AMERICANS FOR TaxFairness

Corporate Tax Inversions

Overview

In recent months, several major U.S. corporations – among them Burger King, Medtronic and AbbVie – have announced possible plans to renounce their U.S. corporate "citizenship" and move their corporate address offshore by merging with a foreign company. The merged corporation then pays most of its taxes to a foreign government – usually a tax haven – with a low tax rate. This allows it to dodge paying its fair share of U.S. taxes. The process, known as an "inversion," takes place primarily on paper as most corporate operations remain here.

When Walgreens announced possible plans to invert earlier this year, it raised issues about what it means to be an American company. Although the company later decided not to invert, in part because of fears of a potential "consumer backlash," the inversion story isn't over. In fact, with about a dozen major corporations planning inversions, the issue is just heating up. Burger King, with more than 7,000 stores across the United States, will continue to make the corporate inversion story front page news.

Why is the issue important?

If corporations use inversions to dodge their tax obligations, American taxpayers have to pick up the tab even though the firms will continue to enjoy the enormous benefits of being headquartered here. Inversions are likely to become a central issue in the debate over corporate tax reform. Conservatives claim that corporations are forced to leave America because the corporate income tax rate is too high. Progressives argue that corporations are already avoiding paying their fair share of taxes due to many loopholes, including inversions.

How does an inversion work?

A corporate inversion occurs when a U.S. company merges with a foreign one, dissolves its U.S. corporate status and reincorporates in the foreign country. The U.S. company becomes a subsidiary of the foreign one, but the foreign firm is controlled by the original U.S. firm.

A U.S. corporation can invert if after a merger the owners of the U.S. corporation retain less than 80% of outstanding stock of the new merged company, or if after the merger the new company has "substantial business activities" in the foreign country equaling at least 25% of operations. So, with just a 20% change in ownership, a company can become "foreign" even if it largely operates in and is controlled from America.

What is the tax advantage of an inversion?

Corporations undergo inversions to take advantage of much lower tax rates, usually in tax-haven countries. Once inverted, a company no longer pays U.S. taxes on its global income. Instead, it is only responsible for paying taxes on income generated in the U.S. For example, Walgreens, which had $72 billion in U.S. sales last year,

Key Facts

Inversions largely occur on paper. Corporations typically do not move their executives or operations overseas.

Corporations that invert continue to enjoy the benefits of operating here – they just dodge a lot of taxes.

A dozen U.S. firms are currently considering doing a corporate inversion.

Walgreens could dodge up to $4 billion in U.S. taxes over five years if it inverts. One-quarter of its sales are from Medicare and Medicaid.

Medtronic plans to move its corporate address to Ireland, a tax haven, to avoid paying U.S. taxes on $20.5 billion in offshore profits.

U.S. corporations already dodge $90 billion a year in income taxes by shifting profits to subsidiaries—often no more than post office boxes—in tax havens.

U.S. corporations hold $2.1 trillion in profits offshore – much of it in tax havens – that have not yet been taxed here. An inversion can let firms dodge paying taxes on those profits.

News Coverage

Burger King on Hortons Deal: It's Not About the Taxes. Experts: That's a Whopper, Bloomberg News

Burger King Says it's 'Not Moving' and 'Will Continue to Pay All' of its Taxes – Half True – PolitiFact

Burger King in Talks to Buy Tim Hortons and Move to Canada, The New York Times

Obama Seeks to Close Loophole That Firms Use to Shield Profits Abroad, The New York Times

Tax Inversion -- How U.S. Companies Buy Tax Breaks, Bloomberg News

At Walgreen, Renouncing Corporate Citizenship, The New York Times would likely avoid $4 billion in U.S income taxes over five years if it had gone through with plans to merge with a Swiss company. If Pfizer successfully inverts, it will dodge $1 billion a year in taxes here.

Also, U.S. companies with billions of untaxed profits offshore can escape paying taxes on those profits in America if a company inverts. Medtronic reportedly could use $20.5 billion in its untaxed profits now offshore to invest back here and avoid paying taxes on those funds.

Why inversions are unfair

Companies that invert will continue to take advantage of the things that make the U.S. the best place in the world to do business – our educated workforce, legal and transportation systems, and federally-funded research. And they will continue to be able to get government contracts and to sell products to millions of American consumers.

But they will pay far less than their fair share for these services, passing on the cost to American taxpayers and to other companies.

What is President Obama's position?

Obama's budget proposed to make inversions very difficult for companies that have the majority of their operations and ownership in the U.S. He would prevent them from reincorporating abroad if they are owned by at least 50% of the former U.S. parent's stockholders (the current threshold is 80%). He would also require that the new foreign corporation be primarily managed and controlled from abroad.

What is happening in Congress?

Key lawmakers have introduced bills based on Obama's plan. Sen. Carl Levin (D-MI), chairman of a subcommittee that has investigated tax avoidance by Apple and other corporations, has introduced the Stop Corporate Inversions Act of 2014 (S. 2360). Rep. Sander Levin (D-MI) has introduced a companion bill in the House of Representatives (H.R. 4679) that would raise $19.5 billion over 10 years.

Talking points

- Corporations that renounce their U.S. "citizenship" and shift their address offshore are deserters. They are unpatriotic. They want all the benefits of being an American company without paying their fair share of taxes. That makes the rest of us pick up the tab.
- Congress must close tax loopholes that make it easy for corporations to shift profits and jobs offshore. Congress needs to level the playing field so that big corporations have to play by the same rules as Main Street businesses that are doing their part.
- Big corporations say that the 35% U.S. corporate income tax rate is too high. But many companies pay much less because of loopholes in our tax code – many pay at a rate of less than 20%.
- 26 corporations paid no U.S. income taxes from 2008 to 2012, including General Electric, Boeing and Verizon. 111 companies paid no income taxes in at least one of those five years.

The Levin Brothers Want to End Tax Inversion, but the GOP Refuses, The New Republic

Move to Switzerland to dodge IRS may give Walgreen blues, The New York Post

Opinion

Positively un-American Tax Dodges, Fortune

Corporate Artful Dodgers, The New York Times

An Open Letter to Medtronic on What it Means to Be an American company, The Washington Post

Companies Take U.S. Benefits, but Flee US Taxes, The Raleigh News and Observer

Resources

Editorial Board Memo, Americans for Tax Fairness

Offshoring America's Drugstore – Americans for Tax Fairness and Change to Win Retail Initiatives

Much of What You've Heard about Corporate "Inversions" Is Wrong, Citizens for Tax Justice

Corporate Expatriation, Inversions, and Mergers: Tax Issues, Congressional Research Service

47 Corporate Inversions in Last Decade, Congressional Research Service

Why Does Pfizer Want to Renounce Its Citizenship? Citizens for Tax Justice

Contact

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Americans for Tax Fairness *is a diverse coalition of 425 national and state organizations that collectively represent tens of millions of members. ATF was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs.*