TAX FAIRNESS BRIEFING BOOKLET

Messaging
Polling
Fact Sheets

AMERICANS FOR TaxFairness

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Credits

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AMERICANS FOR TaxFairness

Americans for Tax Fairness is a diverse coalition of [425 national and state organizations](#) that collectively represent tens of millions of members. The organization was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs. ATF is playing a central role in Washington and in the states on federal tax-reform issues.

Table of Contents

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AMERICANS FOR TaxFairness Messaging on Taxes and the Economy

These messages are based on a half dozen rigorous polls conducted by [Hart Research Associates] on behalf of Americans for Tax Fairness and other clients.

We need an economy that works for all of us, not just the wealthy and big corporations

- The promise of America should be for everyone, not just the wealthy few. Corporate CEOs now make 300 times the pay of the average worker, while many of us have gotten no raise at all. Corporations and the wealthy can afford to pay their fair share, so the rest of us have more opportunities to succeed.
- Millions of Americans are working harder than ever to keep from falling behind. Families are struggling and the middle-class is shrinking. The deck is stacked against us. The system is rigged in favor of the wealthy and big corporations.
- The tax system is full of loopholes and tax breaks that benefit big corporations and the wealthy. That means they don't pay their fair share of taxes. This hurts all of us who work hard and play by the rules, including small businesses on Main Street.
- The wealthy and big corporations like General Electric, Verizon and Apple use their lobbyists and campaign contributions to rig the tax system in their favor. If we close the loopholes they will have to start living by the same rules as the rest of us.
- Our country should provide opportunity for all. No one is guaranteed success in America, but everyone deserves a fair shot to succeed. The promise of America should be for everyone, not just for the rich and powerful.

Corporations and the wealthy should pay their fair share of taxes

- Our tax code is full of tax loopholes and tax breaks benefitting big corporations and the rich. When they don't pay their fair share of taxes, the rest of us pick up the tab. American families end up paying higher taxes or getting fewer services, and the country goes deeper into debt.

We should end tax breaks for companies that ship jobs and hide profits offshore

- A great threat to our economy is American jobs moving overseas. Congress should end tax breaks that encourage corporations to move our jobs offshore.
- Congress should close loopholes that let corporations avoid taxes by hiding their profits offshore. American companies have $2 trillion in profits sitting overseas – much of it in tax havens. As long as the money is offshore, companies avoid paying U.S. income taxes on it.
- It's time to stop corporate tax dodging and invest in America again. If we close tax loopholes for corporations that ship jobs and hide profits offshore, we can raise billions of dollars to invest in America. We can make our classrooms less crowded, improve roads and bridges, find new medical cures and make America energy independent.
- If we end tax breaks for companies that ship jobs offshore, we can level the playing field for small businesses that create jobs in America. It's about time big corporations played by the same rules as Main Street businesses.

Corporations that desert America to dodge paying their fair share of taxes are unpatriotic

- Companies that shift their address to offshore tax havens to avoid paying their fair share of taxes are corporate deserters. They betray America. They are un-American. They are traitors like Benedict Arnold.
- These corporations move their corporate address offshore on paper, but their operations remain here. They want all the benefits of being an American company, but they don't want to pay for them. They want to take advantage of our educated workforce, legal system, financial markets and transportation system. But they want you and me to pick up the tab.
- These selfish corporations know no country, they feel no patriotism, and they have no allegiance to America – just to the almighty dollar.

Some corporations pay nothing in federal income taxes

- Some large, profitable corporations pay absolutely nothing – zero – in federal income taxes. Twenty-six large corporations made billions in profits but paid no U.S. income taxes over five years. Giant companies like General Electric, Boeing and Verizon actually got tax refunds.
- You paid more in federal income taxes in one year than those corporations paid in five years.

Working families shouldn't pay higher tax rates than millionaires and billionaires

- Someone who works for a paycheck shouldn't have to pay a higher tax rate than the rich person living off their Wall Street investments. Middle-class families shouldn't pay a higher tax rate than billionaires.
- We should close the loophole that allows billionaire Wall Street private equity managers to pay lower tax rates than their secretaries. Congress should pass the "Buffett rule" to make sure millionaires and billionaires pay at least as high a tax rate as middle-class families.

Corporations should pay their workers fair wages, not get tax subsidies for CEO bonuses

- Corporate profits are soaring and CEO pay is skyrocketing, but workers' wages are standing still. Because of a tax loophole, the more corporations pay their executives in bonuses the less they pay in taxes. American workers should not be subsidizing lavish bonuses for their bosses.

If corporations and the rich pay their fair share, the economy will work better for everyone

- Instead of making seniors pay more for Medicare or cutting Social Security benefits, we should close tax loopholes that allow large corporations to hide profits offshore.
- Instead of cutting funding for repairing our roads and bridges, we should end huge tax subsidies to oil and gas companies making record profits.
- Instead of cutting funding for teachers and firefighters, we should ask multi-millionaires and billionaires to pay at least as high a tax rate as public servants pay.
- Instead of blocking benefits for the unemployed, we should end tax breaks for corporations that send American jobs offshore.

