



CEOs get paid lots, but their companies still pay some of their taxes

By Rachel Beck, Associated Press
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Just as Americans are digging deep in their pockets to pay their income taxes, many public companies are disclosing that they are picking up the tab for at least some of what their CEOs owe the government.

It's another example of the cushy life enjoyed by those in the corner office. On top of their million-dollar paychecks and lavish perks, executives often get reimbursed for the taxes they have to pay on everything from personal rides on corporate jets to fat severance payouts.

The good news is that these tax benefits are no longer hidden from public view. New disclosure rules in corporate proxy statements are shining a bright light on the big money going toward what's known as tax "gross ups."

Almost two-thirds of Fortune 100 companies disclosed such taxes were paid for executives in 2006, up dramatically from the 35 percent revealing such information just two years ago, according to compensation research firm Equilar Inc.

These kinds of payouts surely weren't what Congress had in mind two decades ago when lawmakers imposed an excise tax on big cash-outs executives received when they sold their companies.

This tax is triggered on any severance payments, following a change of control, that exceed three times an executive's average annual compensation over the previous five years. Once the amount topped that, even by a dollar, a 20 percent excise tax is levied on payments more than one times their average annual compensation. This is on top of their regular income tax, which executives generally pay themselves.

"The government's mindset was to make the penalty so egregious that no one would cross that line because of the cost to the executive," said Bill Coleman, senior vice president and chief compensation officer at Salary.com Inc., a software company specializing in compensation. "Instead, many companies reacted by saying that tax burden was too big for the executives and so the companies decided they would cover it."

Today, more than three-quarters of companies with executive severance agreements provide for excise tax gross-ups, up from 55 percent in 1999 and just 10 percent twenty years ago, according to a study by human resources consulting firm Towers Perrin.

The gross-up gravy train doesn't stop there. It also covers when spouses ride on company planes or country club memberships paid for by the company. Those have to be counted as taxable income for CEOs and companies often pay those taxes, too.

It's also worth noting that when a company reimburses executives for taxes, that creates more taxable income, which triggers higher taxes that companies then cover.

3M Co. gave specifics this year in its proxy statement on the size of CEO George Buckley's tax gross-ups. That figure topped \$122,000, to cover such things as the taxes associated with the company's relocation program.

Alcoa Inc. disclosed for the first time that it paid hundred of thousands of dollars to its top executives to cover the taxes on company-paid relocation expenses, country club dues, spousal travel and life insurance. Former CFO Joseph Muscari, who stepped down last September and left the company in February of this year, received a tax reimbursement of \$1,102 for a watch given by the company as a retirement gift.

The company also estimated the present value of the benefits that executives would get in the case of a change in control, the potential excise tax liability and the tax gross-up to cover it. The highest ranking officer listed who still works at the company, executive vice president William Christopher, would get \$4.5 million in severance and benefits, plus \$1.98 million to cover the excise tax and gross-ups.

Those kind of executive tax benefits raise the ire of investor groups, which say they are just another example of outrageous perks going to executives who already receive excessive pay.

"Why is it that people who make so much a year can't afford to pay their taxes?" said Richard Ferlauto, director of pension and benefits policy at the American Federation of State, County and Municipal Employees, a Washington-based labor group representing government workers. "It is the most horrendous of pay perks because it goes to the heart of what it means to be an American citizen, that means paying taxes."

With shareholders protesting such tax perks, some companies appear to be eliminating tax gross-ups to soothe concerns regarding their overall corporate governance practices.

Among them is UnitedHealth Group Inc., which is trying to recover from a stock-option backdating scandal that led to the resignation of its CEO, cost the company millions of dollars and placed it under investigation by federal regulators. The nation's second-largest health insurer said in its new proxy statement that it would no longer allow for any tax gross-up benefits to executives.

Regardless of what's driving that move, it's the right step. Others should follow.

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