Corporate Tax Inversions

Overview
In recent months, several major U.S. corporations – among them Burger King, Medtronic and AbbVie – have announced possible plans to renounce their U.S. corporate “citizenship” and move their corporate address offshore by merging with a foreign company. The merged corporation then pays most of its taxes to a foreign government – usually a tax haven – with a low tax rate. This allows it to dodge paying its fair share of U.S. taxes. The process, known as an “inversion,” takes place primarily on paper as most corporate operations remain here.

When Walgreens announced possible plans to invert earlier this year, it raised issues about what it means to be an American company. Although the company later decided not to invert, in part because of fears of a potential “consumer backlash,” the inversion story isn’t over. In fact, with about a dozen major corporations planning inversions, the issue is just heating up. Burger King, with more than 7,000 stores across the United States, will continue to make the corporate inversion story front page news.

Why is the issue important?
If corporations use inversions to dodge their tax obligations, American taxpayers have to pick up the tab even though the firms will continue to enjoy the enormous benefits of being headquartered here. Inversions are likely to become a central issue in the debate over corporate tax reform. Conservatives claim that corporations are forced to leave America because the corporate income tax rate is too high. Progressives argue that corporations are already avoiding paying their fair share of taxes due to many loopholes, including inversions.

How does an inversion work?
A corporate inversion occurs when a U.S. company merges with a foreign one, dissolves its U.S. corporate status and reincorporates in the foreign country. The U.S. company becomes a subsidiary of the foreign one, but the foreign firm is controlled by the original U.S. firm.

A U.S. corporation can invert if after a merger the owners of the U.S. corporation retain less than 80% of outstanding stock of the new merged company, or if after the merger the new company has “substantial business activities” in the foreign country equaling at least 25% of operations. So, with just a 20% change in ownership, a company can become “foreign” even if it largely operates in and is controlled from America.

What is the tax advantage of an inversion?
Corporations undergo inversions to take advantage of much lower tax rates, usually in tax-haven countries. Once inverted, a company no longer pays U.S. taxes on its global income. Instead, it is only responsible for paying taxes on income generated in the U.S. For example, Walgreens, which had $72 billion in U.S. sales last year,
Talking points

- Corporations that renounce their U.S. “citizenship” and shift their address offshore are deserters. They are unpatriotic. They want all the benefits of being an American company without paying their fair share of taxes. That makes the rest of us pick up the tab.

- Congress must close tax loopholes that make it easy for corporations to shift profits and jobs offshore. Congress needs to level the playing field so that big corporations have to play by the same rules as Main Street businesses that are doing their part.

- Big corporations say that the 35% U.S. corporate income tax rate is too high. But many companies pay much less because of loopholes in our tax code – many pay at a rate of less than 20%.

- 26 corporations paid no U.S. income taxes from 2008 to 2012, including General Electric, Boeing and Verizon. 111 companies paid no income taxes in at least one of those five years.