Messaging on Corporate Deserters

What Is a Corporate Inversion and a Corporate Deserter? *The "corporate inversion" tax loophole lets a U.S. company renounce its corporate "citizenship" and move its 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. (It still pays some taxes to the U.S. on the profits generated here, although an inversion allows it to reduce the amount of taxable U.S. profits.) This allows it to dodge paying its fair share of U.S. taxes. The "inversion" takes place primarily on paper, as most corporate operations remain in the United States.*

In the words of President Obama…

- "We need to stop companies from **renouncing their citizenship** just to get out of paying **their fair share of taxes**." These companies are "corporate deserters."
- "They're not actually going anywhere. They're keeping most of their business here. They're usually keeping their headquarters here in the United States. They don't want to give up the best universities and the best military, and all the advantages of operating in the United States. **They just don't want to pay for it**."
- "I want an **economic patriotism** that says we rise or fall together, as one nation, and as one people." "The vast majority of American businesses pay their taxes right here in the United States. But when some companies cherry-pick their taxes, it damages the country's finances. **It adds to the deficit**. It makes it harder to invest in the things that will keep America strong, and it **sticks you with the tab** for what they stash offshore."

ATF's Recommended Message Points

- Corporations that shift their address to a tax haven are **deserters**. They are **traitors that turn their backs** on America. They are **unpatriotic** and **un-American**.
- They take advantage of a **loophole** in our tax code. They use **accounting schemes** and **legal maneuvers** to **move their corporate address offshore**. This **sham** takes place **primarily on paper**.
- They give up their American status **to avoid paying their fair share in taxes**. They **duck**, **dodge** and **renege on** their responsibilities. They **cheat** the system. They **refuse** to pay their fair share.
- These corporations **want all the benefits and privileges** of being a U.S. company. They want to take advantage of our workforce educated in public schools, our legal and transportation systems, and federally-funded research – **without paying for that right**. They still want to make huge profits selling products to millions of American consumers and to get lucrative government contracts.
- They leave American taxpayers to **pick up the tab**. They **stick us with the bill**. As a result, American families pay higher taxes, get fewer services or we all get a bigger deficit.
- Congress must **close tax loopholes** like this that help corporations to **shift jobs and hide profits 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.
- These **selfish** corporations **know no country**, they **feel no patriotism**, and they **have no allegiance to America** – just to the **almighty dollar**.

Highlights of Corporations that Inverted or Tried to Invert

- The big drug company **AbbVie from Illinois** recently announced a merger with **Shire, an Irish drug company**. By deserting America for an overseas address AbbVie will be able to **cut its tax rate from 22% to just 13%**.
- The giant medical device maker **Medtronic, based in Minnesota**, is merging with **Covidien,** a company **headquartered in Massachusetts**. But Covidien's corporate address is actually **Ireland where the tax rate is just 12.5%**. With a merger, Medtronic will also be able to use **$20 billion in profits it has stashed offshore**, where it is avoiding U.S. taxes, to finance the merger. This will allow it to permanently avoid paying taxes on a lot of that money.
- The generic drug company **Mylan, based in Pittsburgh**, is buying another American company, Abbott Pharmaceuticals, and **changing its corporate address to the Netherlands**. Mylan will **lower its tax rate from 21% now to the high teens**. Mylan has gotten **$3 billion in contracts from the Veterans Administration** in recent years.
- After a lot of public pressure, **Walgreens** recently decided not to change its corporate address to the tax haven of Switzerland. Walgreens was trying to **dodge $4 billion in taxes over five years** by deserting to Switzerland, even though it **gets a quarter of its income from taxpayers** through the Medicare and Medicaid programs.
- If **Pfizer**, the giant drug company, had succeeded in merging with **AstraZeneca** to become a British company, it was going to **dodge $1 billion a year in U.S. taxes**. And Pfizer got more than **$4 billion in federal contracts** in recent years. Pfizer is still looking for an offshore company to merge with.

- We need to tell these companies – if you desert America, we will desert you. If you are no longer an American company, we will no longer be your customers. And we will demand that the federal government stop being your customer.
- Call or write your members of Congress. Tell them to pass legislation NOW to stop these companies from deserting America.

Americans for Tax Fairness has conducted an extensive online search of public polls conducted over the last few years posing questions on tax issues. We found that media outlets do very limited polling on tax issues – typically a question or two when an issue is being publicly debated in Congress. The most relevant questions we could find related to the topics below are included here. On behalf of Americans for Tax Fairness and other clients, Hart Research Associates has conducted in-depth polling on tax reform issues in recent years, which compromise most of the poll questions below.

SECTION 1: TAXING CORPORATIONS

Corporate Tax Inversions

- 76% of Democrats, 69% of Republicans and 80% of Independents disapprove of corporate tax inversions when they were asked "Do you approve or disapprove of tax inversions, a practice where one company becomes a subsidiary of another company in a foreign country for the purpose of reducing its tax rate?"
  Morning Consult poll, August 5, 2014

Taxing Offshore Profits

- By 79% to 17%, voters want to "Close tax loopholes to ensure that American corporations pay as much on foreign profits as they do on profits made in the United States."
  Hart Research Assoc. poll for Americans for Tax Fairness, Oct. 2013, Q 20a/b.

