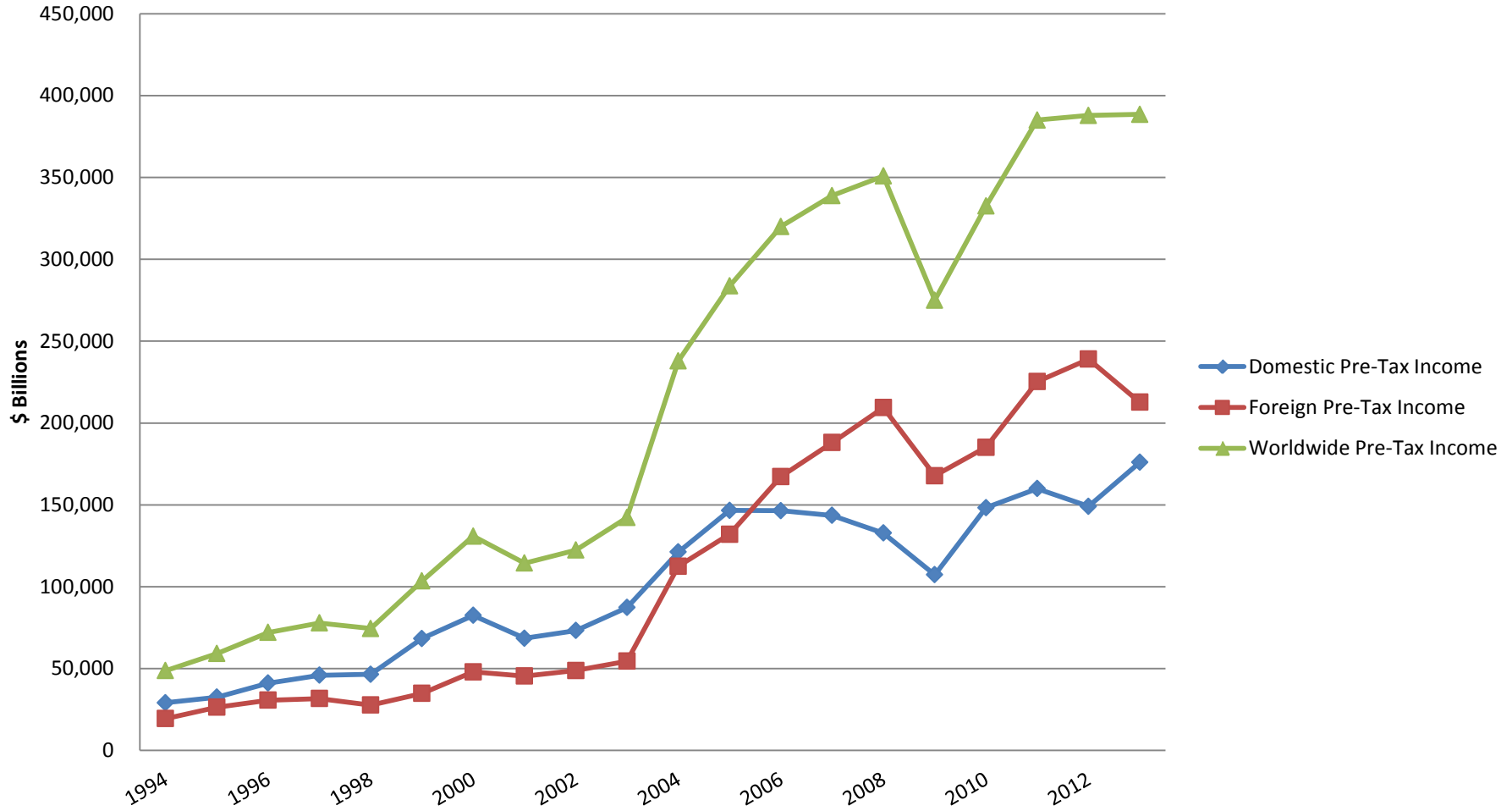


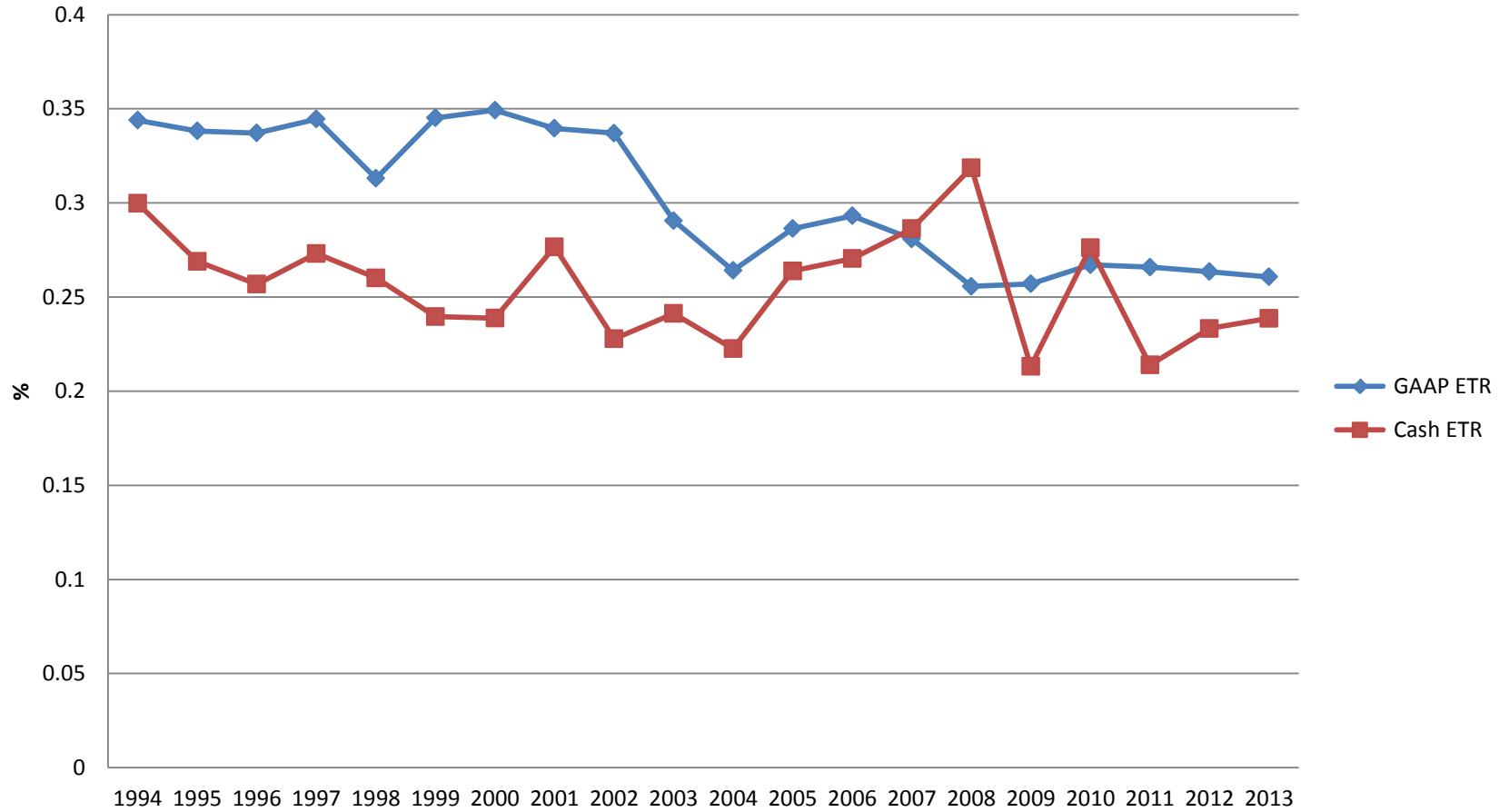
Sample of Firms' 2013 Effective Tax Rates (ETRs)

