



Corporate Tax Loopholes

Tawfiq. M. Abu-Raqabeh
School of Business Alcorn State University

Article Info

Received: February 18, 2025

Accepted: February 24, 2025

Published: February 28, 2025

***Corresponding author:** Tawfiq. M. Abu-Raqabeh, School of Business Alcorn State University.

Citation: Tawfiq. M. Abu-Raqabeh, (2025) "Corporate Tax Loopholes". International Journal of Business Research and Management 2(2); DOI: 10.61148/IJBRM/07.1043

Copyright: © 2025. Tawfiq. M. Abu-Raqabeh. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Abstract:

Corporations have been attempting to minimize their tax obligations ever since the corporate tax requirement was first introduced in 1909. From the outset, businesses have sought various legal and strategic methods to reduce their tax burdens, including exploiting loopholes, shifting profits to low-tax jurisdictions, and leveraging deductions and credits. While tax avoidance strategies have evolved over time, the fundamental goal of maximizing profits by minimizing taxes has remained unchanged. This has led to an ongoing struggle between governments and corporations, as tax authorities attempt to close loopholes while businesses find new ways to navigate the system. As socioeconomic conditions have shifted, so too has public sentiment regarding corporate tax contributions. In periods of economic hardship or rising income inequality, there has been increased pressure on corporations to pay what is perceived as their fair share. Public discourse often revolves around whether large businesses are contributing adequately to national infrastructure, social programs, and economic development. High-profile cases of tax avoidance by multinational corporations have sparked debates over tax justice, corporate responsibility, and the need for regulatory reform. Governments around the world have responded to these concerns by introducing new tax regulations, increasing transparency requirements, and working to prevent tax evasion on a global scale. Efforts such as the OECD's Base Erosion and Profit Shifting (BEPS) initiative and the push for a global minimum corporate tax rate reflect attempts to curb aggressive tax avoidance. However, corporations continue to adapt, employing sophisticated financial strategies and lobbying for favorable policies. The debate over corporate taxation remains a dynamic and evolving issue, shaped by economic conditions, political ideologies

Keywords: corporate tax

Introduction:

Corporate profits were first subjected to taxation in 1909 when Congress introduced a 1 percent tax rate on business earnings. This marked the beginning of federal corporate taxation in the United States, with the intention of ensuring that businesses contributed to public revenue. Over the years, the corporate tax rate has changed significantly, reflecting shifts in economic policies and government priorities. Today, the corporate tax rate stands at 21 percent, following the Tax Cuts and Jobs Act (TCJA) of 2017, which reduced the rate from 35 percent to promote economic growth and investment (Tax Policy Center, 2021).

Despite the establishment of corporate taxation, businesses have continuously sought ways to minimize their tax liabilities. From the earliest days of corporate taxation, companies have taken advantage of legal loopholes and accounting strategies to reduce their tax burdens. Some

corporations use deductions, credits, and offshore tax havens to lower their taxable income, while others employ more aggressive tax avoidance strategies, including profit shifting and transfer pricing. These practices have led to ongoing debates about corporate tax fairness and the need for reform (Zucman, 2020).

As the corporate tax landscape evolves, governments have attempted to address tax avoidance through legislative measures and international cooperation. Efforts such as the global minimum tax initiative aim to prevent corporations from exploiting low-tax jurisdictions to evade their fiscal responsibilities. However, businesses continue to adapt, highlighting the ongoing tension between corporate interests and the pursuit of fair taxation. The challenge remains in striking a balance between encouraging business investment and ensuring that corporations contribute their fair share to national and global economies (OECD, 2021)

Literature Review:

Amazon's Growth and Tax Strategy:

Amazon was founded in 1994 by Jeff Bezos as an online bookstore. By 2000, the company had expanded its product line to include a wide range of items and services, establishing itself as a dominant force in e-commerce (Mercadal, 2020). Headquartered in Seattle, Washington, Amazon has since grown into the second-largest retailer in the world, reporting \$213 billion in revenues in 2019 (Russell, 2020). Despite its rapid expansion, Amazon posted quarterly losses for years as Bezos prioritized reinvestment in business growth over short-term profitability. This strategy resulted in the successful development of products and services such as the Amazon Kindle, Amazon Prime Instant Video, and Amazon Web Services. During the dot-com bubble crash of the early 2000s, Amazon's stock value plummeted by 94%, yet the company rebounded significantly. From an initial stock price of \$1.50 in 1997, Amazon's share price had surged to \$2,615.00 by June 2020, demonstrating its long-term market success. The company's emphasis on efficiency, cost control, and competitive pricing has played a crucial role in its rise as a global leader. In 2017, Amazon expanded further by acquiring Whole Foods, marking its entry into the grocery sector (Mercadal, 2020).