- By 83% to 13% voters want to "Increase taxes on the profits that American corporations make overseas, to ensure they pay as much on foreign profits as they do on profits made in the United States."
  Hart Research Assoc. poll for Americans for Tax Fairness, Jan. 2013, Q 12.

- By 84% to 11% voters want to "Increase taxes on the profits that American corporations make overseas, to ensure they pay as much on foreign profits as they do on profits made in the United States."
  Hart Research Assoc. poll for Americans for Tax Fairness, Nov. 2012, Q 16.

- By 73% to 25% voters want to "close loopholes that allow corporations and wealthy individuals to avoid paying U.S. taxes by shifting income to overseas tax havens."
  Hart Research Assoc. poll for Americans for Tax Fairness, Jan. 2013, Q 12.

- Nearly three-quarters (73%) of Americans support "raising taxes on businesses that move manufacturing jobs overseas."
  ABC News/Washington Post poll, February 2012, Q 11

- By 68% to 31% voters believe that "We should end tax breaks to large corporations that ship jobs overseas and use that money to invest in jobs in America improving our roads and bridges, rebuilding manufacturing and making us energy independent."
  Hart Research Assoc. poll for Americans for Tax Fairness, Jan. 2013, Q 16.

- By 62% to 36%, voters want to "Close loopholes that allow corporations and wealthy individuals to avoid paying U.S. taxes by shifting income to offshore tax havens."
  Hart Research Assoc. poll for Americans for Tax Fairness, Oct. 2013, Q20a/b.

- By 61% to 33%, voters want to "pass legislation to prevent corporations and wealthy individuals from avoiding U.S. taxes by shifting income earned here in the United States to overseas tax havens."
  Hart Research Assoc. poll for Americans for Tax Fairness, Nov. 2012, Q 16.

Close Loopholes and Invest Rather than Reduce Tax Rates (Revenue Neutral Tax Reform)

- By 82% to 9%, voters believe that "reform[ing] the tax system by closing corporate loopholes and limiting deductions for the wealthy" should be used to "reduce the budget deficit and make new investments" rather than to "reduce tax rates on corporations and the wealthy."
  Hart Research Assoc. poll for Americans for Tax Fairness, Oct. 2013, Q 21

- By 83% to 11%, voters want to use "tax revenue from closing corporate loopholes and limiting deductions to reduce the budget deficit and make public investments, rather than to reduce tax rates on corporations."
  Hart Research Assoc. poll for Americans for Tax Fairness, Jan. 2013, Q 17

Corporate Taxes (General)

- Two-thirds (66%) of Americans believe that corporations pay too little in taxes, when asked if corporations are "paying their fair share in federal taxes, paying too much or paying too little." 20% say that corporations pay their fair share and only 8% say that corporations pay too much.
  Gallup poll, April 2014, Q 29

- By 70% to 26%, Americans favor an Obama administration proposal "increasing taxes on some corporations by eliminating certain tax deductions."
  Gallup poll, April 2011, Q 16

- By 61% to 35%, Americans believe that "in order to help the economy and move the nation forward, the focus of the government should be more on raising the minimum wage and providing job training and education" than on "cutting corporate taxes and reducing regulations on businesses."
  McClatchy/Marist poll, February 2014

- By 62% to 34%, voters want to "Eliminate special tax breaks for oil and gas companies."
  Hart Research Assoc. poll for Americans for Tax Fairness, Oct. 2013, Q 20a/b

CEO Pay

- By 63% to 34%, voters want to "Prevent corporations from avoiding taxes when they award their executives millions of dollars in stock options."
  Hart Research Associates Poll, Jan. 2013, Q. 12

Small Business

- By 67% to 31% voters believe “we should end tax breaks for companies that ship jobs and profits offshore, and level the playing field for small businesses that create jobs in America.”
  Hart Research Assoc. poll for Americans for Tax Fairness, Oct. 2013, Q16a/b.

- 34% of American small business owners chose “closing tax loopholes for large corporations” over six other budget-cutting or revenue raising measures, when asked to choose their top priority for the federal government. The largest number of Republican respondents (27%) chose the same answer.
  Main Street Alliance and American Sustainable Business Council poll, April 2013

SECTION 2: TAXING THE WEALTHY

Tax Investment Income at Same Rate as Wages/Salaries

- By 52% to 36%, voters support a proposal that would “For those making over two hundred fifty thousand dollars, end the lower tax rate on income from selling stocks and other assets.”
  Hart Research Assoc. poll for Americans for Tax Fairness, Jan. 2013, Q 12

- By 61% to 28%, voters want to “End the lower tax rate on income from selling stocks and other assets, so that investors pay the same tax rates as workers do on their earnings.”
  Hart Research Assoc. poll for Americans for Tax Fairness, Nov. 2012, Q 16.

