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# Tax Increases? Why Facebook's Billion Dollar Income Isn't Taxed (At All) By IRS

Mark Zuckerberg commands attention even if Facebook's much hyped IPO was lackluster. As a visionary billionaire, when Mr. Zuckerberg speaks, people listen. Having \$1.1 billion in profits must feel pretty good. Paying no taxes to the IRS and even to revenue starved California? Priceless. See [Facebook Paid No Income Taxes In 2012](#).



Image via CrunchBase

Facebook's first Form 10-K filed with the SEC since its face-plant public offering shows \$1.1 billion in profits and a complete pass on federal and state income taxes. In fact, Facebook says it is getting back tax refunds of \$429 million. See [Facebook Gets a Multibillion-Dollar Tax Break](#). Is this legal, you might ask?

Yes, under current law it is, as Facebook is want to point out. Facebook can legitimately deduct stock options given to execs. That tax break reduced Facebook's federal and state income taxes by \$1,033 million in 2012, including refunds of earlier years' taxes of \$451 million. See [Here's Why Facebook Is Getting A Refund On Its Income-Tax Bills](#). Gone are the questions for shareholders about which gains could be taxed as capital gain

rather than ordinary income. See [Top Tax Tips From Zuckerberg's Facebook Bonanza](#).

Mr. Zuckerberg can't score points by advising to buy low and sell high or to make an 83(b) election. But Mr. Zuckerberg quietly caused Facebook to pay off \$1.9 billion in federal taxes related to restricted stock units. See [Why Facebook Is Paying the Tax Tab on Employee Compensation](#). Facebook [announced](#) it [planned to use cash](#) to pay off the tax debt. The taxes arise out of restricted stock units issued to Facebook employees.

Facebook "net settled" the units by withholding taxes. Since the units themselves don't involve cash, Facebook had to come up with almost \$2 billion. But one key is the tax deduction Facebook receives when employees must include the value of their stock compensation in their income. For Facebook, it is treated as paid in cash so yields whopping tax deductions. Those deductions became controversial.

"Due to the stock option loophole, Facebook may not pay any corporate income taxes on its profits for a generation," said Senator Carl Levin, the Michigan Democrat who proposed changing it. And that is exactly what happened. See [Facebook's Multi-Billion Dollar Tax Break: Executive-Pay Tax Break Slashes Income Taxes on Facebook— and Other Fortune 500 Companies](#).

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