



**COMMENTS TO THE U.S. TREASURY DEPARTMENT AND THE INTERNAL REVENUE SERVICE ON
THE PROPOSED “EARNINGS STRIPPING” RULE
Wednesday, June 29, 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

On behalf of the Main Street Alliance, a national network of small businesses owners, I am writing to strongly support the proposed rule on the **Treatment of Certain Interests in Corporations as Stock or Indebtedness**, also known as the “earnings stripping” rule. The Treasury Department’s rule will not only preserve critical tax dollars owed by U.S. corporations seeking to shift their legal address offshore, but it will help level the playing field for job-producing, tax-paying small businesses. This rulemaking is necessary because the U.S. Congress has failed to act to stem the tide of inversions.

Small businesses are the engine of our economy. They are a primary driver of job growth and wealth creation, producing more than half the jobs in the country and 70% of net new jobs. Despite their critical importance, the current tax code contains numerous tax loopholes that disproportionately favor multinational corporations over small businesses. Inversions are one of the more egregious examples of these loopholes. 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.

Inversions are a particularly stark case of a corporate tax evasion strategy that disadvantages small businesses. Deeply imbedded in their local economy, small businesses are not able to—nor do they want to—move their headquarters offshore to reduce their tax liability. Nor can they afford armies of high-priced tax attorneys to exploit other tax loopholes. Rather, small businesses, operating on often small margins, contribute to the tax base and the local economy while their corporate competitors, with often much lower effective tax rates, experience unfair competitive advantages. Consequently, small businesses are forced to shoulder the burden in the form of higher taxes, less funds for infrastructure and municipal services, and a greater share of the national debt.

Indeed, 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](#), money that is needed for priorities that can improve our local communities.

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. Through this tax dodge a U.S. firm purports to borrow money (often no money is actually borrowed) from a foreign parent as a way to shift profits from the U.S. to a lower tax jurisdiction. In addition to the lower tax rate paid offshore, the U.S. firm gets a tax deduction, thereby reducing its tax obligations here at home even more.

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.

We urge you to address these egregious loopholes that unfairly penalize small businesses.

Thank you for your attention to these comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Amanda Ballantyne', with a long horizontal flourish extending to the right.

Amanda Ballantyne
National Director
Main Street Alliance