INTERNATIONAL CORPORATE TAX REFORM: TRILLIONS OF DOLLARS FOR INVESTMENTS AT STAKE

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Trillions of tax dollars that could be used to create thriving communities are at stake in the debate over international corporate tax reform. Up to $700 billion is currently owed by U.S. multinational corporations on $2.4 trillion in untaxed profits they have stashed offshore, according to Citizens for Tax Justice.[1] Even more tax revenue could be lost depending on how *future* offshore profits are taxed.

If offshore tax loopholes are closed so that corporations pay their fair share, we can help to ensure economic security for families and seniors and to make investments in education, energy, roads and research needed to grow the economy and create jobs.

This is a monumental debate. On one side are very powerful interests that have rigged the tax system in their favor – 50 U.S. multinationals that generate about 75% of these offshore profits.[2] Among them are Apple, Pfizer, Microsoft, General Electric and Citibank. On the other side are the American people, small businesses and domestic corporations that are paying their fair share of taxes to create prosperous communities.

Multinational corporations bemoan the 35% U.S. corporate tax rate. But they don't come close to paying that. One reason is they can easily dodge U.S. taxes through loopholes that let them shift profits offshore – mostly to tax havens. Also, our tax system even encourages them to abandon their responsibility to America by letting them defer paying taxes indefinitely when they shift jobs and profits offshore.

To create a tax system that requires big corporations to pay their fair share in order to help working families and Main Street businesses, these should be the priorities for international corporate tax reform:

1. Corporations need to pay their fair share of taxes so we have the resources to create an economy that works for all Americans.

- Corporate tax reform, which may include large pass-through businesses, must raise significant new revenue over the long term to pay for services and investments that benefit our communities and families. "Revenue neutral" reform that closes loopholes to pay for lower corporate tax rates is not acceptable. Cost estimates of corporate tax reform must be honest and realistic and not use funny math and timing gimmicks, such as dynamic scoring and manipulated baselines.

- Corporate income taxes are an important source of revenue for the federal government— raising nearly $350 billion a year.[3] But they are contributing only 11% of total revenue, down from 33% sixty years ago.[4]
- Profitable U.S. corporations paid an effective tax rate of just 14% for tax years 2008 to 2012, according to the Government Accountability Office.[5] The effective tax rates for multinationals that can shift their profits into tax havens are even lower.
- In 1952, corporate profits and taxes were both 5.6% of the U.S. economy (GDP). Today, corporate profits are 10.3% of the economy,[6] while corporate taxes are just 1.9% of GDP.[7] In other words, as a share of the economy corporate profits have *increased* by more than 80% while corporate taxes have *decreased* by two-thirds.
- Since 2010, Congress has enacted about $4.4 trillion in deficit-reduction.[8] Corporations have not contributed a dime to that effort. About 80% of the reduction comes from spending cuts, much of it targeting services benefitting working Americans. Just 20% results from increased taxes on wealthy individuals.
- Corporations got nearly $420 billion in new tax breaks over 10 years that were not paid for in the tax extenders bill signed into law in December 2015.[9] We need "new revenue" from corporate tax reform, and that should be over and above the cost of paying for these permanent tax breaks.

2. Corporations should pay the $700 billion they already owe on $2.4 trillion in existing offshore profits.

- U.S. Fortune 500 corporations have an estimated $2.4 trillion in so-called "permanently reinvested" profits offshore. They owe up to $695 billion in U.S. federal income taxes on those profits, according to Citizens for Tax Justice.[10]
- The tax break that allows corporations to indefinitely defer U.S. taxes on their offshore profits is known as "deferral." This loophole costs the Treasury about $90 billion a year.[11]
- At least 55% of these profits are in tax havens, where corporations pay very low taxes, if any.[12] For instance, Apple reports that it has $200 billion in profits offshore, on which it has paid less than a 5% tax rate.[13] This means Apple owes about $61 billion in taxes on those profits, after claiming the credit for foreign taxes paid.
- President Obama has proposed requiring that companies pay a mandatory 14% "transition tax" on these offshore profits, less any foreign taxes paid.[14] Republicans have proposed an 8.75% tax rate. Obama's proposal would raise about $200 billion, far below the up to $700 billion owed.[15]
- This huge tax break is an unwarranted gift to corporations already using loopholes to dodge their taxes. These profits were made under a corporate tax system charging a 35% rate (less credits for foreign taxes). Most other, primarily domestic, corporations—including Main Street businesses—pay the full rate, or close to it. They cannot and do not shift profits offshore.
- There is no economic rationale for a lower tax rate on past profits. These profits were earned with an expectation that the maximum U.S. tax rate would be 35%. Many of the affected corporations are already awash in cash and simply want to bring offshore

profits home to boost share prices with stock buybacks, which inflate the incomes of the wealthy but create no value for the economy.

3. Our tax system should not encourage corporations to shift jobs and profits offshore.

- President Obama has proposed a 19% minimum corporate tax on *future offshore* profits.[16] That is far below the current 35% tax rate on all profits, and well below Obama's proposed 28% rate on *domestic profits* and the 25% overall rate proposed by corporations and most Republicans.
- Offshore profits should not be taxed at a lower rate than domestic profits because this creates an incentive for companies to move production offshore as well as disguise domestic profits as foreign. It also gives multinational corporations an unfair edge over the small businesses and domestic companies with which they compete.
- Assuming revenue neutral tax reform, no one currently in Congress has proposed a plan showing the tax loopholes they would close to raise the $1 trillion needed for the 28% rate[17] or the $1.3 trillion needed for the 25% rate.[18] And revenue neutral reform will not let America succeed given the enormous new revenue needed for investments.
- Many in Congress and in corporate America have proposed that the U.S. adopt a "territorial" tax system, in which U.S. companies would pay little or no U.S. taxes on their offshore profits. This should be opposed as it would only increase the incentive for U.S. companies to shift jobs and profits offshore.
- The best solution is to repeal the tax break known as "deferral" so offshore profits are not taxed at a lower rate than domestic profits. Corporations should not get a tax break when they move operations offshore or when they disguise domestic profits as foreign.
- In lieu of repealing deferral, Congress should enact legislation that makes it very difficult for a U.S. company to invert with a much smaller foreign company, and it should take away the tax benefits corporations receive when they invert. Congress should also establish an exit tax that requires corporations to pay the taxes owed on their untaxed offshore profits, less foreign taxes paid, when they invert or merge with a foreign company.

Great things we can accomplish if corporations pay the $700 billion they owe.

- $470 billion: Double federal highway and mass transit spending each of the next seven years.[19]
- $75 billion: Provide high-quality preschool for all low- and moderate-income four-year-olds for 10 years.[20]
- $61 billion: Provide two years of free tuition at community college over 10 years benefitting up to 9 million students.[21]
- $67 billion: Expand the Earned Income Tax Credit to include childless workers and non-custodial parents for 10 years.[22]
- $27 billion: Increase the National Cancer Institute's budget by 50% for 10 years.[23]

Endnotes

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[13] CTJ, p. 6.
[14] The White House and Department of the Treasury, "The President's Framework for Business Tax Reform: An Update" (April 2016), p. 24. https://www.treasury.gov/resource-center/tax-policy/Documents/The-Presidents-Framework-for-Business-Tax-Reform-An-Update-04-04-2016.pdf
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