

Apple's taxing times: An analysis of its recent tax strategies and disclosures

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ABSTRACT

In May 2013 Apple Inc. testified at a U.S. Senate Permanent Subcommittee on Investigations hearing. The Subcommittee's stated purpose was to review and to learn how corporate taxpayers shift billions of dollars offshore to avoid U.S. taxes. Apple's testimony offers a rare opportunity to compare a corporation's public annual report tax disclosures to usually unavailable inside information and management efforts to manage taxes, including disclosures about its actual tax returns. The case is designed to help students solidify their textbook knowledge of the accounting for income taxes and apply their textbook knowledge to actual practice both in terms of U.S. GAAP income tax disclosures and management strategies implemented to manage taxes. The case setting ties financial accounting disclosures to a timely, widespread, visible and socially important issue, enhancing students' motivations to learn financial accounting. The case is a suitable assignment, albeit challenging, for intermediate accounting course-level study of the accounting for income taxes or a more technical financial statement analysis course. Extensive instructor guidance is included.

Keywords: Corporate taxation; tax minimization; tax avoidance; income taxes; deferred taxes; effective tax rates;

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INTRODUCTION

Measured by annual sales revenue, Apple, Inc. (Apple) is one of the twenty largest multinational corporations in the world. It is perhaps the most visible because it designs, manufactures and sells mobile phones, media devices, digital music players and personal computers, as well as related software. Trade names such as iPhone®, Mac®, iCloud® and recently Apple Watch™, are recognized world-wide.

Apple states in its business conduct document that it conducts business with honesty, respect, confidentiality and compliance (Apple 2010); in other words, it conducts its business ethically. Yet, at the same time numerous news articles insinuate that Apple aggressively avoids taxes (e.g. Duhigg and Kocieniewski 2012; Hickey 2013). Apple certainly is not the only multinational facing these news articles. Multinational corporations seem almost synonymous with aggressive tax avoidance (Wayne, Carr, et. al. 2014) to the point where companies domiciled in the British Virgin Islands, a tax haven, are the second largest investors in China, after only Hong Kong (Economist 2007). Aggressive tax avoidance is perceived to be so widespread and important that the Organization of Economic Co-operation and Development (OECD) initiated a substantial project to establish fair world-wide tax systems.¹ Illustrating the acuteness of the issue, the OECD drew attention to what it called “stateless income,” that is, income earned by corporations that is not subject to tax in any jurisdiction in the world.²

Tax avoidance, especially by U.S.-based corporations with well-known identifiable global brands, with Apple’s name frequently mentioned, became a topic of discussion as the United States (U.S.) economy struggled in the post-financial crash period. Apple, in particular, was subject to scrutiny because of the contrast between itself, earning high levels of profits at the time, and many U.S. citizens, who were struggling to earn income and pay taxes at all. Amplifying U.S. economic weaknesses, governments at all levels, federal, state and local, experienced budget deficits and budget cuts, further focusing attention on corporations’ tax behaviors.

For several years, U.S. corporations have lobbied for the U.S. Congress to lower the corporate income tax rate (which at a top marginal rate of 35 percent is one of the highest, if not the highest, in the developed world), arguing that they cannot compete internationally in the face of such a high tax rate. However, in spite of this headline rate of tax, U.S. corporations typically pay taxes at rates ranging from 12 to 18 percent (Levin and McCain 2013 footnote 147 and related text), which many observers attribute to widespread tax avoidance/minimization schemes that, although not technically illegal, appear to many observers to violate the spirit of the U.S. tax system.

As a result of these events, the Permanent Subcommittee on Investigations of the U.S. Senate Homeland Security and Government Affairs Committee held hearings in May 2013 to review how individual and corporate taxpayers shift billions of dollars offshore to avoid U.S. taxes. Apple testified at the hearings, offering a rare opportunity to compare a corporation’s public annual report tax disclosures to usually unavailable inside information and management efforts to manage taxes, including disclosures about its actual tax returns (almost never available to outside investors).

¹ See www.oecd.org/ctp/beps.htm.

² See www.oecdinsights.org/2014/09/29/combating-beps-and-making-sure-we-have-fair-tax-systems-an-oecdg20-venture.

CASE LEARNING OUTCOMES

The purpose of this case is for you to explore the financial statement and footnote disclosures relating to income tax in Apple's 10-k and compare them to what was revealed by Apple in its testimony to the U.S. Senate Subcommittee. After completing the case, you should be able to:

1. Explain at a professional manager level, a popular international tax planning strategy used by U.S. corporations.
2. Read and analyze tax footnotes.
3. Develop your own informed opinion regarding whether a U.S. corporation, Apple Inc. in this case, is aggressively avoiding taxes or not.
4. Understand and explain the reporting of income taxes in an annual report.

CASE MATERIALS

You should download the following two items. They are free to download. Otherwise this case is self-contained. Both items are downloadable at:

<http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code-part-2>

1. (Hereinafter this document is referred to as "Memorandum" or Levin and McCain 2013): Subcommittee Memorandum on Offshore Profit Shifting and the U.S. tax Code – Part 2 (Apple Inc.). It is Exhibit 1a at the above link (far left side of the web page)
2. (Hereinafter this document is referred to as "Testimony", "Apple Testimony" or Apple 2013): Testimony of Apple Inc. Before the Permanent Subcommittee on Investigations US Senate. It is available under Witness Panel 2 Timothy D. Cook, Chief Executive Officer, Apple Inc. downloadable testimony (62.8kb) at the above link.

CASE REQUIREMENTS

Refer to these items to answer the following questions. "FY2012" is fiscal year 2012.

- Table 1 (Appendix A): Apple's FY2012 Financial Statements
- Table 2 (Appendix A): Apple's FY2012 Tax Footnote
- Table 3 (Appendix A): Apple's FY2012 Segment Footnote (abridged)
- Table 1 (Appendix B): Corporate Tax Rates by Country
- Table 2 (Appendix B): U.S. Effective Corporate Tax Rates Timeline
- The Memorandum (see case materials for a link)
- Apple Testimony (see case materials for a link)

Part 1: Questions about the U.S. tax system and Apple's tax strategy

1. How does the U.S. Federal government tax worldwide income of U.S. corporations? (Hint: see Memorandum Part II.A. and the answer "35 percent" is not sufficiently detailed)
2. Briefly explain how Apple manages taxes. Include in your explanation how Apple is structured organizationally; the primary transactions that help it manage taxes; and its negotiated tax rate in Ireland. Be brief. (Hint: see Apple's organizational structure chart at the Memorandum page 20 and surrounding discussion)

Part 2: Questions about Apple's financial statement tax footnote disclosures, and how they relate to Apple's tax strategies and organizational structure.