Taxing the Wealthy (General)

- 36% of the public believes that “taxes on wealthy people should be kept low because they invest their money in the private sector and that helps the economy and creates jobs.”
  56% of the public say that “taxes on wealthy people should be kept high so the government can use their money for programs to help lower income people.”
  CNN/ORC poll, November 2012, Q 21

- When asked if they think different groups “are paying their fair share in federal taxes, paying too much or paying too little,” 61% the public believes that upper income individuals pay too little in federal taxes; 24% believe that upper income individuals are paying their fair share; and 4% believe that they are paying too much.
  Gallup poll, April 2014, Q 29

- By 68% to 28%, voters want to “Eliminate the [carried interest] loophole that allows Wall Street hedge fund managers to pay a lower tax rate than middle-class taxpayers.”
  Hart Research Assoc. poll for Americans for Tax Fairness, Oct. 2013, Q 20a/b

- By 52% to 41%, voters want to “Limit tax deductions for people making over two hundred fifty thousand dollars a year.”
  Hart Research Assoc. poll for Americans for Tax Fairness, Oct. 2013, Q 20a/b

- By 73% to 22%, voters want to “Place a surtax of five percent on a person’s income over ten million dollars per year.” By 67% to 28%, voters want to “Place a surtax of five percent on a person’s income over one million dollars a year.”
  Hart Research Associates Poll, Jan. 2013, Q. 12

- By 61% to 31%, voters want to “Place a surtax of five percent on a person’s income over one million dollars a year.”
  Hart Research Assoc. poll for Americans for Tax Fairness, Nov. 2012, Q 16.

Buffett Rule

- By 59% to 30%, the public supports “requiring all Americans of incomes of one million dollars or more to pay at least 30 percent of their income in taxes;” 42% strongly supported it and only 17% strongly opposed it.
  Associated Press/GfK Roper poll, April 2013

- By 60% to 37%, Americans are “in favor Congress passing a law requiring households earning $1 million a year or more to pay a minimum of 30% of their income in taxes.” 74% of Democrats, 63% of Independents and 43% of Republicans support the measure.
  Gallup poll, April 2012, Q 36

- By 71% to 23%, voters want to “Pass the Buffett Rule, which sets a minimum income tax rate of thirty percent for millionaires to ensure they do not pay a lower tax rate than the middle class.”
  Hart Research Assoc. poll for Americans for Tax Fairness, Oct. 2013, Q 20a/b

Income Tax Rates

- 56% of Americans (59% of Democrats, 48% of Republicans and 56% of Independents) feel that “the amount you pay is about right” when it comes to federal income taxes.
  42% (40% of Democrats, 50% of Republicans and 43% of Independents) think that they pay “more than their fair share.” Only 1% believe that they pay “less than your fair share.”
  McClatchy/Marist poll, April 2014

Estate/Inheritance Taxes

- By 60% to 35%, voters want to “Eliminate the loophole that allows wealthy families to avoid paying any capital gains taxes on stocks and bonds they inherit.
  Hart Research Associates Poll, Jan. 2013, Q. 12

Tax Tradeoffs

- By 54% to 35%, when asked what would do more to reduce poverty, respondents favored, “raising taxes on wealthy people and corporations to expand programs for the poor” instead of, “lowering taxes on wealthy people and corporations to encourage investment and economic growth.”
  Pew Research Center, January 2014, Q 26

- By 68% to 31% voters believe “we should close tax loopholes for large corporations that ship jobs offshore, and instead use that money to invest in jobs in America by improving our roads and bridges and rebuilding manufacturing.”
  Hart Research Assoc. poll for Americans for Tax Fairness, Oct. 2013, Q16a/b.

Corporate Tax Inversions

Overview

In recent months, several major U.S. corporations – among them Walgreens, 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.

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 merged 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, would likely avoid $4 billion in U.S income taxes over five years if it inverts with a Swiss firm. Pfizer, which tried to do an inversion with AstraZeneca in the U.K., would dodge $1 billion a year in taxes here.

Also, U.S. companies with billions of untaxed profits offshore can escape paying taxes on those profits in America if a company inverts. Medtronic reportedly could use $20.5 billion in its untaxed profits now offshore to invest back here and avoid paying taxes on those funds.

Key Facts

Inversions largely occur on paper. Corporations typically do not move their executives or operations overseas.

Corporations that invert continue to enjoy the benefits of operating here – they just dodge a lot of taxes.

A dozen U.S. firms are currently considering doing a corporate inversion.

Walgreens could dodge up to $4 billion in U.S. taxes over five years if it inverts. One-quarter of its sales are from Medicare and Medicaid.

Medtronic plans to move its corporate address to Ireland, a tax haven, to avoid paying U.S. taxes on $20.5 billion in offshore profits.

U.S. corporations already dodge $90 billion a year in income taxes by shifting profits to subsidiaries—often no more than post office boxes—in tax havens.

U.S. corporations hold $2.1 trillion in profits offshore – much of it in tax havens – that have not yet been taxed here. An inversion can let firms dodge paying taxes on those profits.

