AMERICANS FOR TaxFairness

PLEASE OPPOSE REP. DELANEY'S INFRASTRUCTURE 2.0 ACT

February 7, 2017

Dear Representative:

I am writing on behalf of the 425 organizations that are part of the Americans for Tax Fairness coalition, urging you to oppose The Infrastructure 2.0 Act or successor bill, which may soon be introduced by Rep. John Delaney. The bill, as previously drafted (H.R. 625 from the 2015-16 Congress), has the worthy goals of funding sorely needed infrastructure investments while ending rampant corporate offshore tax dodging. Unfortunately, it fails to achieve either goal, underfunding infrastructure while exacerbating the problem of offshore corporate tax avoidance.

Among the bill's flaws, it would:

- Collect a small fraction of the taxes currently owed on $2.5 trillion in profits corporations have stashed offshore, thereby shortchanging critical infrastructure investments.
- Repeat the failed "offshore tax holiday" of 2004 that resulted primarily in stock buybacks, with little new investment and steep job losses.
- Perpetuate a dual tax system in which multinational corporations can use offshore accounting maneuvers to shift profits offshore, mostly to tax havens, thereby paying much lower tax rates than domestic corporations and small businesses.

Currently, American corporations owe U.S. taxes on their worldwide profits. However, the "deferral" tax loophole allows payment of those taxes to be indefinitely delayed on profits booked offshore. Rep. Delaney's legislation would execute a "deemed repatriation" on the $2.5 trillion in existing offshore corporate profits, requiring corporations to pay an effective 8.75% tax rate. **That's lower than the 10% rate President Trump proposed in his corporate tax plan.**

This low rate would raise just $170 billion. That's far less than the estimated $700 billion corporations owe under current law on their $2.5 trillion in offshore profits. Delaney would abandon over half a trillion dollars in revenue when America's civil engineers say we need $3.6 trillion over the next few years to adequately restore our crumbling infrastructure.

This unwarranted tax giveaway will disproportionately benefit some of America's biggest and most profitable corporations. Just four companies hold one quarter of all offshore corporate profits—Apple, Pfizer, Microsoft and General Electric. Fifty corporations hold three-quarters of the profits. The beneficiaries of this huge tax gift would be highly concentrated in two industries that have been very adept at offshoring their profits: high tech and pharmaceuticals, which hold half the untaxed offshore earnings.

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In the 2004 repatriation tax holiday, Congress deeply cut the tax rate on existing offshore corporate profits to 5.25% to encourage corporations to bring the money home and stimulate the economy. Subsequent research summarized by the Congressional Research Service found that the experiment was a failure, with most U.S. corporations failing to increase their domestic investments. In fact, many of the corporations that brought home the most cash cut their workforce. Pfizer, for instance, brought home $37 billion, and then over the next few years laid off 10,000 workers. Instead of hiring and investing, 92% of the corporate profits brought back under the tax holiday went to shareholders through stock buybacks and dividends.

The Delaney bill sets a deadline for comprehensive international tax reform and, in the event of no reform, would impose a default plan setting tax rates on foreign earnings based on the headline rate in the country where it is earned. But the proposed rates are far lower than U.S. rates and would likely encourage firms to shift even more profits offshore than they do today.

A lot of U.S. corporate profits reported as "offshore" were earned here and then shifted offshore through accounting tricks like "transfer pricing" and "earnings stripping" purely to avoid U.S. taxes. A recent study estimates corporations use such profit shifting to dodge at least $100 billion in U.S. taxes every year. This bill does nothing to stop this expensive scandal.

Domestic-centered corporations and Main Street businesses cannot take advantage of the exotic offshore tax avoidance schemes indulged in by multinational firms and therefore would gain nothing from the Delaney bill. In fact, the extra federal and state taxes small businesses already pay to make up for the international tax dodging of their larger competitors—estimated recently at over $5,000 a year per business—would only grow.

There is a right way to reform the international corporate tax system. Congress should end deferral of taxes on profits booked offshore. Tax rates should be the same and taxes should be paid regularly regardless of where companies make their money—no more favoring multinationals over small businesses and domestic firms. Congress should close loopholes that allow multinationals to shift profits from their U.S. operations to offshore tax havens. And Congress should ensure multinationals play by the rules by requiring that they publicly report where they earn their profits and pay their taxes.

The Infrastructure 2.0 Act or successor bill takes us in the wrong direction. We urge you to oppose the measure and work to enact reforms that raise the revenue needed to repair America's broken infrastructure while offering fair tax treatment to small businesses, domestic firms and multinationals alike.

Thank you for your consideration of this request to oppose The Infrastructure 2.0 Act.

Sincerely,

Frank Clemente
Executive Director