3. Briefly describe the purpose of the four tables in Apple's tax footnote (see Table 2 (Appendix A)). These are standard tables presented by U.S. corporations.
 - a. Provision for income taxes table (many U.S. companies use the word "provision" to mean expense. Note that under IFRS, "provision" refers to a liability)
 - b. Effective tax rate table
 - c. Deferred tax table
 - d. Uncertain tax positions (UTP) table
4. Based (only) on Apple's Provision for income taxes table in Apple's tax footnote (Table 2 (Appendix A)), what summarized tax entry did Apple record for the year?
5. Using the Table 2 (Appendix A) footnote information, calculate Apple's Effective tax rates for its foreign earnings for the last three years. Show your work. (Hint: use the foreign tax provision from the provision for income taxes table and note that Apple discloses foreign pre-tax earnings in its income tax footnote)
6. Based on your answers to question 5, what percentage of Apple's foreign pretax earnings would you reasonably guess are recorded in Irish subsidiaries? Based on Table 3 (Appendix A), Apple has significant foreign operations throughout the world. Further, they appear profitable based on other information in Apple's annual report and management's disclosures (not included in this case). However, scanning Table 1 (Appendix B), most countries where Apple likely does a substantial business have much higher corporate tax rates than the low effective rate you calculated in question 5. Based on the Memorandum, how does Apple achieve recording the bulk of its foreign earnings in Ireland? (Hint: See Memorandum Part III.D.1.)
7. Calculate Apple's effective tax rates for its U.S. based earnings for the last three years. Show your work. Why are Apple's U.S. effective tax rates so high? Note that Apple doesn't discuss any reasons in its footnote. (Hint: see Apple's Testimony Part I. bullet point two on Subpart F income taxation and for background knowledge to help inform your response read Memorandum Parts II.E. and II.F. Also Parts III.D.2. and III.D.3.)
8. Based on the Deferred tax table valuation allowance amounts of \$0, are Apple's various operating companies that are generating Deferred tax assets likely performing well or are some performing poorly? Briefly support your answer.
9. At the end of FY2012 Apple has considerable cash and investment holdings, well in excess of \$100 billion. Yet, it issued debt to pay a dividend to shareholders. According to

Apple’s Testimony, how did Apple’s tax strategy influence its decision to issue debt?
 (Hint: see Testimony subsection on Apple’s capital return program)

Part 3: Your opinions of Apple and its tax strategies

10. Your opinions of Apple and its tax strategies:

a. In my opinion, and referring to Table 2 (Appendix B), Apple’s disclosed effective tax rates appear: (Select the appropriate box)

Overly egregious	Egregious	Neutral (average)	Conservative	Overly conservative
1	2	3	4	5

b. As a result of this tax analysis, my opinion of Apple as a worldwide corporate citizen has: (Select the appropriate box)

Substantially improved	Somewhat improved	About the same as before	Somewhat declined	Substantially declined
1	2	3	4	5

c. My opinion of Apple’s financial statement tax disclosures is that they are: (Select the appropriate box)

Very comprehensible	Somewhat comprehensible	Neither comprehensible nor incomprehensible	Somewhat incomprehensible	Very incomprehensible
1	2	3	4	5

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APPENDIX A

Table 1

Apple FY2012 Financial Statements

	Years ended		
	September 29, 2012	September 24, 2011	September 25, 2010
Net sales	\$156,508	\$108,249	\$ 65,225
Cost of sales	87,846	64,431	39,541
Gross margin	68,662	43,818	25,684
Operating expenses:			
Research and development	3,381	2,429	1,782
Selling, general and administrative	10,040	7,599	5,517
Total operating expenses	13,421	10,028	7,299
Operating income	55,241	33,790	18,385
Other income/(expense), net	522	415	155
Income before provision for income taxes	55,763	34,205	18,540
Provision for income taxes	14,030	8,283	4,527
Net income	<u>\$ 41,733</u>	<u>\$ 25,922</u>	<u>\$ 14,013</u>
Earnings per share:			
Basic	\$ 44.64	\$ 28.05	\$ 15.41
Diluted	\$ 44.15	\$ 27.68	\$ 15.15
Shares used in computing earnings per share:			
Basic	934,818	924,258	909,461
Diluted	945,355	936,645	924,712
Cash dividends declared per common share	\$ 2.65	\$ 0.00	\$ 0.00

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(In millions, except number of shares which are reflected in thousands)

	<u>September 29, 2012</u>	<u>September 24, 2011</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 10,746	\$ 9,815
Short-term marketable securities	18,383	16,137
Accounts receivable, less allowances of \$98 and \$53, respectively ...	10,930	5,369
Inventories	791	776
Deferred tax assets	2,583	2,014
Vendor non-trade receivables	7,762	6,348
Other current assets	6,458	4,529
Total current assets	<u>57,653</u>	<u>44,988</u>
Long-term marketable securities	92,122	55,618
Property, plant and equipment, net	15,452	7,777
Goodwill	1,135	896
Acquired intangible assets, net	4,224	3,536
Other assets	5,478	3,556
Total assets	<u>\$176,064</u>	<u>\$116,371</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 21,175	\$ 14,632
Accrued expenses	11,414	9,247
Deferred revenue	5,953	4,091
Total current liabilities	<u>38,542</u>	<u>27,970</u>
Deferred revenue - non-current	2,648	1,686
Other non-current liabilities	16,664	10,100
Total liabilities	<u>57,854</u>	<u>39,756</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value; 1,800,000 shares authorized; 939,208 and 929,277 shares issued and outstanding, respectively	16,422	13,331
Retained earnings	101,289	62,841
Accumulated other comprehensive income	499	443
Total shareholders' equity	<u>118,210</u>	<u>76,615</u>
Total liabilities and shareholders' equity	<u>\$176,064</u>	<u>\$116,371</u>