News Coverage

At Walgreen, Renouncing Corporate Citizenship, The New York Times

Obama Seeks to Close Loophole That Firms Use to Shield Profits Abroad, The New York Times

Tax Inversion -- How U.S. Companies Buy Tax Breaks, Bloomberg News

Tax avoidance: The Irish inversion, The Financial Times

The Levin Brothers Want to End Tax Inversion, but the GOP Refuses, The New Republic

Move to Switzerland to dodge IRS may give Walgreen blues, The New York Post

Why inversions are unfair

Companies that invert will continue to take advantage of the things that make the U.S. the best place in the world to do business – our educated workforce, legal and transportation systems, and federally-funded research. And they will continue to be able to get government contracts and to sell products to millions of American consumers.

But they will pay far less than their fair share for these services, passing on the cost to American taxpayers and to other companies.

What is President Obama's position?

Obama's budget proposed to make inversions very difficult for companies that have the majority of their operations and ownership in the U.S. He would prevent them from reincorporating abroad if they are owned by at least 50% of the former U.S. parent's stockholders (the current threshold is 80%). He would also require that the new foreign corporation be primarily managed and controlled from abroad.

What is happening in Congress?

Key members of Congress have introduced legislation based on Obama's plan. Sen. Carl Levin (D-MI), Chairman of a subcommittee that has investigated tax avoidance by Apple and other corporations, has introduced the Stop Corporate Inversions Act of 2014 (S. 2360). Rep. Sander Levin (D-MI) has introduced a companion bill in the House of Representatives (H.R. 4679) that would raise $19.5 billion over 10 years.

Talking points

- Corporations that renounce their U.S. "citizenship" and shift their address offshore are deserters. They are traitors to America. 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.
- It is unpatriotic for a corporation to abandon America by shifting its address to a tax haven in order to dodge paying its taxes.
- 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.
- We cannot win a race to the bottom. There will always be countries with tax rates that are much lower than ours – sometimes 0%.

Opinion

Positively un-American Tax Dodges, Fortune

Corporate Artful Dodgers, The New York Times

Pfizer's Ploy and the Porous Tax Laws, The New York Times

An Open Letter to Medtronic on What it Means to Be an American company, The Washington Post

Companies Take U.S. Benefits, but Flee US Taxes, The Raleigh News and Observer

Resources

Editorial Board Memo, Americans for Tax Fairness

Offshoring America's Drugstore – Americans for Tax Fairness and Change to Win Retail Initiatives

Much of What You've Heard about Corporate "Inversions" Is Wrong, Citizens for Tax Justice

Corporate Expatriation, Inversions, and Mergers: Tax Issues, Congressional Research Service

47 Corporate Inversions in Last Decade**,** Congressional Research Service

Why Does Pfizer Want to Renounce Its Citizenship? Citizens for Tax Justice

Pfizer's Tax-Dodging Bid for AstraZeneca Shows Need to Tighten U.S. Tax Rules**,** Center for American Progress

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Budget-busting Tax "Extenders"

Overview

Many members of Congress have a double-standard when it comes to spending on public services like transportation or education versus spending on corporate tax cuts. This year, Republicans leaders in Congress refused to provide $10 billion in extended unemployment benefits unless they were paid for. But in the U.S. House of Representatives they recently passed five budget-busting corporate tax breaks, known as "tax extenders," that would increase the deficit by $518 billion over the next 10 years.

Just two of the tax breaks account for 85% of the cost. The "bonus depreciation" tax break ($287 billion over 10 years) allows businesses to depreciate capital investments quickly. Supporters claim it boosts the economy, but the Congressional Research Service concluded that it "in general is a relatively ineffective tool for stimulating the economy." The "research and experimentation tax credit" ($155 billion over 10 years) is supposed to spark investment in new technologies. However, it often subsidizes activities that companies would pursue without tax incentives. The primary beneficiaries are large corporations like Boeing, Apple, and Google – all recognized as aggressive tax avoiders.

How are these corporate tax breaks justified?

Republicans say that the $518 billion cost of the corporate tax breaks passed in the House doesn't matter despite the huge impact on the deficit. They argue that the same tax breaks had been passed on a temporary basis in the past, and that some have been extended many times (hence the name "tax extenders.") But the House voted to make these tax breaks permanent – adding more than half a trillion dollars to the national debt over 10 years. Apparently, the deficit doesn't matter when it comes to corporate tax cuts – they are "off the books."

House extends tax breaks for corporations but not for low-income working families

A tax credit the House did *not* vote to extend was an improvement in the Child Tax Credit for low-income working families, which expires in 2017. That means 12 million people, including 6 million children, will be pushed deeper into poverty in 2018. A mother with two children working full time at the minimum wage would see her Child Tax Credit drop from $1,725 to zero. Instead, the House voted to increase the credit for upper-income families—giving a family making $160,000 a new $2,200 tax credit—and denying the credit immediately to over 5 million children in immigrant families, including over 4 million citizen children.

The Senate bill – the good, bad and outrageous

The five corporate tax breaks that the House voted to make permanent are part of a much larger (but less costly) two-year "tax extender" package in the Senate. That bill has more than 50 temporary

Key Facts

The U.S. House of Representatives has passed five business tax breaks, known as "tax extenders," that would increase the deficit by $518 billion over 10 years.

The package of 55 tax extenders in the Senate will cost $85 billion over two years. More than 80% of the cost benefits businesses.

A small army of 1,359 lobbyists representing 373 companies and trade associations has lobbied members of Congress on tax extenders.