In 2019, reports emerged that Amazon had paid no federal income tax for the 2018 fiscal year, sparking widespread controversy. Despite record profits of \$11.16 billion, the company legally utilized existing tax rules—often referred to as loopholes—to minimize its tax liability. Critics condemned Amazon's ability to avoid corporate taxes despite its immense profitability, arguing that it exploited flaws in the tax system to its advantage. However, supporters countered that Amazon was simply benefiting from tax provisions designed to encourage investment, job creation, and economic growth. Over an eight-year period, Amazon's effective federal income tax rate averaged just 10.8%, significantly lower than the statutory corporate tax rate (Mashayekhi, 2019).

Amazon leveraged several tax policies to reduce its tax burden, including accelerated depreciation—an incentive bolstered by the Tax Cuts and Jobs Act (TCJA)—which allows businesses to

deduct the cost of capital investments more quickly. This provision, along with net operating loss carryforwards and over \$1 billion in deductions for stock-based employee compensation, significantly lowered Amazon's taxable income. Opponents of such policies argue that Amazon and similar corporations would have made substantial capital investments regardless of these tax incentives. The debate over corporate tax policy continues, with some advocating for reform to close loopholes, while others defend the system as a means of stimulating business growth. Given the complexity of tax law and its many proponents and detractors, the issue of corporate tax avoidance is likely to persist for years to come.

Apple's Growth and Tax Strategy:

Apple Inc. was founded in 1976 by Steve Jobs and Steve Wozniak, initially focusing on manufacturing personal computers. Over the decades, the company has transformed into a multinational technology giant, producing a wide range of products, including personal computers, servers, digital media devices, and consumer electronics. Apple has also expanded its business model by launching a network of retail stores, solidifying its position as one of the most valuable and influential technology companies in the world. With groundbreaking products like the iPhone, iPad, and MacBook, Apple has continually set industry standards for innovation and design.

According to a Senate subcommittee report, Apple utilized a complex structure of offshore entities and U.S. tax loopholes to avoid paying billions in federal taxes on approximately \$44 billion in offshore income over four years. The report revealed that Apple employed at least three foreign subsidiaries that were classified as "tax resident in no nation" to shield its overseas earnings from U.S. taxation. The Senate Permanent Subcommittee on Investigations argued that such tax avoidance strategies highlight the disconnect between multinational corporations and the economic challenges faced by the countries in which they operate (Foroohar, 2013). While Apple did not break any laws, the issue of tax fairness remains a contentious topic, especially in an era where lawmakers are struggling to balance budgets and find politically viable ways to generate revenue without cutting essential government programs (Grant, 2013).

In response to growing scrutiny, Apple took a proactive stance, advocating for comprehensive tax reform. Instead of paying the statutory 35 percent corporate tax rate—one of the highest in the developed world. Apple proposed a "dramatic simplification" of the U.S. tax code. The company suggested eliminating deductions while simultaneously lowering corporate tax rates, arguing that such a policy would make the tax system more efficient and equitable. However, critics argue that such proposals may not necessarily increase corporate tax contributions but rather shift the tax burden elsewhere, potentially reducing revenue available for public services (Grant, 2013).

The challenge of closing corporate tax loopholes remains a formidable one, as multinational corporations like Apple wield significant economic and political influence. While Apple has

contributed immensely to job creation—supporting an estimated 600,000 jobs in the U.S.—the debate over tax fairness continues. Advocates for tax reform argue that large corporations should contribute their fair share, particularly in light of growing wealth disparities. As public scrutiny intensifies, Apple will likely face increasing pressure to balance shareholder interests with social responsibility, ensuring that it meets the expectations of both corporate stakeholders and the broader public (Foroohar, 2013).

The broader conversation surrounding corporate taxation extends beyond Apple, encompassing many of the world's largest corporations that employ similar tax strategies. While Apple's tax practices have drawn significant attention, they are emblematic of a larger systemic issue requiring legislative and international cooperation. As governments work to close loopholes and enforce more equitable tax policies, companies like Apple will need to navigate evolving regulations while maintaining their global competitiveness. The battle over corporate taxation is far from over, and how it unfolds will have lasting implications for businesses, governments, and economies worldwide.