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except number of shares which are reflected in thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	Total Shareholders' Equity
	Shares	Amount			
Balances as of September 26, 2009	899,806	\$ 8,210	\$ 23,353	\$ 77	\$ 31,640
Components of comprehensive income:					
Net income	0	0	14,013	0	14,013
Change in foreign currency translation	0	0	0	7	7
Change in unrealized gains/losses on marketable securities, net of tax	0	0	0	123	123
Change in unrecognized gains/losses on derivative instruments, net of tax	0	0	0	(253)	(253)
Total comprehensive income					13,890
Share-based compensation	0	876	0	0	876
Common stock issued under stock plans, net of shares withheld for employee taxes	16,164	703	(197)	0	506
Tax benefit from equity awards, including transfer pricing adjustments	0	879	0	0	879
Balances as of September 25, 2010	915,970	10,668	37,169	(46)	47,791
Components of comprehensive income:					
Net income	0	0	25,922	0	25,922
Change in foreign currency translation	0	0	0	(12)	(12)
Change in unrealized gains/losses on marketable securities, net of tax	0	0	0	(41)	(41)
Change in unrecognized gains/losses on derivative instruments, net of tax	0	0	0	542	542
Total comprehensive income					26,411
Share-based compensation	0	1,168	0	0	1,168
Common stock issued under stock plans, net of shares withheld for employee taxes	13,307	561	(250)	0	311
Tax benefit from equity awards, including transfer pricing adjustments	0	934	0	0	934
Balances as of September 24, 2011	929,277	13,331	62,841	443	76,615
Components of comprehensive income:					
Net income	0	0	41,733	0	41,733
Change in foreign currency translation	0	0	0	(15)	(15)
Change in unrealized gains/losses on marketable securities, net of tax	0	0	0	601	601
Change in unrecognized gains/losses on derivative instruments, net of tax	0	0	0	(530)	(530)
Total comprehensive income					41,789
Dividends and dividend equivalent rights declared	0	0	(2,523)	0	(2,523)
Share-based compensation	0	1,740	0	0	1,740
Common stock issued under stock plans, net of shares withheld for employee taxes	9,931	200	(762)	0	(562)
Tax benefit from equity awards, including transfer pricing adjustments	0	1,151	0	0	1,151
Balances as of September 29, 2012	939,208	\$ 16,422	\$101,289	\$ 499	\$118,210

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years ended		
	September 29, 2012	September 24, 2011	September 25, 2010
Cash and cash equivalents, beginning of the year	\$ 9,815	\$ 11,261	\$ 5,263
Operating activities:			
Net income	41,733	25,922	14,013
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	3,277	1,814	1,027
Share-based compensation expense	1,740	1,168	879
Deferred income tax expense	4,405	2,868	1,440
Changes in operating assets and liabilities:			
Accounts receivable, net	(5,551)	143	(2,142)
Inventories	(15)	275	(596)
Vendor non-trade receivables	(1,414)	(1,934)	(2,718)
Other current and non-current assets	(3,162)	(1,391)	(1,610)
Accounts payable	4,467	2,515	6,307
Deferred revenue	2,824	1,654	1,217
Other current and non-current liabilities	2,552	4,495	778
Cash generated by operating activities	<u>50,856</u>	<u>37,529</u>	<u>18,595</u>
Investing activities:			
Purchases of marketable securities	(151,232)	(102,317)	(57,793)
Proceeds from maturities of marketable securities	13,035	20,437	24,930
Proceeds from sales of marketable securities	99,770	49,416	21,788
Payments made in connection with business acquisitions, net of cash acquired	(350)	(244)	(638)
Payments for acquisition of property, plant and equipment	(8,295)	(4,260)	(2,005)
Payments for acquisition of intangible assets	(1,107)	(3,192)	(116)
Other	(48)	(259)	(20)
Cash used in investing activities	<u>(48,227)</u>	<u>(40,419)</u>	<u>(13,854)</u>
Financing activities:			
Proceeds from issuance of common stock	665	831	912
Excess tax benefits from equity awards	1,351	1,133	751
Dividends and dividend equivalent rights paid	(2,488)	0	0
Taxes paid related to net share settlement of equity awards	(1,226)	(520)	(406)
Cash (used in)/generated by financing activities	<u>(1,698)</u>	<u>1,444</u>	<u>1,257</u>
Increase/(decrease) in cash and cash equivalents	931	(1,446)	5,998
Cash and cash equivalents, end of the year	<u>\$ 10,746</u>	<u>\$ 9,815</u>	<u>\$ 11,261</u>
Supplemental cash flow disclosure:			
Cash paid for income taxes, net	\$ 7,682	\$ 3,338	\$ 2,697

See accompanying Notes to Consolidated Financial Statements.

Table 2**Apple FY2012 Tax Footnote****Note 5 – Income Taxes**

The provision for income taxes for 2012, 2011, and 2010, consisted of the following (in millions):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Federal:			
Current	\$ 7,240	\$ 3,884	\$ 2,150
Deferred	5,018	2,998	1,676
	<u>12,258</u>	<u>6,882</u>	<u>3,826</u>
State:			
Current	1,182	762	655
Deferred	(123)	37	(115)
	<u>1,059</u>	<u>799</u>	<u>540</u>
Foreign:			
Current	1,203	769	282
Deferred	(490)	(167)	(121)
	<u>713</u>	<u>602</u>	<u>161</u>
Provision for income taxes	<u>\$14,030</u>	<u>\$ 8,283</u>	<u>\$ 4,527</u>

The foreign provision for income taxes is based on foreign pretax earnings of \$36.8 billion, \$24.0 billion and \$13.0 billion in 2012, 2011 and 2010, respectively. The Company's consolidated financial statements provide for any related tax liability on amounts that may be repatriated, aside from undistributed earnings of certain of the Company's foreign subsidiaries that are intended to be indefinitely reinvested in operations outside the U.S. As of September 29, 2012, U.S. income taxes have not been provided on a cumulative total of \$40.4 billion of such earnings. The amount of unrecognized deferred tax liability related to these temporary differences is estimated to be approximately \$13.8 billion.

As of September 29, 2012 and September 24, 2011, \$82.6 billion and \$54.3 billion, respectively, of the Company's cash, cash equivalents and marketable securities were held by foreign subsidiaries and are generally based in U.S. dollar-denominated holdings. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S.

