How FedEx cut its tax bill to $0

The company, like much of corporate America, has not made good on its promised investment surge from President Trump's 2017 tax cuts.

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In the 2017 fiscal year, FedEx owed more than $1.5 billion in taxes. The next year, it owed nothing. What changed was the Trump administration's tax cut — for which the company had lobbied hard.

The public face of its lobbying effort, which included a tax proposal of its own, was FedEx's founder and chief executive, Frederick Smith, who repeatedly took to the airwaves to champion the power of tax cuts. "If you make the United States a better place to invest, there is no question in my mind that we would see a renaissance of capital investment," he said on an August 2017 radio show hosted by Larry Kudlow, who is now chairman of the National Economic Council.

Four months later, President Trump signed into law the $1.5 trillion tax cut that became his signature legislative achievement. FedEx reaped big savings, bringing its effective tax rate from 34 percent in fiscal year 2017 to less than zero in fiscal year 2018, meaning that, overall, the government technically owed it money. But it did not increase investment in new equipment and other assets in the fiscal year that followed, as Mr. Smith said businesses like his would.

Nearly two years after the tax law passed, the windfall to corporations like FedEx is becoming clear. A New York Times analysis of data compiled by Capital IQ shows no statistically meaningful relationship between the size of the tax cut that companies and industries received and the investments they made. If anything, the companies that received the biggest tax cuts increased their capital investment by less, on average, than companies that got smaller cuts.

FedEx's financial filings show that the law has so far saved it at least $1.6 billion. Its financial filings show it owed no taxes in the 2018 fiscal year overall. Company officials said FedEx paid $2 billion in total federal income taxes over the past 10 years.

As for capital investments, the company spent less in the 2018 fiscal year than it had projected in December 2017, before the tax law passed. It spent even less in 2019. Much of its savings have gone to reward shareholders: FedEx spent more than $2 billion on stock buybacks and dividend increases in the 2019 fiscal year, up from $1.6 billion in 2018, and more than double the amount the company spent on buybacks and dividends in fiscal year 2017.

A spokesman said it was unfair to judge the effect of the tax cuts on investment by looking at year-to-year changes in the company's capital spending plans.

"FedEx invested billions in capital items eligible for accelerated depreciation and made large contributions to our employee pension plans," the company said in a statement. "These factors have temporarily lowered our federal income tax, which was the law's intention to help grow G.D.P., create jobs and increase wages."

FedEx's use of its tax savings is representative of corporate America. Companies have already saved upward of $100 billion more on their taxes than analysts predicted when the law was passed. Companies that make up the S&P 500 index had an average effective tax rate of 18.1 percent in 2018, down from 25.9

percent in 2016, according to an analysis of securities filings. More than 200 of those companies saw their effective tax rates fall by 10 points or more. Nearly three dozen, including FedEx, saw their tax rates fall to zero or reported that tax authorities owed them money.

From the first quarter of 2018, when the law fully took effect, companies have spent nearly three times as much on additional dividends and stock buybacks, which boost a company's stock price and market value, than on increased investment.

The law cut the corporate rate to 21 percent from 35 percent, and allowed companies to deduct the full cost of new equipment investments in the year that they make them. Those cuts stimulated the American economy in 2018, helping to push economic growth to 2.5 percent for the year and fueling a boost in hiring. Business investment rose at an 8.8 percent rate in the first quarter of 2018, and was nearly as strong in the second quarter.

But the impact dwindled quickly.

In the summer, the economy grew at just 1.9 percent and business investment fell 3 percent, including a 15.3 percent plunge in spending on factories and offices. Over the spring, companies spent less on new investments, after adjusting for inflation, than they had in the winter.

Overall business investment during Mr. Trump's tenure has now grown more slowly since the tax cuts were passed than before.

Some conservative economists and business leaders say the effects of the tax cuts were undercut by uncertainty from Mr. Trump's trade war, which is slowing global growth and prompting companies to freeze projects. Other economists say the fizzle is predictable because high tax rates were not holding back investment.

"It did provide a short-term boost, but it wasn't the big response that many people expected," said Aparna Mathur, an economist at the conservative American Enterprise Institute, who recently concluded that the 2017 law has not meaningfully changed investment patterns in America.