Corporate Tax Avoidance: Carnival Corporation and General Motors

Carnival Corporation's Offshore Tax Strategy:

Carnival Corporation, one of the world's largest cruise ship operators, is headquartered in Doral, Florida, yet it strategically registered its company in Panama to take advantage of tax loopholes. By leveraging the offshore registration, Carnival benefits from Internal Revenue Code (IRC) Section 883, which exempts foreign corporations from paying U.S. income taxes on earnings derived from the "international operation of a ship or ships," provided their country of residence extends the same protections to U.S. vessels. This loophole has enabled Carnival to significantly reduce its tax liability, paying an effective corporate tax rate of just 1.1 percent on \$11.3 billion in profits over a five-year period (Walker, 2011).

The controversy surrounding this tax strategy stems from the fact that while Carnival minimizes its tax burden, it still benefits from U.S. government resources. The United States Coast Guard ensures maritime safety for Carnival's cruise ships, while U.S. Customs officers facilitate international travel for passengers and crew. Additionally, state and local governments finance infrastructure, such as roads and ports, which Carnival relies on for its operations (Erb, 2013). Critics argue that the company enjoys the advantages of U.S. government protections and services while contributing minimally to the tax system that funds these benefits. When asked by *Cruise Law News* whether he believed Carnival paid its fair share of taxes, CEO Micky Arison reportedly dismissed the question as "insulting" (Walker, 2011).

Attempts to close this loophole faced resistance in Congress. The initial version of the 2017 Tax Cuts and Jobs Act included provisions aimed at eliminating offshore tax benefits for cruise companies. However, these provisions were ultimately removed through an amendment introduced by Senator Dan Sullivan (R-Alaska), who argued that the measure unfairly targeted an industry

crucial to his state's economy (Parker, 2020). This highlights the ongoing struggle to reform corporate tax laws and eliminate loopholes that enable multinational corporations to reduce their tax burdens while relying on government-funded infrastructure and services.

General Motors' Tax Strategies and Economic Influence:

Like many large multinational corporations, General Motors (GM) has historically leveraged a combination of tax incentives, privileges, and loopholes to minimize its tax liability. The company, which emerged from a series of mergers and acquisitions, has long been the world's largest automobile manufacturer (Adams, 1990). By 1986, GM was one and a half times the size of its next largest competitor, yet it continued to exploit state tax loopholes to reduce its tax payments. A 2012 campaign by California residents exposed one such loophole, which allowed multistate corporations to calculate their taxable income using a formula that incentivized shifting jobs and investments to other states. The loophole, quietly passed into law in 2009 without debate or public disclosure, reportedly saved GM millions of dollars annually (PR Newswire, 2012). In response, many states have since adopted a single sales factor formula, first introduced in 2001, to prevent similar tax avoidance strategies from being used in the future.

GM has also been criticized for using its economic influence to extract tax incentives from government entities by threatening to shut down operations. In 2009, the company considered closing its manufacturing plant in Janesville, Wisconsin, to cut costs by relocating production to lower-wage countries. In response, local lawmakers approved a \$10 million tax credit over five years to persuade GM to remain in the community. Officials justified the incentive by emphasizing its potential to protect jobs and stimulate economic growth, stating, "[The tax credit would be a part of the final budget because it contained] provisions that will help working families, spur economic growth and put dislocated workers back to work" (PR Newswire, 2012).

However, after the tax credits expired, GM ultimately decided to close the Janesville plant in 2015 when it could not secure additional incentives. This decision devastated the local economy, leaving behind an abandoned 4.8 million square foot facility that neither generated revenue nor provided employment for the community. Critics argue that such corporate tactics demonstrate how large companies can pressure governments into granting favorable tax breaks, only to abandon communities when those benefits expire. This cycle underscores the broader issue of corporate tax strategies that prioritize short-term financial gains over long-term economic responsibility.

The cases of Carnival Corporation and General Motors illustrate the complex and contentious nature of corporate taxation in the United States. While corporations argue that tax incentives and offshore structures enable them to remain competitive, critics contend that these loopholes ultimately burden taxpayers and undermine economic fairness. The ongoing debate over corporate tax reform suggests that more stringent policies may be required to

ensure that large multinational corporations contribute their fair share to the economies in which they operate.

Ford Motors' Tax Strategies and Economic Influence:

Ford Motor Company, one of the largest automobile manufacturers in the world, has long leveraged various tax strategies to optimize its financial performance. Like many multinational corporations, Ford takes advantage of tax credits, deductions, and incentives provided by federal and state governments. The company has benefited significantly from research and development (R&D) tax credits, which encourage innovation in the automotive sector. These incentives have supported Ford's investment in electric vehicles (EVs) and autonomous driving technology, aligning with the company's broader sustainability goals (IRS, 2021). Additionally, Ford strategically utilizes depreciation deductions on capital expenditures, allowing it to reduce taxable income while expanding production capabilities (Tax Foundation, 2022).

