Oppose S. 1957 – Sen. Bennet’s Partnership to Build America Act

Dear Senator:

We urge you to reject the Partnership to Build America Act (S. 1957 – Sen. Bennet), which calls for a “repatriation tax holiday” allowing U.S. multinational corporations to bring home offshore profits tax-free if some of the money is used to buy bonds in an infrastructure bank. A temporary corporate tax holiday is a form of tax amnesty, pure and simple. It would permit a small number of multinational corporations to dodge their rightful tax obligations, thereby requiring domestic corporations, small businesses and average taxpayers to pick up their tab.

While a well-designed infrastructure bank could help finance much-needed infrastructure investment and create jobs, this legislation would undermine our ability to secure the funds needed to invest in 21st century infrastructure by further incentivizing offshore tax dodging at the taxpayer’s expense.

A two dollar corporate tax break for every dollar invested in an infrastructure bank is a bad investment. The proposal would allow corporations to “repatriate” up to six dollars of their offshore profits tax-free for every one dollar spent purchasing bonds to fund a bank that will finance infrastructure projects. To reach the bill’s goal of raising $50 billion for the infrastructure bank, taxpayers would lose up to $100 billion in revenue, according to the Economic Policy Institute. That’s a great deal for the companies that have most aggressively shifted profits offshore, but not for the American public. It would be much cheaper if Congress directly funded infrastructure investments by closing offshore tax loopholes, not use a gimmick that will increase the revenue lost through those loopholes at the taxpayer’s expense.

A repatriation tax amnesty is a poor way to create jobs—even with this poorly designed infrastructure bank. Congress justified a 2004 repatriation amnesty as a job-creating measure, but it was a dismal failure. Many of the companies that benefitted most from the tax amnesty actually reduced their U.S. employment and did not make investments in production capacity, according to the Senate Permanent Subcommittee on Investigations. Instead, a study by the National Bureau of Economic Research found that 92% of the cash repatriated paid for dividends, stock buybacks, or executive bonuses.

Sen. Bennet’s bill seeks to address this concern by tying the repatriation tax amnesty to the purchase of bonds of a new infrastructure bank. But this is a terribly inefficient way to create jobs – requiring a tax subsidy that costs up to twice as much as the money that would be available for new investments. And encouraging more offshore tax avoidance would further drain away much-needed revenues from job-creating infrastructure investments.

A repatriation tax amnesty rewards the worst corporate actors. When Congress last offered a tax holiday in 2004, just .015% of U.S. companies were able to benefit, and 15 large companies accounted for half of the offshore cash repatriated, according to the Senate Permanent Subcommittee on Investigations. The corporations that would gain the most from a repatriation tax amnesty aggressively shift profits on paper to offshore subsidiaries in tax havens, where they aren’t taxed or are lightly taxed. Many of these subsidiaries have few, if any employees.
These profits are easiest to “move” because they are not invested in actual businesses abroad. Companies that do real business offshore typically reinvest their foreign profits in their operations, and would not likely take advantage of the holiday. Most countries where corporations do real business have corporate income taxes, and American corporations that repatriate their offshore profits under the normal rules are allowed to reduce their U.S. corporate tax bill by whatever amount they have paid to foreign governments. This means they have much less to gain from the proposed tax amnesty.

Another repatriation tax amnesty would encourage corporations to be even more aggressive in moving jobs and profits offshore. If Congress repeats the 2004 holiday, multinational corporations will quite rightfully expect that another holiday will be enacted in a few years. They will have enormous incentive to engage in ever more aggressive tax schemes that move their profits offshore, usually to tax havens. In fact, the 20 companies that repatriated the most earnings under the 2004 holiday already have three times as much in foreign profits parked offshore as they did at the end of 2005, according to the Senate Permanent Subcommittee on Investigations [need URL]. For this reason, the Joint Committee on Taxation concluded that a repeat of that measure would add up to $79 billion to the deficit over a decade.

The profits that could be repatriated under S. 1957 are not “trapped” outside the U.S. but are largely already invested in the American economy. A study by the Senate Permanent Subcommittee on Investigations found that almost half of the offshore profits of companies that benefited most from the 2004 holiday were actually invested here in the United States – in U.S. bank accounts, Treasury bonds, and U.S. corporate stocks. Corporations are, in theory, restricted by law from using their offshore profits to pay dividends to shareholders or to directly expand domestic investments. But even these rules can be circumvented when the corporations borrow money for these purposes, using the offshore profits as collateral.

We urge you to reject S. 1957, which provides for a repatriation tax amnesty. The multinational corporations lobbying hard for this generous tax break offer numerous reasons why you should give it to them. But their plea is nothing more than a blatant attempt to escape their tax obligations and shift the burden onto domestic firms, small businesses and taxpaying Americans. Congress should immediately provide needed investments in America’s infrastructure, and closing corporate tax loopholes is a good way to raise substantial revenues that can be used for these and other needed investments.

Sincerely,

9to5
Action for the Common Good
Alliance for a Just Society
American Federation of Government Employees
American Federation of State, County and Municipal Employees
American Federation of Teachers
American Sustainable Business Council
Americans for Democratic Action
Americans for Tax Fairness
Asia Initiatives
Campaign for America’s Future
Center for Effective Government
Citizens for Tax Justice
Coalition on Human Needs
Community Action Partnership
Community Organizations in Action
Economic Policy Institute
Every Child Matters
FACT Coalition
Fair Share
International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW)
Main Street Alliance
National Low Income Housing Coalition
National Organization for Women
National People’s Action
National Women’s Law Center
Natural Investments
NETWORK, A National Catholic Social Justice Lobby
New Rules for Global Finance
Oxfam America
Principled Investing LLC
Responsible Wealth
Service Employees International Union
Tax Justice Network USA
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