The House Ways and Means Committee passed two tax extenders that enable corporations to hide profits offshore. The "active financing exception" would cost $59 billion over ten years. The "CFC look-through rule" would cost $20 billion over 10 years.

General Electric uses the "active financing exception" loophole to move financial profits offshore and avoid taxes. It made $27.5 billion from 2008 to 2012 but claimed tax refunds of $3.1 billion.

News Coverage

U.S. House tax panel backs costly corporate tax breaks, Reuters

In a Shift From Deficit Concerns, the Senate Will Take Up Tax Breaks, The New York Times

Congress Takes From The Poor, Gives To The Corporate Rich, The Huffington Post

Deficit, Schmeficit: Why the Fight over the Research Credit is Really about Tax Reform, The Washington Post

Congress Considers Tax Breaks from Horse Racing to Stock Car Racing, McClatchy Newspapers

Congress Likely to Revive NASCAR Break, The Orlando Sentinel

Study: Tax Extenders a Lobbying Bonanza, The Hill tax breaks – a mixture of good, bad and outrageous. It will cost $85 billion over two years, with 80% benefitting businesses. There are popular tax deductions for schoolteachers who pay for supplies out of their own pockets and for commuters that use public transportation, as well as tax credits for wind energy production. And the package includes much-ridiculed special-interest tax breaks for wealthy owners of thoroughbred horses or NASCAR racetracks.

Some tax extenders enable hiding profits offshore

The Senate bill includes the "active financing exception," a loophole that enables Wall Street investment banks, insurance companies and other corporations with big financing arms to dodge billions in taxes by deferring taxes on U.S.-based financing income that is made to look like it's being generated offshore. It also contains the "CFC look-through" rule, which makes it possible for multinational corporations to make some of their profits disappear for tax purposes.

The House Ways and Means Committee voted to make permanent both the active financing exception ($59 billion over 10 years) and the CFC look-through rule ($20 billion over 10 years). The bills have not yet been brought to the House floor.

A "special interest orgy"

Organizations on the left, right and center have been harshly critical of the tax extender bills. The conservative Club for Growth called the Senate package a "special-interest orgy" in *The Wall Street Journal*. The center-right Committee for a Responsible Federal Budget wrote that the Senate bill would "squander" the savings from the "fiscal cliff" budget deal at the end of 2012. Fifty-four public-interest organizations and labor unions, led by Americans for Tax Fairness, decried the double standard by which other government spending must be "paid for" but corporate tax breaks can be bought on credit.

Tax extenders likely to face votes after elections

Congress is likely to vote on a two-year tax extender package after the November election for two reasons – there is something in it for everyone, and there is a huge corporate lobbying effort behind it. A key question is whether the worst corporate giveaways will be included in the package.

A few tax extenders provide modest help to working families. Most of them provide largess to large corporations. That is why a small army of 1,359 lobbyists representing 373 companies and trade associations lobbied members of Congress on tax extenders between January 2011 and December 2013.

Corporations have not contributed a dime towards deficit reduction in any of the budget deals that Congress passed in recent years. Yet, Congress is eager to pass tax extender packages primarily benefitting corporations that are worth from $85 billion to more than $500 billion – totally unpaid for. This double-standard should end and corporations should start paying their fair share of taxes for the good of the country.

Opinion

Congress Must Learn to Pay for Tax Breaks it Extends - The Washington Post

Republicans Love Big Business so Much They Forget about Reducing the Deficit, The New Republic

GOP Shows Hypocrisy in Tax Credit Squabble, The Dallas Morning News

Cull the Stupid Tax Breaks, Bloomberg View

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Hypocritical Tax Cuts, The New York Times

Cutting Taxes without Paying for It, USA Today

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General Electric's Special Tax Loophole Lets Company Dodge Billions in Taxes, Americans for Tax Fairness

Corporate Lobbying on Tax Extenders and the "GE Loophole, Americans for Tax Fairness

Stretched to the Limit: A Sampling of Tax Extenders that Should Be Ended (Or Substantially Reformed), Americans for Tax Fairness

Congress Should Offset the Cost of the "Tax Extenders," or Not Enact them At All, Citizens for Tax Justice

Paying for "Tax Extenders" Would Shrink Projected Increase in Debt Ratio by One-Third, Center on Budget and Policy Priorities

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Offshore Corporate Tax Loopholes

Overview

Many U.S. corporations use offshore tax havens and other accounting gimmicks to avoid paying as much as $90 billion a year in federal income taxes. A large loophole at the heart of U.S. tax law enables corporations to avoid paying taxes on foreign profits until they are brought home. Known as "deferral," it provides a huge incentive to keep profits offshore as long as possible. Many corporations choose never to bring the profits home and never pay U.S. taxes on them.

Deferral gives corporations enormous incentives to use accounting tricks to make it appear that profits earned here were generated in a tax haven. Profits are funneled through subsidiaries, often shell companies with few employees and little real business activity. Effectively, firms launder U.S. profits to avoid paying U.S. taxes.

