CORPORATIONS SHOULD PAY WHAT THEY OWE – UP TO $600 BILLION – ON $2.1 TRILLION IN OFFSHORE PROFITS

For a Chartbook of the facts below go here.

1. **U.S. corporations have $2.1 trillion in untaxed profits offshore.** They have not paid any U.S. taxes on these profits because our tax system lets them defer paying taxes until that income is brought home, or repatriated. The amount of untaxed offshore profits has increased nearly five-fold over 10 years – from $434 billion in 2005 to $2.1 trillion today – in anticipation of a tax holiday.[1]

2. **Just 50 companies hold 75% of the $2.1 trillion in untaxed offshore profits.** Just 10 companies hold 36% of those profits.[2]

3. **Just two industries – high-tech and pharmaceutical/healthcare – hold one-half of the $2.1 trillion in untaxed offshore profits.**[3] Companies that earn their profits from intellectual property, such as patents, are best able to shift their profits to tax havens.

4. **55% of the $2.1 trillion in U.S. corporate offshore profits are in tax-haven countries.** Corporations shift profits to these low-tax jurisdictions to dodge paying their fair share of taxes. Firms are paying just a 3% to 6.5% tax rate on the profits in tax-havens.[4]

5. **U.S. corporations pay very low tax rates on *all* offshore profits.** The statutory tax rate is 35%. However, multinational corporations are paying a 6% to 10% average effective tax rate on the $2.1 trillion in profits that are offshore (not just including in tax havens).[5] This gives them an unfair advantage over domestic firms and requires the rest of us to pick up the tab.

6. **U.S. corporations owe up to $600 billion in U.S. taxes on these offshore profits.** Since they are paying between 6% and 10% in taxes to foreign governments on their offshore profits that means they owe between 29% and 25% in U.S. taxes, based on a 35% tax rate. Credit Suisse and Citizens for Tax Justice estimate that corporations owe between $533 billion and $600 billion, respectively, on those offshore profits.[6]

7. **President Obama's plan would give corporations a tax cut worth up to nearly $400 billion on the $2.1 trillion in offshore profits.** Republicans propose an even bigger tax break. Obama proposes taxing these offshore profits at a 14% rate (less credits for foreign taxes paid), which would raise $217 billion.[7] That's $326 billion to $383 billion less than the up to $600 billion that they owe, according to Credit Suisse and Citizens for Tax Justice estimates. This would be a tax cut of up to 60% that would benefit the worst tax dodgers.

8. **Some large multinational corporations very adept at tax dodging would get huge tax breaks under Obama's plan.** Apple would get a tax break of $31 billion. Microsoft would save $18 billion. Citigroup would save $7 billion.[8]

9. **The average U.S. corporate tax rate is about one-half the statutory tax rate.** The U.S. corporate tax rate is 35%, but that is not what many corporations pay on all of their profits – domestic and offshore. Some studies show that the effective U.S. corporate tax rate ranges from between 13% and 19%.[9] These lower effective tax rates are due to numerous loopholes. About two-thirds of a 10-point decline in effective tax rates between 1998 and 2013 has been attributed to increased profit-shifting to low-tax jurisdictions.[10]

10. **Corporate profits are way up, and corporate taxes are way down.** Corporations complain about high tax rates stifling economic growth and profitability. But over the last six decades corporate profits as a share of the economy have risen dramatically while their taxes have plummeted. In 1952, corporate profits and taxes were both about 6% of the economy (GDP). Today, corporate profits are 9.8% and corporate taxes are just 1.9% of GDP.[11]

11. **Many U.S. corporate offshore profits are not "trapped" overseas.** Corporations say Congress should cut the tax rate on the $2.1 trillion in profits that have accumulated offshore in order to encourage companies to bring the money home. That is not necessary. Companies can invest these untaxed profits in any U.S. firm, deposit them in any U.S. bank or use them to purchase any government security, as long as it is not directly invested in the U.S. parent.[12] A congressional study found that 46% of the offshore profits of 27 companies were invested in America in 2010.[13]

12. **Corporations are paying fewer federal taxes than almost ever before.** Federal revenue contributed by corporate taxes has dropped by two-thirds over the last six decades. Corporations used to contribute $1 out of every $3 in federal revenue. Today it's $1 out of every $10, and corporations are more profitable than almost ever before.[14]

13. **Corporate profits rise while infrastructure spending declines.** When corporations do not pay their fair share of taxes public investments suffer. While there may not be a direct cause and effect, it is worth noting that corporate profits have risen by more than 60% as a share of the economy over the last six decades while federal spending on infrastructure has remained flat.[15]

14. **There is no evidence that foreign companies are buying up U.S. firms.** A major concern raised by U.S. corporations demanding lower tax rates is that they have become takeover targets by foreign companies that face a lower tax rate. Among OECD countries the ratio of U.S. acquisitions of foreign companies and foreign acquisitions of U.S. companies has remained the same for the last 12 years. The value of U.S. and foreign acquisitions have also followed historical patterns.[16]

15. **The U.S. Treasury loses about $90 billion a year due to the deferral of taxes on foreign profits.** U.S. corporations are able to accumulate offshore profits without paying taxes on them because of a loophole known as "deferral." It lets companies defer paying taxes on income earned overseas indefinitely, as long as they claim it is permanently reinvested

offshore. Repealing deferral would raise $900 billion over 10 years.[17] It would also eliminate some incentives to ship jobs offshore, end incentives to shift profits offshore and make the tax system more equitable so that multinational corporations no longer pay a tax rate that is much lower than the rate domestic firms pay.

