To: Editors and Columnists
From: Frank Clemente, Executive Director, Americans for Tax Fairness
Contact: Harry Gural, Communications Director, Americans for Tax Fairness
Phone: (202) 527-2280, Email: hgural@americansfortaxfairness.org
Date: Sept. 10, 2013

A downloadable version of this memo is available here.

BAUCUS ECONOMIC SUMMIT FEATURES CORPORATIONS THAT EMPLOY STRATEGIES TO DODGE PAYING THEIR FAIR SHARE OF TAXES

Participation Appears to be a Conflict of Interest as Companies Press Congress to Reduce Corporate Tax Rates and Create Bigger Loopholes

(Washington, D.C.) Sen. Max Baucus should be congratulated for convening the Montana Economic Development Summit Sept. 16-17 in Butte to help create more businesses and jobs in Montana. Unfortunately, many of the large corporations underwriting and participating in the summit have persistently avoided paying their fair share of federal income taxes, harming federal finances and short changing investments that could make our economy more productive.

The participation of these companies in the summit also appears to present a conflict of interest. These same corporations are individually and in coalition lobbying Sen. Baucus, chairman of the tax-writing Finance Committee, to lower corporate tax rates and to create a "territorial" tax system, which would tax U.S. corporate profits earned or booked offshore at a low rate, possibly the single digits. Chairman Baucus has made corporate tax reform a high-priority of his committee's agenda this year.

We urge you to write an editorial or opinion column about these issues, notwithstanding the admirable intent of the summit to bring greater prosperity to Montanans.

Following are details on tax-avoidance efforts of key summit participants:

FEDEX The package delivery giant is a summit sponsor and its founder, chairman and CEO, Fred Smith, will be a featured speaker. With $9.4 billion in profits from 2008 to 2012, FedEx paid just $395 million in federal income taxes, for an effective tax rate of 4.2 percent, according to the company's filings with the Securities and Exchange Commission, analyzed by the watchdog organization Citizens for Tax Justice. In two of those years it paid no taxes and got a tax refund.

FedEx, which spent $31 million between 2011-13 directly lobbying Congress, is also a member of two coalitions that are now pressing Sen. Baucus's Finance Committee to further lower corporate taxes – Alliance for Competitive Taxation (ACT) and Reforming America's Taxes Equitably (RATE). ACT is promoting a reduction in the U.S. corporate tax rate to 25 percent (from 35 percent) and a territorial tax system. The RATE coalition supports a corporate tax rate of 25 percent. (The problems with both of these proposals are explained below.)

HEWLETT PACKARD President and CEO Meg Whitman will be a featured speaker at the summit, which HP is also sponsoring. The technology leader, which holds more than $33 billion in profits overseas, has over the past decade funnelled billions of those dollars into the U.S., tax free, by masking this otherwise taxable "repatriation" as short-term lending, according to the Senate Permanent Subcommittee on Investigations.

FACEBOOK The social networking pioneer's Chief Operating Officer Sheryl Sandberg is a featured speaker. Despite enjoying a booming business, Facebook will avoid paying federal income taxes for years to come because of a $16 billion tax deduction it took the day it went public, according to the Senate Permanent Subcommittee on Investigations. The deduction allows corporations to take a larger income tax deduction for stock option expenses than those options are valued on their own books.

BOEING Also among featured speakers will be Boeing CEO Jim McNerney. The aerospace conglomerate received more than $800 million in federal tax refunds between 2008-2011, despite profits of almost $15 billion, according to a respected non-profit research group. Its effective tax rate over those years was –5.5 percent. In addition to spending almost $40 million between 2011-13 on its own lobbying, Boeing belongs to the RATE coalition, which aims to lower corporate tax rates even more.

GOOGLE Eric Schmidt, Executive Chairman, will be a featured speaker. The online behemoth deferred taxes on more than $24 billion in overseas profits between 2009-11, according to the Senate Permanent Subcommittee on Investigations. Google set up its offshore operations so that an offshore subsidiary that holds the company's valuable assets could receive passive income, such as royalty payments and dividends, from other subsidiaries and still defer the U.S. taxes owed on them.

WALMART The world's largest retailer is a summit sponsor and also a member of three corporate coalitions – ACT, RATE and LIFT (Let's Invest for Tomorrow America) – formed to lobby Congress, including Sen. Baucus's tax-writing committee, to lower corporate tax rates to 25 percent and/or set up a territorial tax system.