Loopholes used to shift U.S. profits to tax havens

- U.S. firms can set up a subsidiary offshore, channel billions of dollars of profit through it and make the subsidiary "disappear" for U.S. tax purposes simply by "checking a box" on an IRS form.
- Corporations can sell the right to patents and licenses at a low price to an offshore subsidiary, which then "licenses" back to the U.S. parent at a steep price the right to sell its products in America. The goal of this "transfer pricing" is to make it appear that the company earns profits in tax havens but not in the U.S.
- Wall Street banks, credit card companies and other corporations with large financial units can easily move U.S. profits offshore using a loophole known as the "active financing exception."
- A U.S. corporation can do an "inversion" by buying a foreign firm and then claiming that the new, merged company is foreign. This lets it reincorporate in a country, often a tax haven, with a much lower tax rate. The process takes place on paper – the company doesn't move its headquarters offshore and its ownership is mostly unchanged – but it continues to enjoy the privileges of operating here while paying low tax rates in the foreign country.

How to solve the problem

The simplest solution is to end "deferral," as proposed by Sen. Bernie Sanders and Rep. Jan Schakowsky. Corporations would pay taxes on offshore income the year it is earned, rather than indefinitely avoid paying U.S. income taxes. This would also remove incentives to shift U.S. profits to tax havens, and it would raise $600 billion over 10 years.

Short of ending deferral, Congress should close the most egregious loopholes, such as "check the box," "transfer pricing," "active financing exception" and corporate "inversions." It should also end the loophole that lets firms deduct the cost of expenses from moving jobs and operations offshore if the profits earned from those activities remain offshore and untaxed by the U.S. – saving $60 billion over 10 years.

Key Facts

Tax avoidance through offshore tax loopholes is a significant reason why corporations, which paid one-third of federal revenues 60 years ago, now pay one-tenth of federal revenues.

U.S. corporations dodge $90 billion a year in income taxes by shifting profits to subsidiaries—often no more than a post office box—in tax havens.

U.S. corporations hold $2.1 trillion in profits offshore – much in tax havens – that have not been taxed in the U.S.

General Electric, which uses a loophole for offshore financial profits, earned $27.5 billion in profits from 2008 to 2012 but claimed tax refunds of $3.1 billion.

Apple made $74 billion from 2009-2012 on worldwide sales (excluding the Americas) and paid almost nothing in taxes to any country.

26 profitable Fortune 500 firms paid no federal income taxes from 2008-2012. 111 large, profitable corporations paid zero federal income taxes in at least one of those five years.

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For U.S. Companies, Money 'Offshore' Means Manhattan, The New York Times

Switching Names to Save on Taxes, The New York Times

G.E.'s Tax Strategies Let it Avoid Taxes Altogether, The New York Times

Cash Abroad Rises $206 Billion as Apple to IBM Avoid Tax, Bloomberg News

Britain Becomes Haven for U.S. Companies Keen to Cut Tax Bills, Reuters

Apple's Web of Tax Shelters Saved It Billions Panel Finds, The New York Times

Sen. Carl Levin (D-MI) has introduced legislation, the Stop Tax Haven Abuse Act (S. 1533), that will close some of these loopholes. It will raise $220 billion over 10 years.

Corporations really want a "territorial" tax system

Corporations don't just want to "defer" paying U.S. taxes on foreign profits. They want a "territorial" tax system that eliminates all U.S. taxation of offshore profits. This would provide even more incentives for corporations to shift profits to offshore tax havens. A system in which U.S. corporations pay no U.S. income taxes on offshore profits would encourage U.S. firms to create 800,000 jobs overseas rather than in the U.S.

Why not let companies "bring the money home?"

Because U.S. firms are officially holding $2.1 trillion in untaxed profits offshore, they are proposing a "repatriation tax holiday," which would allow them to bring that money home at a special low tax rate. Supporters say this would increase domestic investment, creating jobs.

A tax holiday was tried in 2004, when $300 billion was brought home at a 5.25% tax rate, but it was a big failure. It did not increase domestic investment or create jobs, and the money was used largely for stock buybacks, dividends and executive bonuses. Also, a tax holiday costs more than it raises – it will lose $100 billion over 10 years. Worst of all, it rewards firms that use offshore tax loopholes, encouraging even more tax dodging in the future.

Talking points

- We should end tax breaks for corporations that ship jobs and profits offshore. It's time to invest in America and create jobs here.
- When big corporations use tax havens to dodge paying their fair share of taxes, the rest of us have to pick up the tab. Families pay higher taxes, get fewer services or we all get a bigger deficit.
- Tax dodging by large corporations puts small businesses that play by the rules at a disadvantage. We need to level the playing field.
- *Corporations say our 35% corporate income tax rate is the highest in the world, which makes them uncompetitive and kills jobs.* But corporations aren't paying too much in taxes; many pay too little. The typical American family paid more income taxes in one year than General Electric and dozens of other companies paid in five years. Many large, profitable corporations pay a tax rate of less than 20%, and some pay absolutely nothing for years. If corporations pay less, you will have to pay more. Corporations need to pay their fair share too.
- *Corporations say a repatriation tax holiday will enable them to bring profits home, invest and create jobs.* When this was tried in 2004 it was an utter failure. Companies actually cut jobs, but they lined the pockets of big shareholders and corporate executives. A tax holiday gives tax breaks to corporations that have done the most to dodge paying their fair share of taxes.

