



The McCain Plan to Cut Energy and Utility Company Taxes by Over \$2.8 Billion

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The centerpiece of Sen. John McCain's (R-AZ) tax plan is two huge tax cuts for American corporations, including utility and energy companies. As president, McCain would cut the corporate tax rate from 35 percent to 25 percent and allow corporations to immediately deduct all of their investments in equipment and technology. Reducing the corporate tax rate alone would deliver a \$2.8 billion tax cut to the 10 largest energy companies and the 10 largest utility companies, according to a Center for American Progress Action Fund analysis of those companies' financial statements.

McCain's Tax Proposals

Corporate tax cuts make up the largest part of the McCain tax plan.¹ His two largest tax cuts are:

- Cutting the corporate tax rate. McCain says he will cut the corporate tax rate from 35 percent to 25 percent to make U.S. corporations more competitive.
- Allowing the expensing of corporate investments. Under current law, corporations generally must deduct the cost of new investments over that investment's useful lifetime, a tax and accounting practice known as depreciation. McCain proposes to allow corporations to immediately write off the entire cost of investments in equipment and technology.

These corporate tax cuts are extremely expensive, costing approximately \$1.7 trillion over a decade.² Assuming that corporate taxes are ultimately paid by investors—an assumption the U.S. Department of Treasury and the Congressional Budget Office have traditionally made—then cutting taxes would provide the most benefit to the largest investors. Approximately 59 percent of these tax cuts would go to the top 1 percent of households. Only 11 percent of the benefit would go to the bottom 80 percent of households.³

The Benefit for Large Energy and Utility Companies

The McCain plan would deliver approximately \$175 billion a year in tax cuts to corporations, including many corporations that are very large and profitable. Just one of the proposals—cutting the corporate rate from 35 percent to 25 percent—would cut taxes for the 10 largest U.S. energy companies and the 10 largest U.S. utility companies by over \$2.8 billion a year (see table).

McCain Corporate Tax Cut Would Give Big Breaks to Large Energy and Utility Companies			
	2007 U.S. TAXES	SAVINGS UNDER THE McCain PLAN	2007 WORLDWIDE PROFITS
Utility Companies			
Exelon	\$2.7 billion	\$780 million	\$2.7 billion
Dominion Resources	\$1.6 billion	\$450 million	\$2.5 billion
Southern	\$730 million	\$210 million	\$1.7 billion
FPL Group	\$310 million	\$87 million	\$2.5 billion
AES	\$7 million	\$2 million	-\$95 million
Consolidated Edison	\$360 million	\$102 million	\$930 million
Public Service Enterprise Group	\$840 million	\$241 million	\$1.3 billion
PG&E Corp	\$450 million	\$130 million	\$1 billion
Duke Energy	\$690 million	\$200 million	\$1.5 billion
Edison International	\$160 million	\$45 million	\$1.1 billion
Subtotal for Utility Companies	\$7.9 billion	\$2.2 billion	\$15 billion
Energy Companies			
Constellation Energy	\$350 million	\$100 million	\$820 million
Oneok	\$160 million	\$45 million	\$300 million
American Electric Power	\$500 million	\$140 million	\$1 billion
Williams	\$470 million	\$130 million	\$990 million
Reliant Energy	\$120 million	\$35 million	\$490 million
Integrus Energy Group	\$70 million	\$20 million	\$250 million
Energy Future Holdings	\$170 million	\$49 million	\$330 million
Calpine	-\$470 million	N/A	\$2.7 billion
Global Partners	\$360 thousand	\$100 thousand	\$2 million
NRG Energy	\$380 million	\$110 million	\$1 billion
Subtotal for Energy Companies	\$2.2 billion	\$640 million	\$8 billion
TOTAL	\$10 billion	\$2.8 billion	\$23 billion

While the effects of McCain's depreciation tax cut are difficult to compute for individual firms, it is likely to save these companies billions more, further boosting their profits.

The 20 corporations analyzed are the 10 largest electric utilities and 10 largest energy companies as ranked by *Fortune* magazine.⁴ Together, they earned over \$23 billion worldwide in 2007.⁵ All are members of the Fortune 500, *Fortune* magazine's list of America's 500 largest companies.⁶

These estimates were calculated based upon information presented in the companies' most recent 10-K filings with the Securities and Exchange Commission, which include audited financial statements.⁷ Corporations employ different methodologies for calculating income for tax and accounting purposes. The estimates are based on the financial statements' reported current and deferred taxes paid in 2007 to the federal government for income earned from U.S. operations. For several companies, the sum of 2007 current and deferred taxes was negative, indicating past payment of taxes that outweighs current tax liability. For the purpose of this study, the potential savings for these companies under McCain was treated as \$0.

(McCain's reduction would not retroactively decrease the size of their tax payments, and so would not change the magnitude of their negative deferred taxes; in other years, where their current taxes are greater than deferred credits, their savings under McCain's plan would be significant). The figures reported on tax returns—which are not made public—may differ.

After taking advantage of various deductions and credits, corporations pay the top tax rate on nearly all of their income. By reducing the top rate from 35 percent to 25 percent, the McCain tax proposal would reduce corporations' taxes by approximately 29 percent.

The estimates are based on 2007 figures. The actual effect of the McCain proposals will depend on corporations' future performance. The estimates do not include the effect of McCain's proposal for corporate expensing or U.S. taxes on income earned from foreign operations. Figures may not add due to rounding.

Endnotes

- 1 John McCain 2008, "McCain Tax Cut Plan," available at <http://www.johnmccain.com/Informing/Issues/0B8E4DB8-5B0C-459F-97EA-D7B542A78235.htm>, and "Economic Stimulus Plan," available at <http://www.johnmccain.com/Informing/Issues/1a8640f0-b2e3-4edb-b2a9-236df79d2579.htm>.
- 2 Robert Gordon and James Kvaal, "Five Easy Pieces and Two Trillion Dollars: The Bush-McCain-Norquist Tax Agenda" (Washington: The Center for American Progress Action Fund, 2008), available at http://www.americanprogressaction.org/issues/2008/tax_agenda.html.
- 3 For explanation of the merits of this practice, see Reuven Avi-Yonah, "John McCain's Corporate Tax Agenda: A Critical Examination" (Washington: Center for American Progress Action Fund, 2008), available at http://thinkprogress.org/wonkroom/wp-content/uploads/2008/04/corporate_tax.pdf
- 4 Fortune Magazine, "Fortune 500: Industry: Utilities: Gas & Electric," May 5, 2008, available at <http://money.cnn.com/magazines/fortune/fortune500/2008/industries/143/index.html>
- 5 *Ibid.*
- 6 *Ibid.*
- 7 Financial data compiled from "Form 10-K: Notes to Consolidated Financial Statement," SEC filing of each company. Please see individual company websites for further details on filings.