

**COMMENTS TO THE U.S. TREASURY DEPARTMENT AND THE INTERNAL REVENUE SERVICE ON THE PROPOSED “EARNINGS STRIPPING” RULE**

July 7, 2016

**Docket Name:** **Treatment of Certain Interests in Corporations as Stock or Indebtedness**

**(REG-108060-15)**

Docket Number: IRS-2016-0014-0002

Docket RIN: 1545-BN40

The Coalition on Human Needs, which represents more than 100 national organization members and maintains a nationwide network of tens of thousands of individuals and groups, strongly supports the proposed rule on the **Treatment of Certain Interests in Corporations as Stock or Indebtedness**, also known as the “earnings stripping” rule. We are very pleased that the Treasury Department took this action to protect the loss of critical tax dollars by U.S. corporations seeking to shift their legal address offshore, typically to a tax haven. This rulemaking is a fully appropriate and responsible step by the Treasury to prevent tax avoidance schemes, made necessary because the U.S. Congress has failed to act to stem the tide of inversions.

Inversions are one of the more egregious forms of tax dodging. They occur when U.S. multinational corporations purchase a foreign company in order to shift their corporate headquarters on paper to a low-tax (or no-tax) jurisdiction to avoid paying U.S. corporate income taxes. These inversions do not change anything about how the business is conducted or where it is managed – they are simply a way for a corporation to avoid paying its fair share of taxes. Clearly, corporations that desert America should not be rewarded with a tax break.

Multinational corporations that engage in inversions in order to avoid U.S. taxation make the use of earnings stripping a key strategy. By this device, a foreign parent company loads up a domestic corporation with debt (often illusory), resulting in deductible interest payments. That lowers the U.S. company’s tax liability, and generates income for the parent, usually operating in a low-tax location.

The Joint Committee on Taxation estimates that corporate inversions could result in a loss to the Treasury of [$34 billion over the next 10 years](http://democrats.waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/JCT%20memo%20on%20inversion%2012-2-14.pdf), money that is needed for priorities that can improve our local communities and invest in our people. Members of the Coalition on Human Needs are particularly concerned about the impact this uncollected revenue has on the federal government’s capacity to fund services and benefits needed by low-income people. These billions of dollars are needed for education, infrastructure, public health, and many other programs that help people advance economically; their gains strengthen the nation as a whole.

We endorse the comments supporting this rule recently submitted by Americans for Tax Fairness and have uploaded them with this submission. We are especially pleased that the proposed rule not only applies to inversions, but also to all foreign acquisitions of U.S. companies. Earnings stripping is a common way that corporations avoid paying the taxes they owe when they invert or when they merge with a foreign firm.

We also agree with Americans for Tax Fairness that Treasury needs to expand the scope of this rule beyond what is currently proposed. We hope you will do that before this rule is finalized.

Thank you for your attention to these comments.