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory federal income tax rate (35% in 2012, 2011 and 2010) to income before provision for income taxes for 2012, 2011, and 2010, is as follows (in millions):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Computed expected tax	\$19,517	\$11,973	\$ 6,489
State taxes, net of federal effect	677	552	351
Indefinitely invested earnings of foreign subsidiaries	(5,895)	(3,898)	(2,125)
Research and development credit, net	(103)	(167)	(23)
Domestic production activities deduction	(328)	(168)	(48)
Other	162	(9)	(117)
Provision for income taxes	<u>\$14,030</u>	<u>\$ 8,283</u>	<u>\$ 4,527</u>
Effective tax rate	25.2%	24.2%	24.4%

The Company's income taxes payable have been reduced by the tax benefits from employee stock plan awards. For stock options, the Company receives an income tax benefit calculated as the tax effect of the difference

between the fair market value of the stock issued at the time of the exercise and the exercise price. For RSUs, the Company receives an income tax benefit upon the award's vesting equal to the tax effect of the underlying stock's fair market value. The Company had net excess tax benefits from equity awards of \$1.4 billion, \$1.1 billion and \$742 million in 2012, 2011 and 2010, respectively, which were reflected as increases to common stock.

As of September 29, 2012 and September 24, 2011, the significant components of the Company's deferred tax assets and liabilities were (in millions):

	<u>2012</u>	<u>2011</u>
Deferred tax assets:		
Accrued liabilities and other reserves	\$ 2,101	\$ 1,610
Basis of capital assets and investments	447	390
Share-based compensation	395	355
Other	1,094	795
Total deferred tax assets	<u>4,037</u>	<u>3,150</u>
Less valuation allowance	0	0
Deferred tax assets, net of valuation allowance	<u>4,037</u>	<u>3,150</u>
Deferred tax liabilities:		
Unremitted earnings of foreign subsidiaries	14,712	8,896
Other	193	272
Total deferred tax liabilities	<u>14,905</u>	<u>9,168</u>
Net deferred tax liabilities	<u><u>\$(10,868)</u></u>	<u><u>\$ (6,018)</u></u>

Deferred tax assets and liabilities reflect the effects of tax losses, credits, and the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Uncertain Tax Positions

Tax positions are evaluated in a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company classifies gross interest and penalties and unrecognized tax benefits that are not expected to result in payment or receipt of cash within one year as non-current liabilities in the Consolidated Balance Sheets.

As of September 29, 2012, the total amount of gross unrecognized tax benefits was \$2.1 billion, of which \$889 million, if recognized, would affect the Company's effective tax rate. As of September 24, 2011, the total amount of gross unrecognized tax benefits was \$1.4 billion, of which \$563 million, if recognized, would affect the Company's effective tax rate.

The aggregate changes in the balance of gross unrecognized tax benefits, which excludes interest and penalties, for 2012, 2011, and 2010, is as follows (in millions):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Beginning Balance	\$1,375	\$ 943	\$ 971
Increases related to tax positions taken during a prior year	340	49	61
Decreases related to tax positions taken during a prior year	(107)	(39)	(224)
Increases related to tax positions taken during the current year	467	425	240
Decreases related to settlements with taxing authorities	(3)	0	(102)
Decreases related to expiration of statute of limitations	(10)	(3)	(3)
Ending Balance	<u>\$2,062</u>	<u>\$1,375</u>	<u>\$ 943</u>

The Company includes interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of September 29, 2012 and September 24, 2011, the total amount of gross interest and penalties accrued was \$401 million and \$261 million, respectively, which is classified as non-current liabilities in the Consolidated Balance Sheets. In connection with tax matters, the Company recognized interest expense in 2012 and 2011 of \$140 million and \$14 million, respectively, and in 2010 the Company recognized an interest benefit of \$43 million.

The Company is subject to taxation and files income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. For U.S. federal income tax purposes, all years prior to 2004 are closed. The Internal Revenue Service (the "IRS") has completed its field audit of the Company's federal income tax returns for the years 2004 through 2006 and proposed certain adjustments. The Company has contested certain of these adjustments through the IRS Appeals Office. The IRS is currently examining the years 2007 through 2009. In addition, the Company is also subject to audits by state, local and foreign tax authorities. In major states and major foreign jurisdictions, the years subsequent to 1989 and 2002, respectively, generally remain open and could be subject to examination by the taxing authorities.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs. Although timing of the resolution and/or closure of audits is not certain, the Company believes it is reasonably possible that tax audit resolutions could reduce its unrecognized tax benefits by between \$120 million and \$170 million in the next 12 months.

Table 3**Apple FY2012 Segment Footnote (abridged)**

The following table shows information by operating segment for 2012, 2011, and 2010 (in millions):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Americas:			
Net sales	\$57,512	\$38,315	\$24,498
Operating income	\$23,733	\$13,538	\$ 7,590
Europe:			
Net sales	\$36,323	\$27,778	\$18,692
Operating income	\$15,015	\$11,528	\$ 7,524
Japan:			
Net sales	\$10,571	\$ 5,437	\$ 3,981
Operating income	\$ 5,915	\$ 2,481	\$ 1,846
Asia-Pacific:			
Net sales	\$33,274	\$22,592	\$ 8,256
Operating income	\$14,234	\$ 9,587	\$ 3,647
Retail:			
Net sales	\$18,828	\$14,127	\$ 9,798
Operating income	\$ 4,719	\$ 3,242	\$ 2,289

A reconciliation of the Company's segment operating income to the consolidated financial statements for 2012, 2011, and 2010, is as follows (in millions):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Segment operating income	\$63,616	\$40,376	\$22,896
Other corporate expenses, net (a)	(6,635)	(5,418)	(3,632)
Share-based compensation expense	(1,740)	(1,168)	(879)
Total operating income	<u>\$55,241</u>	<u>\$33,790</u>	<u>\$18,385</u>

(a) Other corporate expenses include research and development, corporate marketing expenses, manufacturing costs and variances not included in standard costs, and other separately managed general and administrative expenses.

