

How a multinational company like GE handles its taxes

By Jeff Gerth and Allan Sloan

General Electric's tax department is well-known for its size, skill and hiring of former government officials. About 20 years ago, GE's tax employees totaled a few hundred and were decentralized. Today, there are almost 1,000. The department's strong suit? Reducing the taxes GE reports for earnings purposes.

GE, like other publicly traded companies, publicly reports one set of tax numbers to calculate its earnings but uses a different, confidential set to calculate what it owes the tax collector. The lower the taxes GE reports, the higher its publicly reported profit. And the higher its profit, presumably, the higher its stock price goes.

That is the holy grail sought by GE and countless other companies. Thus the tax department can be like a profit center of its own — perfectly legally, we might add.

For example, GE boosted its 2008 and 2009 reported profits by a total of about \$1 billion just by changing its mind about how it treated some of its overseas earnings.

Here's why — and how — it works:

Many U.S. multinational corporations keep some profits abroad, none more than GE: Its total was \$94 billion at the end of last year. As long as corporations tell their accountants they intend to *indefinitely invest those profits outside the United States*, they don't have to make a provision for federal and state taxes on them. If the profits stay abroad, they remain untaxed.

GE, in 2008 and 2009, told its accountants that about \$3 billion of overseas profits were going to be indefinitely invested abroad. Previously, the company had not made that investment decision, so it was required to set aside a bookkeeping provision of about \$1 billion for U.S. taxes. That provision affected publicly reported earnings when it was taken.

GE never actually paid the \$1 billion in taxes. And it doesn't say when the previous accounting provision of \$1 billion was taken. But, lo and behold, in 2008 and 2009, when the company sorely needed higher profits, there they were, thanks to a tax benefit. It didn't have to sell more jet engines or turbines or kitchen appliances.

A leading tax accounting professor uses the GE shift as a case study in the flexibility of the accounting rules. Ed Outslay, the Deloitte/Michael Licata professor of accounting at Michigan State University's business school, says GE's move shows the "discretion" inherent in the accounting rule.

In answers provided through a spokeswoman, GE said it fully disclosed the investment changes as well as the reason behind them. "We don't think [that the rule] allows too much discretion," the company added.

But its top tax executive, John Samuels, said at a conference last year that the ability to defer taxes on overseas profit gives companies an incentive to shift them abroad.

It's "a heads-I-win, tails-I-break-even situation," Samuels said.