ORACLE Safra Catz, President and Chief Financial Officer at Oracle, is another summit speaker. By its own estimate, Oracle would owe $6.3 billion in taxes if those profits were repatriated to the United States. Oracle is a member of the ACT and LIFT coalitions likely because it has $20.9 billion in profits overseas mostly stored in tax havens.

BACKGROUND ON CUTTING CORPORATE TAX RATES AND A TERRITORIAL TAX SYSTEM

A 25 percent corporate income tax rate is neither advisable nor achievable. Lowering the corporate tax rate from 35 to 25 percent would cost $1.3 to $1.7 trillion over the next decade, according to the nonpartisan Congressional Research Service (p. 10). Making up for this loss would require elimination of major corporate tax loopholes like accelerated depreciation and the research and development tax credit, which also are unlikely to be achieved given the enormous power of the interest groups behind them.

Moreover, CRS finds that the benefits of corporate tax cuts are modest:

> *"Because of the factors that constrain capital flows, estimates for a rate cut from 35% to 25% suggest a modest positive effect on wages and output: an eventual one-time increase of less than two-tenths of 1% of output. Most of this output gain is not an increase in national income because returns to capital imported from abroad belong to foreigners and the returns to U.S. investment abroad that come back to the United States are already owned by U.S. firms…" (summary page)*

In a separate study, the Economic Policy Institute concludes that the *effective* tax rates on U.S. corporations is not markedly different from the *effective* tax rates on corporations in other countries:

> *"Claims that the United States' corporate tax rate is uniquely burdensome to U.S. business when compared with the corporate tax rates of its industrial peers are incorrect. While the United States has one of the highest statutory corporate income-tax rates among advanced countries, the effective corporate income-tax rate (27.7 percent) is quite close to the average of rich countries (27.2 percent, weighted by GDP).*

The EPI study also reinforces the Congressional Research Service report findings:

> *"Lowering the corporate income-tax rate would not spur economic growth. The analysis finds no evidence that high corporate tax rates have a negative impact on economic growth (i.e., it finds no evidence that changes in either the statutory corporate tax rate or the effective marginal tax rate on capital income are correlated with economic growth)."*

A "Territorial" Tax System Will Provide a Permanent Tax Amnesty for Overseas Profits and Encourage Shipment of Jobs Overseas. One of the two primary ways corporations dodge paying their fair share of federal taxes is to use loopholes that allow them to shift their income to overseas tax havens that have little or no corporate income tax. U.S. companies then "defer" paying U.S. taxes on their offshore profits until they are brought back home ("repatriated"), which may not ever occur. This provides a huge incentive for companies to shift operations and jobs overseas, or to use accounting tricks to make their profits appear to be generated overseas. It also drives down wages of U.S. workers.

Many multinational corporations are pushing Congress to *exempt* offshore corporate profits from U.S. taxes, or to tax them at a very low rate in the single digits. As explained by Citizens for Tax Justice, a public policy group, "The tax incentives for job offshoring and profit shifting would increase if Congress adopted a ‘territorial’ tax system. If deferring U.S. taxes on foreign profits has already encouraged U.S. multinational corporations to favor shifting profits and jobs offshore, then eliminating U.S. taxes on foreign profits would logically increase that incentive." As the Center on Budget and Policy Priorities has noted about a territorial tax system, "[It] would create greater tax incentives for multinational corporations to invest and move profits overseas rather than in the United States, which would risk hurting domestic businesses, boosting deficits over the long run, and weakening the economy."

These and other related issues are covered in more detail in previous editorial memos from Americans for Tax Fairness available below.

Aug. 22, 2013: The High Price Of Tax Loopholes: New Analysis Compares Cost Of Corporate Tax Loopholes With Cuts To Benefits And Services

Aug. 5, 2013: Tax Reform and Budget Battles Heating Up in Washington, D.C.; Time to Ask Members of Congress Where They Stand on Raising Revenues During August Recess

June 19, 2013: Apple Tax-Haven Abuse Shows Urgent Need For Corporate Tax Reform

Americans for Tax Fairness is a diverse coalition of more than 325 national and state organizations that collectively represent tens of millions of members. The organization was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs. ATF is playing a central role in Washington and in the states on federal tax-reform issues.