The following table shows total assets by segment and a reconciliation to the consolidated financial statements as of September 29, 2012 and September 24, 2011 (in millions):

	<u>2012</u>	<u>2011</u>
Segment assets:		
Americas	\$ 5,525	\$ 2,782
Europe	3,095	1,520
Japan	1,698	637
Asia-Pacific	2,234	1,710
Retail	2,725	2,151
Total segment assets	15,277	8,800
Corporate assets	160,787	107,571
Total assets	<u>\$176,064</u>	<u>\$116,371</u>

The U.S. and China were the only countries that accounted for more than 10% of the Company's net sales in 2012 and 2011. No single country other than the U.S. accounted for more than 10% of net sales in 2010. There was no single customer that accounted for more than 10% of net sales in 2012, 2011 or 2010. Net sales for 2012,

APPENDIX B

Table 1

Corporate Tax Rates by Country

Source: KPMG International Cooperative (KPMG International) 2014

This table provides a view of global corporate tax rates between 2006 and 2014

Location	2006	2007	2008	2009	2010	2011	2012	2013	2014
Argentina	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Australia	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Bahamas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Brazil	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	25.0
Canada	36.1	36.1	33.5	33.0	31.0	28.0	26.0	26.0	26.5
Cayman Islands	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
China	33.0	33.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
France	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3
Germany	38.3	38.3	29.5	29.4	29.4	29.4	29.5	29.6	29.6
Hong Kong	17.5	17.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5
Ireland	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
Israel	31.0	29.0	27.0	26.0	25.0	24.0	25.0	25.0	26.5
Japan	40.7	40.7	40.7	40.7	40.7	40.7	38.0	38.0	35.7
Netherlands	29.6	25.5	25.5	25.5	25.5	25.0	25.0	25.0	25.0
New Zealand	33.0	33.0	30.0	30.0	30.0	28.0	28.0	28.0	28.0
Panama	30.0	30.0	30.0	30.0	27.5	25.0	25.0	25.0	25.0
Singapore	20.0	20.0	18.0	18.0	17.0	17.0	17.0	17.0	17.0
Spain	35.0	32.5	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Switzerland	21.3	20.6	19.2	19.0	18.3	18.1	18.0	18.0	17.9
UAE	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0
UK	30.0	30.0	30.0	28.0	28.0	26.0	24.0	23.0	21.0
USA	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Africa average	30.8	30.6	28.7	28.8	28.4	28.6	29.0	28.3	27.9
Asia average	29.0	28.5	28.0	25.7	24.0	23.1	22.9	22.1	21.9
Europe average	23.7	23.0	22.0	21.6	21.5	20.8	20.4	20.6	19.7
N. America avg	38.1	38.1	36.8	36.5	35.5	34.0	33.0	33.0	33.3
Latin America avg	29.1	28.3	28.0	28.0	27.5	28.8	28.3	28.0	27.2
EU average	24.8	24.0	23.2	23.1	22.9	22.7	22.5	22.8	21.3
OECD average	27.7	27.0	26.0	25.6	25.7	25.4	25.2	25.3	24.1
Global average	27.5	27.0	26.1	25.4	24.7	24.5	24.4	23.7	23.6

Table 2

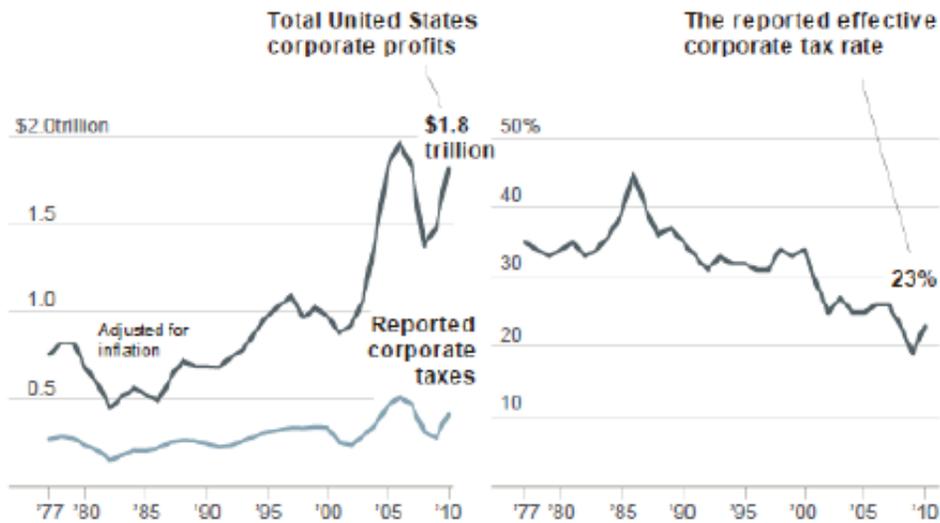
U.S. Effective Corporate Tax Rates Timeline

Source: Duhigg et al. New York Times April 28, 2012.

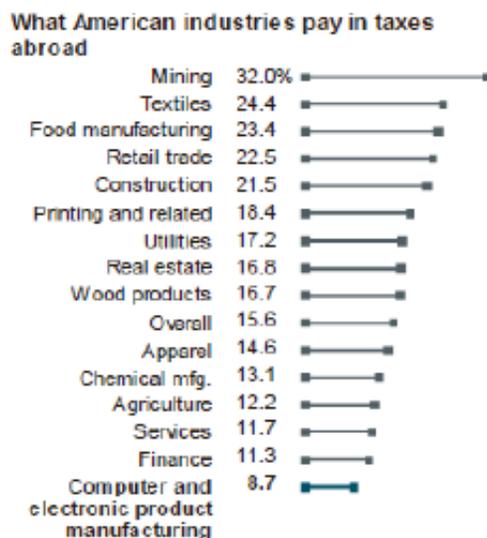
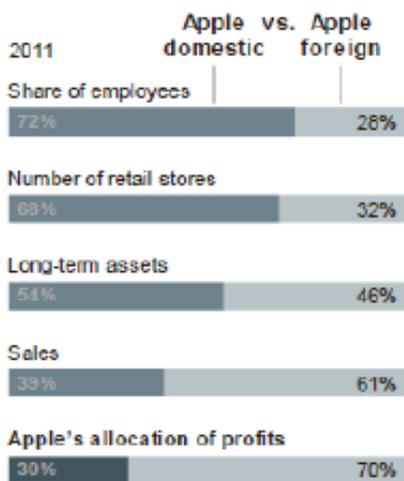
Shrinking Corporate Tax Rates

Corporate profits are far bigger now than they were in 1977, the year Apple was incorporated ...

... and corporate tax rates have fallen.



Some tax experts say that Apple moves more profits offshore than appears justified by its operations, which are largely in the United States. And overseas, technology companies pay particularly low taxes.



CASE LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

Case Overview

The purpose of this case is to reinforce and extend textbook style learning in intermediate accounting or financial statement analysis courses by exploring a standard income tax footnote, and then extending the footnote information and analysis to explore how one large corporation, Apple Inc. (Apple), has structured its business to manage taxes. This case has not been written for tax courses (nor tested with tax students). That stated, one co-author teaches masters in taxation students and they requested this case because they had no exposure to tax footnote disclosures, although they were knowledgeable of the tax regulations and tax strategies used by Apple. If you are interested in cases for tax courses or capstone accounting courses, there are two concurrent cases available in pre-publication format from Issues in Accounting Education. The subsection entitled Related Cases at the end of this Case Overview compares and contrasts these other cases to this case.