One of the most controversial aspects of Ford's tax strategy has been its use of global subsidiaries to manage tax liabilities. Like other multinational corporations, Ford has established entities in low-tax jurisdictions, enabling it to legally shift profits and minimize overall tax burdens. In 2018, reports indicated that Ford, despite earning billions in profits, significantly lowered its effective tax rate through offshore tax planning and deductions (GAO, 2019). This practice has sparked debates about corporate tax fairness, as critics argue that major companies should contribute more to the economies in which they operate. However, supporters claim that Ford's tax strategies are within legal frameworks and essential for maintaining competitiveness in the global automotive market (Forbes, 2020).

Beyond tax strategies, Ford Motors plays a vital role in the U.S. economy, contributing to job creation and industrial growth. The company directly employs over 186,000 people globally, with a significant portion in the United States (Ford, 2023). Additionally, Ford's extensive supply chain supports thousands of smaller businesses, from auto parts manufacturers to logistics providers. Government incentives, such as tax credits for domestic manufacturing and EV production, have further strengthened Ford's economic influence. The company's commitment to expanding EV production in Michigan, supported by federal and state tax incentives, demonstrates the interplay between corporate tax policies and economic development (Bloomberg, 2023).

While Ford benefits from tax incentives and strategic planning, it also faces public scrutiny regarding its corporate tax contributions. Policymakers continue to debate whether large corporations like Ford should pay higher taxes or whether their reinvestments in jobs, technology, and sustainability justify existing tax structures. As the U.S. government considers changes to corporate tax laws, Ford's financial strategies will likely adapt to new regulations, influencing both its profitability and economic impact. Ultimately, the company's ability to balance tax efficiency with social responsibility will shape its long-term reputation and success (Reuters, 2023).

Methodology:

This study utilizes a qualitative research approach to examine the impact of corporate tax loopholes on the U.S. economy and the ethical concerns surrounding corporate tax avoidance. The methodology involves an extensive review of secondary data sources, including academic journals, government reports, corporate financial statements, and tax policy analyses. By analyzing case studies of major corporations such as Amazon, Apple Inc., Carnival Corp., and General Motors, this research identifies common strategies used to minimize tax liabilities and explores the broader economic and societal implications.

A content analysis of publicly available documents, including reports from organizations like Americans for Tax Fairness, the Organization for Economic Co-operation and Development (OECD), and the U.S. Government Accountability Office (GAO), was conducted to evaluate the effectiveness of existing tax policies and identify gaps that allow for legal tax avoidance. Additionally, peer-reviewed journal articles and news sources, such as Reuters and The Wall Street Journal, were reviewed to assess expert opinions and recent developments in corporate taxation. The combination of these sources provides a comprehensive understanding of how corporations exploit tax laws and the consequences of such actions.

The study also employs a comparative analysis method, examining different legislative frameworks and policy responses to corporate tax avoidance. By comparing U.S. tax laws with international tax policies, particularly those introduced through global tax reforms such as the OECD's Global Minimum Tax proposal, the research highlights alternative strategies for closing tax loopholes. The study also considers proposed legislative measures within the United States, such as changes to the corporate tax rate and the elimination of deductions that disproportionately benefit large corporations (OECD, 2021).

Finally, ethical considerations in corporate taxation were analyzed through the lens of stakeholder theory, which examines how corporate decisions impact various groups, including taxpayers, government entities, and shareholders. The study evaluates whether corporate tax strategies align with principles of social responsibility and sustainable economic development. The findings aim to provide insights for policymakers, scholars, and the general public on the necessity of tax reforms to ensure equitable tax contributions from multinational corporations.

Conclusion:

While operating within a capitalist society, many top Fortune 500 U.S. corporations have generated billions of dollars in financial equity while managing to pay zero federal income taxes and even receiving billions in tax refunds (Americans for Tax Fairness, 2019). Essentially, 99% of U.S. citizens who earn an average of \$65,000 annually pay more in federal income taxes than some of the largest corporations due to corporate tax loopholes. Companies like Amazon, Apple Inc., Carnival Corp., and General

Motors have all been accused of exploiting tax laws to significantly reduce their corporate taxable income, leading to public outrage. The disparity between individual taxpayers and large corporations that successfully avoid paying taxes has raised ethical concerns regarding fairness within the U.S. tax system.

