The Case Against Corporate Inversions

Inversions are nothing more than corporations pretending to flee the United States to avoid paying taxes and contributing to the cost of public services and infrastructure they depend upon to keep their businesses strong and prospering.

Why are inversions bad for the country?

U.S. corporations are "moving" their headquarters abroad to avoid paying taxes. In an inversion, a U.S. multinational corporation merges with a smaller foreign entity characterized as based in a low-tax or no-tax country.

The resulting corporation is not *really* moving overseas – just on paper. The business activity and headquarters of the resulting entity are still in the U.S. Further, most of the production and current jobs in the U.S. will remain in the U.S. Even the headquarters will remain in the United States and the new foreign firm may even be listed on a U.S. stock exchange.

It doesn't take a lot to be considered "foreign." Under current law, when a U.S. corporation merges with a foreign one, the resulting merged company can be 80% owned by the shareholders of the American partner to the merger and still be considered a foreign corporation for tax purposes.

Inversions are eroding the U.S. tax base, forcing individual taxpayers, small businesses, and domestic corporations to make up the difference. By inverting, corporations can continue to enjoy all of the public services they depend on – good schools, efficient roads, government inspectors that assure consumers that the company's products are safe – while passing their tab off on other taxpayers.

Inversion makes it easier for a corporation to avoid *U.S.* taxes on its *U.S.* profits. In theory, once a corporation is "foreign," any profits it earns in the U.S. remain subject to U.S. taxes, but offshore profits are not. But in practice, corporate inversions are often followed by "earnings-stripping," which makes profits appear to be earned in a low-tax or no-tax country. Typically, this involves loading down the company's U.S. operations with massive amounts of debt lent by a subsidiary in a low tax country, and then deducting interest payments on its U.S. taxes, thereby reducing its U.S. tax bill.

Loopholes, not the corporate tax rate, are the problem. Corporate lobbyists and their allies point to the U.S.'s official corporate tax rate of 35 percent as justification for brazen use of inversions and other tax avoidance schemes. In fact, very few American corporations actually pay that rate as a percentage of their profits. Fortune 500 corporations that were consistently profitable from 2008 through 2012 paid, on average, just 19.4 percent of their profits in federal income taxes over that period. Twenty-six of these corporations paid nothing over the five-year period while collectively earning $169 billion in profits. At least 362 companies maintain at least 7,827 tax haven subsidiaries. So long as offshore tax loopholes remain wide open, any tax rate higher than zero, will continue to incentivize corporations to invert and take advantage of offshore tax havens.

What can we do to stop inversions?

Stop Corporate Inversions Act. This legislation would provide a stricter definition of inversion than current law. The entity resulting from the merger of an American corporation and a foreign corporation would, sensibly, be taxes as an American company if it is majority controlled by the owners of the American partner to the merger, or if it is managed from the U.S.

Other measures we can take?

Limit Earnings Stripping. This would limit the ability of inverted companies to deduct interest payments on debt from taxable income. This would prevent companies from loading up their U.S. operations with so much debt that the resulting interest payments wipe out U.S. profits, thereby reducing or even eliminating U.S. taxes.

Impose a Pay What You Owe Before You Go tax. One of the perks afforded to U.S. business is the ability to defer payment of taxes on profits held offshore. If corporations declare themselves to be no longer American, they should pay all the past taxes that they've been allowed to kick down the road. You check out of a hotel, you settle your bill. Similarly, inverted corporations should pay what they owe when they go.

No Federal Contracts for Corporate Deserters. Under the leadership of Reps. Lloyd Doggett D-TX) and Rosa DeLauro (D-CT), a bi-partisan provision was enacted (with the support of 34 Republicans), which would bar federal contracts going to any company that has reincorporated in Bermuda or the Cayman Islands. Why? Because companies that have fled the country should not be able to benefit from lucrative contracts funded by U.S. taxpayers.

Take Away Tax Extenders for Inverted Companies. Congress could simply deny any inverted company from benefiting from corporate tax breaks in tax extender legislation. Why? Because if corporations turn their backs on the U.S., they shouldn't then look to U.S. taxpayers to fill their coffers with subsidies.