A unique feature of this case is that almost never do outsiders have knowledge of a corporation's tax return information, or cohesive, complete details on how a corporation has been structured to manage taxes. Apple, however, testified to a U.S. Senate Subcommittee in May 2013, and revealed publicly tax and operational information rarely, if ever, otherwise obtainable.

One key benefit for instructors to consider highlighting during case discussions is the perspective that Apple's tax strategies may ultimately lead it to pay more, not less, U.S. taxes. The key idea is that Apple is shifting tax revenue away from non-U.S. countries first to Ireland, and, perhaps ultimately, to the U.S. In other words, it is debatable whether Apple is simply avoiding U.S. taxes, as is widely if not universally assumed. This perspective is illustrated in Two Important Topics to Consider towards the end of this Case Overview section. While instructors may or may not agree with this perspective discussing it with students can help them build their critical analysis skills and teach them not to readily accept what is often presented in news articles as irrefutable common wisdom.

There are other case benefits to consider. Students studying intermediate financial accounting volunteered that it was a refreshing change of pace from the more traditional textbook style problems. Several students were motivated to commit to a career in accounting after exploring, for the first time, how accounting helps inform an important social and economic issue such as taxes. And it helps relate textbook style presentation of the accounting for income taxes to actual tax footnote disclosures. Third, the topic of this case is currently in the news and likely will be for several more years. For example, the OECD is devoting substantial resources towards advocating a fair worldwide corporate tax system. And several of the Big 4 accounting firms are devoting resources to advising clients on upcoming legal changes surrounding worldwide corporate taxation. The U.S. Senate efforts to understand and contemplate changes to U.S. corporation worldwide tax regulations appear set to continue for several years. Discussions within Europe regarding tax havens also continue. It appears likely that this case will remain relevant for at least the next several years. As another benefit, a substantial minority of students in both our classes found the testimony interesting and read more of it than necessary to address case questions. It is written in an accessible style for intermediate accounting students.

Two Important Topics to Consider

There are two important items to consider when adopting this case. First, in addition to the case questions, you may want to allocate class time to ethical issues relevant to U.S. corporate tax behavior, or perhaps facilitate an online discussion outside of class. This case can also be used to launch a discussion relating tax policy to corporate citizenship, emphasizing that tax policy does not operate in a vacuum and emphasizing that market perceptions matter. Apple's tax footnote is used to help inform ethical opinions, representing an interesting use of footnote disclosures beyond the traditional financial statement analysis perspective. If you wish to hold such a conversation, the Bergin (2012) and Skapinker (2014) articles are pertinent.

Perhaps equally important, there are two interrelated, subtle questions that you may want to discuss with students in conjunction with question 6. These questions are important because they raise a possible perspective that sharply contrasts with the widely held perspective that corporations such as Apple are avoiding U.S. taxes.

Referring to question 6, almost all students will determine that Apple pays approximately 2 percent on its non-U.S. foreign income. From Table 2 (Appendix B) of the case no country has a tax rate that low. Therefore a reasonable conclusion is that about 100 percent of Apple's non-U.S. foreign income is earned in Ireland. It appears they use the manufacturing exception to do so (See answer to question 1), most likely by adding software to its products through its Irish subsidiaries. This then implies that when Apple sells products from its Irish subsidiary to an Apple subsidiary in another non-U.S. country, say, Singapore, the purchase price is high. When Apple Singapore sells the products to a retail customer, profit in Singapore is low (Sales price less cost of goods sold is small) and Apple then pays little tax in Singapore at Singapore's higher corporate tax rate. Therefore, almost all profits arise in Ireland and are therefore taxed at the low rate of 2 percent. Importantly, and subtly, this means that if the Irish subsidiary ceased to exist, Apple would just transfer those profits from Ireland to Singapore, which has a much lower tax rate than the U.S. The U.S. would not receive any more tax revenues without the Irish subsidiary than it would with its existence. Therefore, it is not the U.S. that is hurt by Apple's aggressive tax strategy; its effect is to reduce the amount of taxes paid in jurisdictions other than the U.S.

Even more subtly, if Apple were to repatriate its non-U.S. foreign earnings to the U.S., it would essentially pay the difference between 35 percent (the U.S. rate) and the tax paid in the foreign country where profits were earned and previously taxed (Ireland at 2 percent). This implies that the U.S. could benefit from a tax rate of approximately 33 percent, the difference, which would be higher than otherwise. If executed, this transaction would effectively transfer tax revenue away from Singapore to the U.S.

Related Cases Written for Tax Courses

There are two other cases that are available in pre-publication, online only format from Issues in Accounting Education (IAE).³ They are not written for Intermediate Accounting courses. They do use the same U.S. Senate Subcommittee testimony on U.S. taxation of U.S.

³ "Should U.S. and Global Regulators take a Bigger Tax Bite Out of Technology Companies? A Case on Apple's International Tax Minimization and Reporting Strategies" by Holtzblatt, Geekie and Tschakert. Also, "Microsoft's Foreign Earnings: Tax Strategy by Kyj and Romeo. Both are available as of November 8, 2015 at the IAE website.

corporations. One case also focuses on Apple's testimony while the other is based on Microsoft's testimony at the same Subcommittee hearings. Other than the setting, we do not perceive much, if any, overlap between these cases and ours. To help instructors, here are several primary differences:

- Our case is written for intermediate accounting students. Both IAE cases are written for tax courses or capstone accounting courses. There is minimal, if any, overlap in case questions and several of the IAE case questions are not accessible or relevant to intermediate accounting students.
- The topics are different. Our case focuses students' attention on interpreting tax footnote disclosures based on underlying tax journal entries and based on the organizational structure Apple uses to generate its tax footnote numbers. Both the IAE Apple and Microsoft tax cases focus almost entirely on transfer pricing for intangible intellectual property and tax structures such as the "double Irish with a Dutch sandwich" tax structure (which we never mention in our case). The IAE Apple case does contain a learning objective aimed at understanding tax footnote disclosures but clearly does not develop questions and material to achieve the objective at an intermediate accounting course level.
- Our case develops students' research and analysis abilities by directing them to read, first hand, Apple's Senate Subcommittee testimony and relate it to Apple's tax footnote disclosures. The IAE cases paraphrase, quote and refer to the original documents. We provide structure so students do not invest excessive time (important for intermediate accounting courses) reading the testimony. The testimony as written is accessible to all students.
- Both IAE cases appear to have written with the viewpoint that Apple and Microsoft are, unethically, avoiding their U.S. tax obligations. We strive to be unbiased, instead asking students to form their own opinion (and substantiate it during class discussion). In all of our class discussions there has been a wide distribution in students' opinions, creating interesting discussions and learning opportunities.