	Microsoft	Apple	IBM	Walmart
Worldwide Pre-Tax Income (\$ Billion)	27.8	53.5	19.5	24.7
Total Tax Expense	5.7	14.0	3.0	8.1
Cash Paid for Income Taxes	5.5	10.0	4.0	8.6
GAAP Effective Tax rate (total tax expense/pre-tax income)	20.7%	26.1%	15.6%	32.9%
Cash Effective Tax Rate (cash paid for income taxes/pre-tax income)	19.8%	18.7%	20.6%	35.0%

Dow Jones Aggregate Pre-Tax Income



Dow Jones Effective Tax Rates

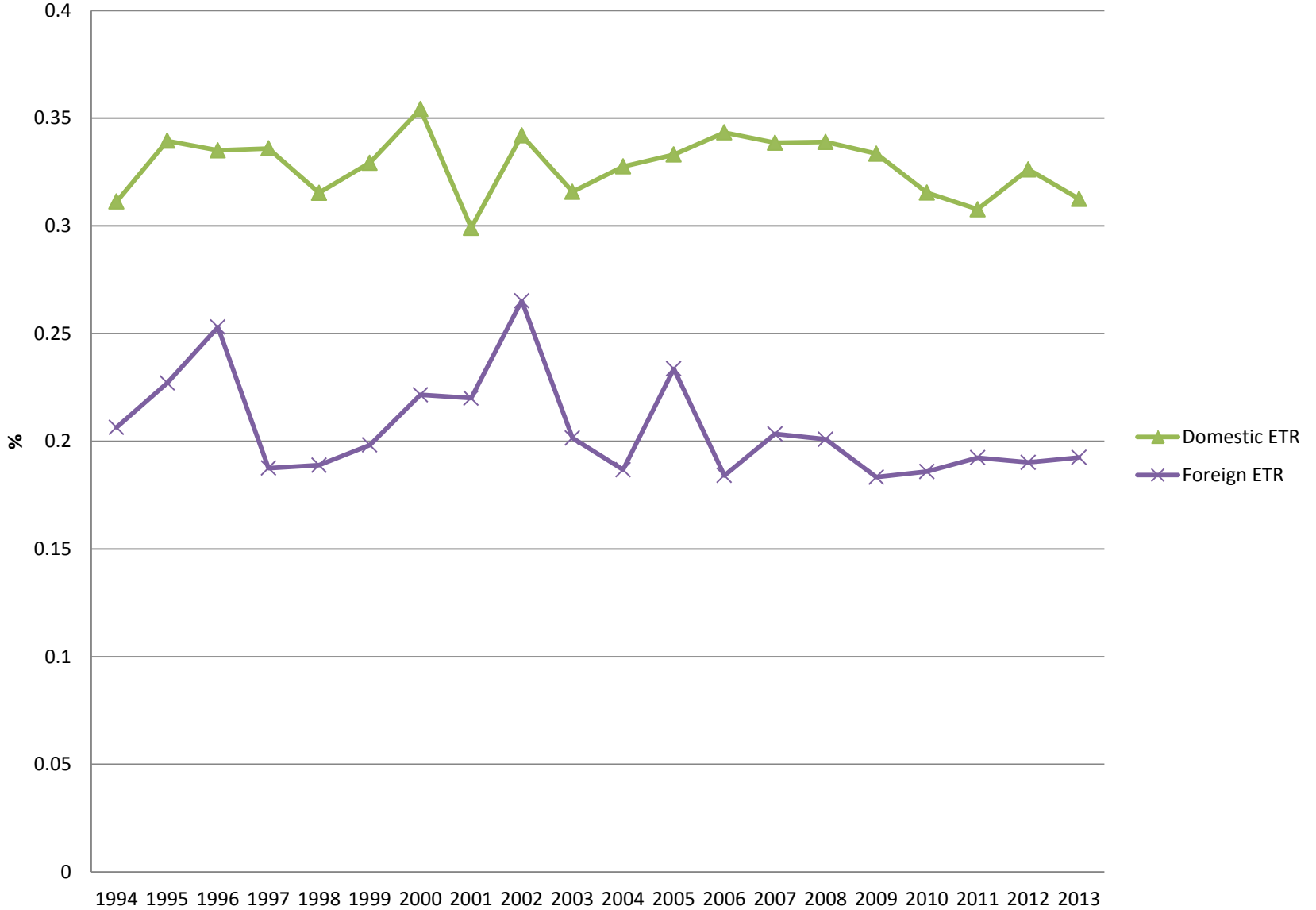


Foreign v. Domestic Partitioning ETRs

(\$ Billions)	Microsoft	Apple	IBM	Walmart
Domestic Pre-Tax Income	7.1	19.9	6.9	19.4
Foreign Pre-Tax Income	20.7	33.6	12.7	5.2
Domestic Tax Expense	3.7	12.5	0.6	7.1
Foreign Tax Expense	2.1	1.5	2.4	1.0
Domestic ETR (Domestic Tax Expense/Domestic Pre-Tax Income)	51.5%	62.8%	8.9%	36.4%
Foreign ETR (Foreign Tax Expense/Foreign Pre-Tax Income)	10.0%	4.4%	19.2%	19.9%
Permanently (or indefinitely) Reinvested Earnings (PRE)	92.9	\$69.7	\$52.3	\$21.4
Estimated Tax on PRE	29.6	23.3	Not Disclosed	Not Disclosed
PRE/Assets	53.9%	30.0%	41.4%	10.5%

- PRE is not simply unremitted foreign earnings
- PRE is not necessarily cash

Dow Jones Foreign and Domestic GAAP Effective Tax Rates



Apple's Unremitted Foreign Earnings

The Company's consolidated financial statements provide for any related tax liability on undistributed earnings that the Company does not intend to be indefinitely reinvested outside the U.S. Substantially all of the Company's undistributed international earnings intended to be indefinitely reinvested in operations outside the U.S. were generated by subsidiaries organized in Ireland, which has a statutory tax rate of 12.5%. As of September 27, 2014, U.S. income taxes have not been provided on a cumulative total of \$69.7 billion of such earnings. The amount of unrecognized deferred tax liability related to these temporary differences is estimated to be approximately \$23.3 billion.

