

Overview

Many U.S. corporations use offshore tax havens and other accounting gimmicks to avoid paying as much as [\\$90 billion a year](#) in federal income taxes. A large loophole at the heart of U.S. tax law enables corporations to avoid paying taxes on foreign profits until they are brought home. Known as “deferral,” it provides a huge incentive to keep profits offshore as long as possible. Many corporations choose never to bring the profits home and never pay U.S. taxes on them.

Deferral gives corporations enormous incentives to use accounting tricks to make it appear that profits earned here were generated in a tax haven. Profits are funneled through subsidiaries, often shell companies with few employees and little real business activity. Effectively, firms launder U.S. profits to avoid paying U.S. taxes.

Loopholes used to shift U.S. profits to tax havens

- U.S. firms can set up a subsidiary offshore, channel billions of dollars of profit through it and make the subsidiary “disappear” for U.S. tax purposes simply by “[checking a box](#)” on an IRS form.
- Corporations can sell the right to patents and licenses at a low price to an offshore subsidiary, which then “licenses” back to the U.S. parent at a steep price the right to sell its products in America. The goal of this “transfer pricing” is to make it appear that the company [earns profits in tax havens but not in the U.S.](#)
- Wall Street banks, credit card companies and other corporations with large financial units can easily move U.S. profits offshore using a loophole known as the “[active financing exception.](#)”
- A U.S. corporation can do an “[inversion](#)” by buying a foreign firm and then claiming that the new, merged company is foreign. This lets it reincorporate in a country, often a tax haven, with a much lower tax rate. The process takes place on paper – the company doesn’t move its headquarters offshore and its ownership is mostly unchanged – but it continues to enjoy the privileges of operating here while paying low tax rates in the foreign country.

How to solve the problem

The simplest solution is to end “deferral.” Corporations would pay taxes on offshore income the year it is earned, rather than indefinitely avoid paying U.S. income taxes. This would also remove incentives to shift U.S. profits to tax havens. Ending deferral would raise more than [\\$600 billion](#) over 10 years.

Short of ending deferral, Congress should close the most egregious loopholes, such as “check the box,” “transfer pricing,” “active financing exception” and corporate “inversions.” It should also end the loophole that lets firms deduct the cost of expenses from moving jobs and operations offshore if the profits earned from those activities remain offshore and untaxed by the U.S. – saving [\\$60 billion](#) over 10 years.

Key Facts

Tax avoidance through offshore tax loopholes is a significant reason why corporations, which paid one-third of federal revenues 60 years ago, [now pay one-tenth of federal revenues.](#)

[U.S. corporations dodge \\$90 billion a year in income taxes](#) by shifting profits to subsidiaries—often no more than a post office box—in tax havens.

U.S. corporations hold [\\$2.1 trillion in profits offshore](#) – much in tax havens – that have not been taxed in the U.S.

General Electric, which uses a loophole for offshore financial profits, earned \$27.5 billion in profits from 2008 to 2012 [but claimed tax refunds of \\$3.1 billion.](#)

Apple made \$74 billion from 2009-2012 on worldwide sales (excluding the Americas) and [paid almost nothing in taxes](#) to any country.

26 profitable Fortune 500 firms [paid no federal income taxes](#) from 2008-2012. 111 large, profitable corporations paid zero federal income taxes in at least one of those five years.

News Coverage

[The Islands Treasured by Offshore Tax Avoiders](#), The New York Times

[For U.S. Companies, Money ‘Offshore’ Means Manhattan](#), The New York Times

[Switching Names to Save on Taxes](#), The New York Times

[G.E.’s Tax Strategies Let it Avoid Taxes Altogether](#), The New York Times

[Cash Abroad Rises \\$206 Billion as Apple to IBM Avoid Tax](#), Bloomberg News

[Britain Becomes Haven for U.S. Companies Keen to Cut Tax Bills](#), Reuters

[Apple’s Web of Tax Shelters Saved It Billions Panel Finds](#), The New York Times

Sen. Carl Levin (D-MI) has introduced legislation, the Stop Tax Haven Abuse Act ([S. 1533](#)), that will close some of these loopholes. It will [raise \\$220 billion over 10 years](#).

Corporations really want a “territorial” tax system

Corporations don’t just want to “defer” paying U.S. taxes on foreign profits. They want a [“territorial” tax system](#) that eliminates all U.S. taxation of offshore profits. This would provide even more incentives for corporations to shift profits to offshore tax havens. A system in which U.S. corporations pay no U.S. income taxes on offshore profits would encourage U.S. firms to create [800,000 jobs overseas](#) rather than in the U.S.

Why not let companies “bring the money home?”

Because U.S. firms are officially holding [\\$2.1 trillion in untaxed profits offshore](#), they are proposing a “repatriation tax holiday,” which would allow them to bring that money home at a special low tax rate. Supporters say this would increase domestic investment, creating jobs. A tax holiday was tried in 2004, when \$300 billion was brought home at a 5.25% tax rate, but it was a big failure. [It did not increase domestic investment or create jobs](#), and the money [was used largely for stock buybacks](#), dividends and executive bonuses. Also, a tax holiday costs more than it raises – it will [lose \\$100 billion](#) over 10 years. Worst of all, it rewards firms that use offshore tax loopholes, encouraging even more tax dodging in the future.

Talking points

- We should end tax breaks for corporations that ship jobs and profits offshore. It’s time to invest in America and create jobs here.
- When big corporations use tax havens to dodge paying their fair share of taxes, the rest of us have to pick up the tab. Families pay higher taxes, get fewer services or we all get a bigger deficit.
- Tax dodging by large corporations puts small businesses that play by the rules at a disadvantage. We need to level the playing field.
- *Corporations say our 35% corporate income tax rate is the highest in the world, which makes them uncompetitive and kills jobs.* But corporations aren’t paying too much in taxes; many pay too little. The typical American family paid more income taxes in one year than General Electric and dozens of other companies paid in five years. Many large, profitable corporations pay a tax rate of less than 20%, and some pay absolutely nothing for years. If corporations pay less, you will have to pay more. Corporations need to pay their fair share too.
- *Corporations say a repatriation tax holiday will enable them to bring profits home, invest and create jobs.* When this was tried in 2004 it was an utter failure. Companies actually cut jobs, but they lined the pockets of big shareholders and corporate executives. A tax holiday gives tax breaks to corporations that have done the most to dodge paying their fair share of taxes.

Opinion

[‘A is for Avoidance’](#), The New York Times

[Corporations and their Tax Shell Games: Time for a Global Crackdown](#), The Los Angeles Times

Resources

[Tax Havens: International Tax Avoidance and Evasion](#), Congressional Research Service

[International Corporate Tax Rate Comparisons and Policy Implications](#), Congressional Research Service

[Offshore Shell Games 2014](#), Citizens for Tax Justice and U.S. PIRG

[The Sorry State of Corporate Taxes](#), Citizens for Tax Justice

[Don’t Renew the Offshore Tax Loopholes](#), Citizens for Tax Justice

[General Electric’s Special Tax Loophole Lets Company Dodge Billions in Taxes](#), Americans for Tax Fairness

[The Fiscal and Economic Risks of Territorial Taxation](#), Center on Budget & Policy Priorities

[Repatriation Tax Holiday Would Lose Revenue and Is a Proven Policy Failure](#), Center on Budget & Policy Priorities

[Corporate Tax Rates And Economic Growth Since 1947](#), Economic Policy Institute

[Corporate Income Tax: Effective Tax Rates Can Differ Significantly from the Statutory Rate](#), U.S. Government Accountability Office

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.