As an example, we ask students to calculate Apple's U.S. operations (only) effective tax rate. They are surprised that it is over 70 percent. We then ask why (Apple apparently incurs significant U.S. Sub F tax on passive income held in Ireland because Apple Ireland controls a substantial cash balance (over US\$100 billion) that earns passive income taxed by the U.S.). We also stress that Apple foregoes a U.S. tax deduction when it requires its controlled foreign corporations (subsidiaries) to help pay for research and development. The IAE cases never mention these perspectives.

- An overarching assumption throughout both the IAE cases is that Apple and Microsoft are avoiding U.S. taxes. We take a much different perspective, helping students realize that Apple may be more interested in shifting profits from non-U.S. countries to Ireland (where it is taxed at less than 2 percent). The U.S. may end up with more tax if Apple were to repatriate foreign earnings to the U.S. or continue paying Sub F tax on passive earnings that incurred little tax. For example, if Apple shifts \$100 of profit from Japan to Ireland it will pay \$0 tax in Japan and \$2.00 in Ireland. If it then repatriated the remaining \$98.00 to the U.S., the U.S. would tax it at 35 percent statutory rate less the 2 percent Ireland rate. Alternatively, Apple could leave the \$98 in Ireland where it earns passive income that is taxed by the U.S. Either way, essentially tax has been shifted from

Japan to the U.S., not vice-versa, under this scenario. This insight is not mentioned in either IAE case.

Appropriate Background Knowledge

This case assumes that participating students are studying an accounting for income tax chapter as presented in all the popular intermediate accounting textbooks or similarly, the level presented in Revsine et. al. (2012) or Penman (2013).

Case Learning Outcomes

The purpose of this case is for students to explore Apple's income tax related financial statement and footnote disclosures and compare them to the inner workings of Apple, as disclosed in its testimony to the U.S. Senate Subcommittee so that students can:

1. Explain at a professional manager level, a popular international tax planning strategy used by U.S. corporations.
2. Read and analyze tax footnotes.
3. Develop their own informed opinion regarding whether a U.S. corporation, Apple Inc. in this case, is aggressively avoiding taxes or not.
4. Understand and explain the reporting of income taxes in an annual report.

Case Materials

This case is self-contained except for the following two items, which students should download (for free)

1. (Hereinafter this document is referred to as "Memorandum" or "Levin and McCain 2013"): Subcommittee Memorandum on Offshore Profit Shifting and the U.S. tax Code – Part 2 (Apple Inc.). It is Exhibit 1a at http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code_-part-2
2. (Hereinafter this document is referred to as "Testimony", "Apple Testimony" or "Apple 2013"): Testimony of Apple Inc. Before the Permanent Subcommittee on Investigations US Senate. It is available under Witness Panel 2 Timothy D. Cook, Chief Executive Officer, Apple Inc. It is available at http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code_-part-2

Additional instructor materials

As an instructor you may also wish to peruse and perhaps download (for free) additional support material (as well as guide interested students to this material):

3. Offshore Profit Shifting and the U.S. Tax Code - Part 2 (Apple Inc.). Available at: http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code_-part-2
4. Offshore Profit Shifting and the U.S. Tax Code - Part 1 (Microsoft & Hewlett-Packard). Available at:

<http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code>

5. Caterpillar's Offshore Tax Strategy. Available at: <http://www.hsgac.senate.gov/subcommittees/investigations/hearings/caterpillars-offshore-tax-strategy>

Implementation Guidance

This case assumes students have an intermediate financial accounting course level knowledge of the accounting for income taxes. Ideally this case would be assigned just following an intermediate financial accounting textbook style class or classes on accounting for income taxes. It can work well with a more technical financial statement analysis class, for example, a class using Revsine et. al. (2012) or Penman (2013).

This topic can be complicated: complicated to the point where accounting firm PricewaterhouseCoopers stated that the “current income tax accounting standard...difficult to apply and often yields information that is challenging to understand (PricewaterhouseCoopers 2014). To simplify the topic, the case is structured with hints provided to save students' time. It is probably better to let students work in groups outside of class, but submit their work individually (as the authors have done).

Assign Subset of Case Questions

IMPORTANT: You may consider assigning several of the questions for students to prepare for class discussion, others for students to write for graded solutions and, as well, you may plan to address other questions yourself in class to manage the case discussion within class time constraints. One of the co-authors has continued the case with an online discussion thread and the students most interested in accounting have found that fruitful. The online discussion was not graded nor formal (more “casual hallway conversation”).

Class Discussions

If discussion is primarily student driven, then questions 1 and 2 require 20 minutes for full emphasis. They can be covered in 10 minutes if student input is limited. It is necessary to discuss these questions to tie footnote disclosure questions 5 through 7 to Apple's tax strategy and organizational structure. Regardless of time, with question 1 and 2 you should highlight the different tax rates shown in Table 2 (Appendix B) along with the competitive pressures multinationals face to increase profits.

After setting perspectives, you can easily pick and choose from the more technical detailed questions 3 through 9 based on class time, prior tax accounting discussions and student interest. As noted, there are two subtle observations you may want to highlight in class in connection with question 6. Refer to the subsection Two Important Topics to Consider in the Case Overview section.

Ten minutes should be reserved at the end of class for question 10 (Likert opinion question). A show of hands quickly summarizes student opinions, which likely will be varied. A few minutes asking students at the extreme Likert categories to support their opinions can be revealing to the class since there are likely a wide diversity of opinions with regards to

aggressive, yet legal, tax management by multinationals such as Apple. In the unlikely event all students hold the same perspective, simply expand the question to the general population where it is well documented that opinions vary across the Likert scale categories.