Estimated taxes paid on PRE? $\text{Foreign tax rate}^* = 1.685 / (69.7 + 1.685) = 2.36\%$
So, $0.35 - 0.0236 = 32.64\%$ owed in US

*I can estimate the taxes paid overseas by solving the following formula:

$0.35(69.7 + \text{foreign taxes paid}) - \text{foreign taxes paid} = 23.3$; $\text{foreign taxes paid} = 1.685$

Apple's Unremitted Foreign Earnings con't

As of September 27, 2014 and September 28, 2013, the significant components of the Company's deferred tax assets and liabilities were (in millions):

	<u>2014</u>	<u>2013</u>
Deferred tax assets:		
Accrued liabilities and other reserves	\$ 2,761	\$ 1,892
Deferred revenue	1,787	1,475
Basis of capital assets and investments	898	1,020
Share-based compensation	454	458
Other	644	1,029
Total deferred tax assets	<u>6,544</u>	<u>5,874</u>
Less valuation allowance	0	0
Deferred tax assets, net of valuation allowance	<u>6,544</u>	<u>5,874</u>
Deferred tax liabilities:		
Unremitted earnings of foreign subsidiaries	21,544	18,044
Other	120	112
Total deferred tax liabilities	<u>21,664</u>	<u>18,156</u>
Net deferred tax liabilities	<u><u>\$(15,120)</u></u>	<u><u>\$(12,282)</u></u>

Assuming same tax rate as PRE, roughly, how much in non-PRE unremitted foreign earnings? $21,544 / 0.3264 = 66,004$

So, total unremitted foreign earnings = PRE + non-PRE
 $= 69,700 + 66,004 = 135,704$

If unremitted foreign earnings are taxed on a transition to a territorial system, suppose at 5.25%, then Apple would owe about \$6.8 billion. However, it will record a financial stmt benefit of about \$14.7 billion (21.5 – 6.8).