

# RESEARCH METHODOLOGY

## Excess profits, shareholder payouts and excess profits tax

The excess profits and shareholder payout research results are based on the Capital IQ platform: an investor-grade financial analysis database, corroborated when necessary with a careful analysis of annual and quarterly financial reports of the companies chosen. These filings contain financial statements for the companies' consolidated global operations with specific data on total revenue, earnings before interest, taxes, depreciation, and amortization (EBDITA), net income/earnings, research and development, total revenue, dividends paid, share repurchases and other disclosures. This information was reviewed to better understand the underlying data trends and to identify information relevant to the research. All data is in the fiscal year reported by the firms. To compare FY 2020 to previous years, we use the common Trailing Twelve Months (TTM) method, equivalent to  $FY2020 (TTM) = 2020Q1, Q2 + 2019Q1, 2, 3, 4 - 2019Q1, Q2$ . For companies which have not yet reported Q2 data, we used the equivalent TTM method ( $2020Q1 + 2019Q1, 2, 3, 4 - 2019Q1$ ). With these data sources, Oxfam took the following steps to conduct this research over the course of March-August of 2020.

First, we constructed a sample of the 25 most profitable companies globally. To do so, a commonly used indicator of profits (EBIDTA) was used to rank the top 25 companies in the S&P Global 100 Index, using most recent FY2020 data, as of mid-July. In order to provide a more globally-representative sample and cross-section of profitable companies in different jurisdictions, we then included some of the most profitable companies in various key jurisdictions not included in this Index. The result was a full sample of 59 companies with headquarters in South Africa, India, Brazil, India, the US, Italy, South Korea, Switzerland, Japan, Netherlands, Germany, Denmark, France, the UK, and Nigeria.

Next, the researcher collected the following data points for each of the companies:

- Net Income: FYs 2016-2019, FY2020 (TTM)<sup>1</sup> and Q1, Q2
- Revenue FY2020 (TTM)
- R&D FY2019

Then, using the method and data described above, the following key indicators were calculated:

- Pandemic Profit Ratio =  $FY2020 \text{ TTM Net Income} / FY2020 \text{ TTM Total Revenue}$
- Pandemic Excess Profits =  $Net \text{ Income } FY2020 \text{ TTM} - AVG \text{ FY}2016, 2017, 2018, 2019$

We then computed, for the same period, the percentage of net profits paid out to shareholders ( $Total \text{ Dividends Paid} + \text{Repurchase of Common and Preferred Stock (Gross)} / Net \text{ Income}$ ). For companies which reported negative profits in a particular, but still paid shareholders, we adjusted this formula accordingly ( $[Total \text{ Dividends Paid} + \text{Repurchase of Common and Preferred Stock (Gross)} + Net \text{ Income}] / Net \text{ Income}$ ). We then reported the individual firms' median shareholder payouts over the period, to adjust for outlying results of any one particular year.

All results are reported in US dollars, using the historical exchange rate of the period in question.

Next, Oxfam applied the design of a modern excess profits tax proposed by Prof. Avi-Yonah,<sup>2</sup> using the average earnings method for calculating excess profits tax income, the excess profits tax credit including the R&D tax credits, deducting the credit from the base, and then calculating the excess profit tax liability. We also checked to ensure that each company's total tax liability (both the regular and the excess profits tax liability) would not exceed the cap proposed by Prof. Avi-Yonah. Note that these estimates do not include any carry-back or carry-forward of unused credits, and do not deduct a *de minimis* exemption, as these variables are not publicly available or objectively verifiable. Furthermore, in order to ensure comparability, the net income figures are not adjusted for any mergers or acquisitions nor other exceptional items particular companies may have experienced in the period. Likewise, the figures are not adjusted for any material changes to the US or global tax environment.

Finally, Prof. Avi-Yonah suggests a total combined tax liability (of regular corporate tax and excess profits tax) should be no more than 80% of net income. We do not have data on 2020 regular corporate tax liability, so use instead the credit applied to the FY2020 tax base, applying the statutory corporate income tax rate for the jurisdiction in question<sup>3</sup> to the average earnings credit for FYs 2016-2019) as a proxy indicator.

Shareholder payout ratios for the apparel sector were calculated following the same methodology above. The ten companies were selected on the basis of several criteria including their size, country of origin and brand recognition.

All these figures and calculations for the whole sample of companies can be found in the accompanying datafile.<sup>4</sup>

## **Corporate misconduct database**

This database was created in an effort to gain an aggregate picture of instances of corporate misconduct around COVID-19. Cases were identified and compiled in three ways: 1) review of credible news sources, 2) review of existing databases, such as the Business and Human Rights Resource Center, and 3) suggestions for relevant cases from Oxfam affiliates and countries. The database does not aim to be comprehensive but rather illustrative. Cases have not been validated by Oxfam.

## **Corporate donations vs. profits**

Sample of companies include all companies listed in the Global S&P 100 Index. Aggregate figure is derived through:

*Donations declared around COVID-19 (between March – July 2020) / Operating profit (FY 2019)*

Data on operating profits were collected from companies' financial statements (obtained from Capital IQ database). Data on COVID-19 donations were collected based on companies' public statements and press releases. Donations are defined as financial (not in-kind) contributions for which companies did not expect a financial return (i.e. excluding investments in business ventures related to COVID-19).

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<sup>1</sup> Net income, not operating income, was chosen as the best measure of profitability for the purposes of this paper as it includes all of income and expenses of a company, including its tax expenses in the fiscal period in question.

<sup>2</sup> Reuven S. Avi-Yonah, "Taxes in the Time of Coronavirus: Is It Time to Revive the Excess Profits Tax?" (May 19, 2020). U of Michigan Public Law Research Paper No. 671; U of Michigan Law & Econ Research Paper No. 20-008. <http://dx.doi.org/10.2139/ssrn.3560806>, p. 3

<sup>3</sup> National 2020 statutory rates were drawn from Deloitte, "Corporate Tax Rates, 2020" at <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-corporate-tax-rates.pdf>

<sup>4</sup> See final datasheet on Oxfam website.