To wrap up the case, I emphasize that accounting is designed to reflect economic reality. But accounting is based on GAAP, it is expensive, and therefore does an imperfect job. As a result, the financial statement disclosures in Apple's tax footnote probably do not convey a full story and may not help (or at least not fully help) analysts decide how to include income taxes into forecasts of future financial performance (reminding students that in this case Apple has disclosed information under oath not normally known by outsiders). Each student should be invited to give this idea some thought. I finish class by encouraging students to explore real world settings using their newly acquired textbook knowledge. PricewaterhouseCooper (2014) offers a good start.

As mentioned in the overview, the case can be used as a prelude to discuss government tax policy, corporate ethics and corporate citizenship, although class time constraints probably don't allow more than a short discussion of these topics. These topics can be carried to an online forum.

Grading the Case and Exams

A teaching assistant can easily assign grades to case questions. A number of the questions have numerical answers that are quick to grade. The grading key used by a teaching assistant for one of the authors follows for the author's intermediate accounting II course. The case was assigned 20 points or 4 percent of the total points available for the course. The specific questions were graded as:

Question	Assigned Points	Grading Key Comments
QA1	1 point (5%)	<ul style="list-style-type: none"> • Must mention U.S. taxes worldwide income • Must mention features beyond "35%" such as tax paid when repatriated, Sub F tax provisions or similar
QA2	1 point (5%)	<ul style="list-style-type: none"> • Must mention that non-U.S. profits flow through Irish subsidiaries • Must mention that the negotiated Irish rate is approximately 2 percent • Must mention at least one additional feature: The structure of Apple's Irish subsidiaries; when the arrangement was established; the split of Apple's research and development expenditures between the U.S. and Ireland; etc.
QA3	3 points (15%)	<ul style="list-style-type: none"> • Graded as 1 point per table description to a max of 3 • Points not awarded if description is vague or if description is unnecessarily detailed
QA4	3 points (15%)	<ul style="list-style-type: none"> • Graded as 1 point per journal entry line. OK to provide a tax journal entry with more detail than 3 lines
QA5	3 points (15%)	<ul style="list-style-type: none"> • Graded as either 3 points or 0 points • Must calculate approximately 2 percent. • To save grading time the details behind students' calculations were not graded

QA6	3 points (15%)	<ul style="list-style-type: none"> • 1 point awarded for answering that approximately 100 percent of Apple's foreign profits recorded in Ireland • 2 points awarded for noting that Apple Ireland purchases manufactured goods from suppliers, marks up the price (thus recording profit in Ireland) then sells them to Apple's non-U.S. country subsidiaries
QA7	3 points (15%)	<ul style="list-style-type: none"> • 1 point awarded for a calculated U.S. effective tax rate of 60 percent or higher (it is over 60 percent for all three years if U.S. state taxes are excluded from the calculation and over 70 percent for all three years if included) • 2 points awarded for mentioning "Sub F" taxation provisions
QA8	1 point (5%)	<ul style="list-style-type: none"> • Must mention that non-U.S. subsidiaries appear to be performing well
QA9	1 point (5%)	<ul style="list-style-type: none"> • Must mention that issuing debt in the U.S. generates a U.S. tax deduction
QA10	1 point (5%)	<ul style="list-style-type: none"> • Must answer the Likert boxes A, B and C (3 Likert responses)
Total	20 points (100%)	

A subset of these questions can be used on an exam to ask about another company's financial statement tax disclosures.

Student Feedback

Table 1 (Appendix C) quantifies student feedback. The feedback from the undergraduate intermediate accounting students was solicited immediately after case discussion. The results were statistically lower at one author's institution with many of those students citing lost class time due to multiple weather related university closings combined with a scheduled exam in the next class. Despite these exogenous negative influences, student ratings were positive. Ratings were noticeably more positive for masters in taxation students, as would be expected given their interest in taxes and tax accounting. They asked for the case because they had little exposure to tax footnote disclosures although they possessed extensive knowledge of various tax strategies including all those used by Apple. While the results for the masters in taxation students are included in Table 1 (Appendix C), they are better viewed as indicative only. No pre-case survey was administered to intermediate accounting students because they were just finishing an intermediate accounting chapter on income tax accounting.

Feedback has been almost universally favorable. As Table 1 (Appendix C) quantifies, on a 7 point Likert scale where 3 is “strongly agree” students agree (score of 2) or somewhat agree (score of 1) that the case improved knowledge of corporate tax strategy, annual report tax disclosures and was an effective learning assignment. Clearly, the case challenged the undergraduate students. They neither agreed nor disagreed with the statement that the case was easy to understand. The masters program students had no issues understanding the case. Also, undergraduate intermediate accounting students were only slightly positive on adding similar cases to their course, in contrast with masters in taxation students. One likely issue for the intermediate accounting students is that they already viewed the course as difficult and challenging, so adding more cases, without explicitly reducing other topics, may have been viewed as too onerous. Both groups of students agreed or strongly agreed with the statement that the case context was interesting and realistic.

Informal feedback from intermediate accounting students indicated that the primary concern was student time needed to develop case question answers. It appeared that students holding this view tended to work alone.

There were other benefits to this case. Several intermediate accounting students decided to apply (and then did apply) to a masters in taxation program after exposure to this case. Another was on an internship and, according to his account, “shocked an audit manager by volunteering to develop and begin auditing the tax footnote.” This student reported that he was successful in his attempt. Another student sent an unsolicited email stating that during orientation for her internship at a top tier investment bank they discussed Apple and its perceived aggressive tax strategies. She was pleased that she had studied this Apple case and felt she was well prepared for this challenging part of her orientation.

Table 2 (Appendix C) summarizes student feedback from question 10, the Likert 5-point opinion question. Table 2 (Appendix C) statistics may be helpful to instructors as a question 10 comparison benchmark. As expected, there is substantial variation in student perceptions which offers an opportunity for class discussion. For example, question 10.a first asks whether Apple’s effective tax rates are egregious or conservative. Referring to Table 2, 53.5 percent of students thought Apple’s effective tax rates were egregious or overly egregious while 22.5 percent thought they were conservative or overly conservative. These responses in Table 2 (Appendix C) indicate a wide distribution of opinion useful for class discussion.

TEACHING NOTES

Teaching Notes are available only to non-student-member subscribers. Please do not distribute the Teaching Notes to students.

Case presentation materials

It is highly recommended that you support case discussion using a whiteboard and not PowerPoints in order to facilitate active discussion. Students likely view white boards as less structured and may be more inclined to participate in class case discussion.

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TEACHING NOTES

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