report is the best guess at the time of the year's tax position. But in most (if not all) cases, adjustments continue to be made up until the tax form is filed with the IRS.

State corporate income tax paid: Because corporations do not systematically report their income by state, this estimate is based on the average of the state tax rates in the states in which each firm operates.

Depreciation tax breaks: These figures represent what each firm would have owed in federal taxes had they not been allowed to subtract a larger than real expense for depreciation. To calculate the tax savings that each company received in 2015 from these depreciation tax breaks, Citizens for Tax Justice used the deferred tax liability numbers reported by each company in their 10-K filing. Specifically, they calculated the tax savings by subtracting a company's reported deferred tax liability from depreciation in 2014 from their deferred tax liability from depreciation in 2015.

Frequently asked questions about corporate tax research

1. Why don't you include deferred income taxes?

The corporate provision for income taxes in company 10-K reports is comprised of two numbers: the current taxes paid in a given year and deferred taxes. This report includes only current taxes. "Deferred taxes" are a form of tax break that allows companies to kick their tax obligations down the road to some future year. Some of these taxes are eventually paid, others can be deferred indefinitely.

2. Couldn't large tax refunds merely be the result of accounting adjustments and settlements?

Accounting adjustments and tax settlements are common elements of corporate tax reporting, and they do affect corporations year-to-year. In our report, we took a snapshot of a single year and did not attempt to adjust the numbers reported in the current tax provision for any of the companies in the study. We have noted in the report that all of the ways corporations reduce their taxes are legal and that in our opinion, some are legitimate while others are not. We have not attempted to explain the reasons behind the particular current tax number for any of the companies in the report.

3. Why do you use the term "tax refund"?

Throughout this report, we use the colloquial term "refund" to describe the more technical term "net tax benefit." As with individuals, corporations can wind up with the government owing them money after all tax credits are applied. Corporations have the choice of receiving that excess as a refund check or applying it to their estimated taxes for the following year. While some companies may in fact receive refund checks from the IRS, more choose to have their refunds applied to their account for future taxes due, much in the way that individual taxpayers can choose to have their refunds applied to the following year's estimated tax payments.

Appendix 3: Depreciation Tax Break Background

Like all corporations, utilities write off the cost of big investments over the expected life of the investment. Typically, a utilities financial statement would show the cost of a large power plant expensed over its 30-year expected life. But thanks to a 1986 federal law that allows corporations to write off the value of investments on their taxes far faster than those assets actually wear out, utilities (and other businesses with large physical assets) maintain a second set of books that it shows federal and state tax authorities that allow the cost of new investments to be expensed more quickly. This “accelerated depreciation” generates greater tax savings sooner than would be the case if they had just one set of books. It does not reduce the total taxes a utility would owe. Rather it allows firms to put off into the future tax payments that would otherwise have been owed today. In other words, it provides utilities an interest-free loan until the taxes are ultimately paid.

In 2008 as a part of the economic stimulus package, Congress gave the 1986 accelerated depreciation rules a shot of steroids with new “bonus depreciation” rules that allow corporations to deduct 50 percent of the cost of new long-term investment in the year the investment was made (up from the 30 percent rate that had been in effect since 2001). The legislation was designed to keep businesses spending in the face of a dramatic economic slowdown. It also represented a huge subsidy for corporations, with capital-intensive utilities benefitting far more than other industries. It is not a very effective inducement for regulated utilities to spend more, since spending decisions have to be justified to regulators. Utility investment decisions are heavily tied to anticipated power demand, and barely at all by tax incentives.

The bigger problem with bonus depreciation is that Congress continued to extend this lucrative tax break even after the economy recovered. Last December they voted to extend bonus depreciation through 2019 as a part of the year-end budget deal. The amount of the deduction declines back to 30 percent by 2019, so this will be a less lucrative tax break for utilities over the balance of the decade.

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