The exploitation of tax loopholes by multinational corporations highlights a critical issue in tax policy: the balance between incentivizing business growth and ensuring that corporations contribute their fair share to public services. While businesses argue that reinvestment, job creation, and innovation justify these tax strategies, critics contend that the burden of funding essential government programs falls disproportionately on middle-class and lower-income taxpayers. The ongoing debate over corporate tax avoidance has led to calls for tax reform, with policymakers pushing for measures such as a global minimum tax and the elimination of certain deductions that favor large companies (OECD, 2021). Without meaningful reform, public confidence in the tax system may continue to erode, further deepening economic inequalities.

As governments worldwide reconsider their tax policies, corporations may need to reassess their approaches to tax planning and corporate responsibility. The increasing demand for transparency and accountability is pressuring businesses to align their tax strategies with ethical governance and social responsibility. Companies that fail to address these concerns may face reputational risks, consumer backlash, and potential regulatory changes that could impact profitability. Ultimately, the future of corporate taxation will depend on striking a balance between economic incentives and ensuring a fair distribution of the tax burden across all entities contributing to the economy (Reuters, 2023).

References:

- Americans for Tax Fairness. (2019). *Corporate tax avoidance and its impact on the U.S. economy*. Retrieved from
- Adams, W., & Brock, J. W. (1990). Efficiency, Corporate Power, and the Bigness Complex. *Journal of Economic Education*, 21(1), 30–50.
- Americans for Tax Fairness. (2019). Fact Sheet: Corporate Tax Rates.
- Baudot, L., Johnson, J. A., Roberts, A., & Roberts, R. W. (2020). Is Corporate Tax Aggressiveness a Reputation Threat? Corporate Accountability, Corporate Social Responsibility, and Corporate Tax Behavior. *Journal of Business Ethics*, 163(2), 197–215.
- Dowling, G. (2014). The Curious Case of Corporate Tax Avoidance: Is it Socially Irresponsible? *Journal of Business Ethics*, 124(1), 173–184.
- Erb, Kelly (2013). Ship Isn't The Only Thing That Stinks At Carnival: Low Tax Rate Stirs Ire. *Forbes*, Feb 16, 2013
- Foroohar, R. (2013). The Coming Corporate Crackdown. *TIME Magazine*, 181(21), 20.
- Ford. (2023). *Company overview and workforce statistics*. Retrieved from
- Forbes. (2020). *Corporate tax avoidance and multinational strategies*. Retrieved from
- Grant, D. (2013, May 20). Apple “tax gimmicks”: rotten to the core or sensible business? *Christian Science Monitor*, N.PAG
- GAO. (2019). *Report on multinational corporate tax strategies*. Government Accountability Office.
- IRS. (2021). *Research and development tax credits and eligibility*. Retrieved from
- Kapur, S., Davison, L., & Bloomberg. (2019). Here's How Much Amazon Would Pay Under Elizabeth Warren's Corporate Tax. *Fortune.Com*, N.PAG.
- Mashayeki, R (2019). Why Amazon may pay no federal income taxes this year. *Fortune*.
- Mercadal, T., Ph.D. (2020). *Amazon.com. Salem Press Encyclopedia*.
- OECD. (2021). *International efforts to tackle corporate tax avoidance*. Organization for Economic Cooperation and Development.
- OECD. (2021). *Global tax reform and corporate minimum tax proposals*. Retrieved from
- Parker, J. (2020). Congress and the cruise industry's tax break battle. *Washington Economic Review*.
- Bloomberg. (2023). *Ford's EV expansion and tax incentives in Michigan*. Retrieved from
- PR Newswire. (2012). California tax loopholes: How corporations avoid their fair share. PR Newswire.
- Russell, C., (2020). *Forbes. Who are the 10 biggest retailers in the world?*
- Reuters. (2023). *Corporate tax policies and economic implications*. Retrieved from
- Tax Policy Center. (2021). *Corporate tax rate history and reforms*. The Brookings Institution.
- Tax Foundation. (2022). *Depreciation deductions and corporate tax policies*. Retrieved from
- U.S. Government Accountability Office (GAO). (2020). *Corporate tax compliance and policy effectiveness*. Retrieved from
- Sloan, A., Jeelani, M., Wahba, P., Casey, M., & Jones, M. (2014). POSITIVELY UN-AMERICAN. (cover story). *Fortune*, 170(1), 62–70.
- Walker, Jim (2011). No Taxes – The Cruise Lines' Dirty Little Secret. *Cruise Law News*. Feb 1. 2011.
- Zucman, G. (2020). *The Hidden Wealth of Nations: The Scourge of Tax Havens*. University of Chicago Press.