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[1] Credit Suisse, *Parking A-Lot Overseas* (March 17, 2015), p. 4. http://bit.ly/1dzsUSj

[2] Americans for Tax Fairness, *Chartbook: Offshore Corporate Taxes, Corporate Profits & the Competitiveness of the U.S. Tax System* (September 2015), Appendix A. http://bit.ly/1LKb0dY Based on data from Citizens for Tax Justice, *Dozens of Companies Admit Using Tax Havens* (April 1, 2015). http://bit.ly/1MFgDM3 Credit Suisse estimates that 43 companies hold 70% of the offshore profits (see Exhibit 13, p. 16).

[3] Credit Suisse, Exhibit 12, p. 15.

[4] Gabriel Zucman, Journal of Economic Perspectives, *Taxing Across Borders: Tracking Personal Wealth and Corporate Profits* (Fall 2014), Figure 2, p. 128, and p. 130. http://gabriel-zucman.eu/files/Zucman2014JEP.pdf Kimberly A. Clausing, *The Nature and Practice of Capital Tax Competition (*April 5, 2015), p. 10; 6.5% is the maximum tax rate, but it is much lower than that for some countries. http://ssrn.com/abstract=2489224

[5] Citizens for Tax Justice, *Fortune 500 Corporations…* Credit Suisse, p. 4.

[6] Citizens for Tax Justice, "Fortune 500 Corporations Are Likely Avoiding $600 Billion in Corporate Tax Using Offshore Tax Havens" (September 3, 2015). http://bit.ly/1NKgyFl Credit Suisse, p. 4.

[7] Joint Committee on Taxation, "Estimated Budget Effects Of The Revenue Provisions Contained In The President's Fiscal Year 2016 Budget Proposal" *(*March 6, 2015), p. 1, II.G. https://www.jct.gov/publications.html?func=startdown&id=4739

[8] Citizens for Tax Justice, "Ten Corporations Would Save $82 Billion in Taxes Under Obama's Proposed 14% Transition Tax" (February 3, 2015). Apple profits have been updated to $157.8 billion as of April 2015, from $137.1 billion reported in February 2015, and estimated taxes owed after deducting for the 14% transition tax have increased to $31 billion from the earlier $26.9 billion. http://ctj.org/ctjreports/2015/02/ten_corporations_would_save_82_billion_in_taxes_under_obamas_proposed_14_transition_tax.php#.VgjmIvlViko

[9] Government Accountability Office, *Corporate Income Tax: Effective Tax Rates Can Differ Significantly from the Statutory Rate,* GAO publication 13-520 (May 30, 2015), p. 14. http://gao.gov/products/GAO-13-520 Citizens for Tax Justice, *The Sorry State of Corporate Taxes* (February 2014), p. i. http://bit.ly/1ehTehk Zucman, Figure 5, p. 132.

[10] Zucman, p. 133.

[11] U.S. Bureau of Economic Analysis (BEA), "Corporate Profits After Tax (without IVA and CCAdj) [CP]/ Gross Domestic Product [GDP]," retrieved from FRED, Federal Reserve Bank of St. Louis. https://research.stlouisfed.org/fred2/graph/?g=1Pik U.S. Office of Management and Budget (OMB), "Historical Budget Tables, Table 2.3: Receipts by Source as Percentages of GDP." https://www.whitehouse.gov/omb/budget/Historicals.

[12] Stephen E. Shay, Harvard Law School, *Tax Notes*, "The Truthiness of 'Lockout': A Review of What We Know" (March 16, 2015). http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2578713

[13] U.S. Senate Permanent Subcommittee on Investigations, *Majority Staff Report Addendum*, *Offshore Funds Located Onshore* (December 14, 2011), p. 5. http://1.usa.gov/1OOE3hu

[14] OMB, Historical Budget Tables, Table 2.3.

[15] BEA and Congressional Budget Office, "Public Spending on Transportation and Water Infrastructure, 1956 to 2014," (March 2, 2015), Exhibit 3. https://www.cbo.gov/publication/49910

[16] Joint Committee on Taxation, *Present Law and Selected Policy Issues in the US Taxation of Cross-Border Income* (March 17, 2015), Tables 3 and 4, pp. 74-75. http://1.usa.gov/1OOEhoA

[17] This figure is based on estimates from the Joint Committee on Taxation, Congressional Budget Office and Office of Management and Budget, as detailed in a table from Americans for Tax Fairness available at: http://www.americansfortaxfairness.org/files/ATF-Fact-Sheet-on-Deferral-Cost-Estimates-from-JCT-CBO-Treasury-FINAL.xls