Opinion

'A is for Avoidance', The New York Times

Corporations and their Tax Shell Games: Time for a Global Crackdown, The Los Angeles Times

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Tax Havens: International Tax Avoidance and Evasion, Congressional Research Service

International Corporate Tax Rate Comparisons and Policy Implications, Congressional Research Service

Offshore Shell Games 2014, Citizens for Tax Justice and U.S. PIRG

The Sorry State of Corporate Taxes, Citizens for Tax Justice

Don't Renew the Offshore Tax Loopholes, Citizens for Tax Justice

General Electric's Special Tax Loophole Lets Company Dodge Billions in Taxes, Americans for Tax Fairness

The Fiscal and Economic Risks of Territorial Taxation, Center on Budget & Policy Priorities

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Tax Subsidies for CEO Pay

Overview

Most American taxpayers would be shocked to learn that they subsidize CEO bonuses. A tax loophole allows corporations to deduct from their taxable income any amount paid to CEOs and their executives, as long as the pay is "performance-based." This means that the more they pay their executives, the less they pay in federal taxes.

Why does this tax loophole exist?

The CEO pay loophole defies common sense, but Congress thought was doing the right thing when it passed legislation in 1993 that capped the tax deductibility of executive pay at $1 million. But there was a huge loophole – the cap doesn't apply to "performance-based" pay, which includes stock options. Incentive bonuses were supposed to make CEOs better stewards of shareholders' money. This theory has proved false, with the 2008 financial crisis being only the most severe example of how huge performance bonuses can encourage risky activities that endanger single companies and the broader economy.

How much does this loophole cost taxpayers?

Closing the CEO pay loophole would save taxpayers $50 billion over 10 years, according to the non-partisan Joint Committee on Taxation.

What could $50 billion buy?

Rather than subsidize corporate executive pay, other pressing needs could be funded such as:

- Two-thirds of the $75 billion cost of President Obama's plan to provide all low- and moderate-income 4-year-olds with high-quality publicly funded preschool over 10 years.
- Food and Drug Administration funding over 10 years to ensure that our food, prescription drugs and many other products are safe.
- Eliminating the highway and mass transit trust fund shortfalls for the next 2½ years.

What are other benefits of closing the loophole?

Eliminating the loophole would give corporations less incentive to shower executives with lavish bonuses – money that could be used to increase pay for average workers. It would also reduce incentives for CEOs to take wild risks with their companies in order to get multi-million dollar "performance-based" bonuses.

Executive compensation experts found that pay arrangements relying heavily on "performance pay" are leading managers to focus excessively on the short term, motivating them to boost short-term results at the expense of long-term value.

Key Facts

Closing the CEO pay loophole would save taxpayers $50 billion over 10 years.

Walmart dodged $104 million in federal taxes over the past six years by exploiting the CEO pay loophole.

Voters strongly oppose the CEO pay loophole. By nearly 2 to 1 (63%-34%) they want to "Prevent corporations from avoiding taxes when they award their executives millions of dollars in stock options." Hart Research, Q. 12

CEOs of major corporations earn nearly 300 times more than an average worker. This is 10 times more than the CEO to worker pay ratio in 1978 when CEOs earned 30 times more.

CEOs often get their "performance-based" bonuses even when they don't reach performance goals.

News Coverage

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Walmart Slashed Tax Bill By Giving Top Execs Big Bonuses, Forbes

Restaurant chains slash tax bill with executive pay deduction, The Hill

Tax Benefits From Options as Windfall for Businesses, The New York Times

Tax Breaks for CEOs Pay for Million-dollar Salaries, The Guardian

Executive Pay Of Austerity Advocates Saves Companies More Than $1 Billion Via Tax Loophole, The Huffington Post

Retailer's Executive Pay Plan Exploits Tax Break, Study Says, Bloomberg

You're Secretly Subsidizing A Fast Food CEO's Million-Dollar Salary, The Huffington Post

The CEO pay loophole debate

Corporate lobby groups often try to confuse the debate by arguing that Congress shouldn't tell corporations how much they can pay their CEOs. Under proposed reforms in Congress, corporations will still be free to shower their CEOs with huge bonuses. It's just that taxpayers won't have to pick up the tab.

Some conservatives say corporations should face no limits whatsoever on the deductibility of CEO pay since the executives also pay individual income taxes on this compensation. This is not a matter of "double taxation." Corporations and their employees are separate entities and it is the norm to tax money when it changes hands. For example, individuals pay taxes on their earnings and when they spend money at a store that business pays taxes on the income.

What is happening in Congress?

Sen. Jack Reed (D-RI) and Sen. Richard Blumenthal (D-CT) have introduced the Stop Subsidizing Multimillion Dollar Corporate Bonuses Act (S. 1476). Rep. Lloyd Doggett (D-TX) has introduced a companion bill (H.R. 3970) in the U.S. House of Representatives. Both bills would save taxpayers $50 billion.

Rep. Dave Camp (R-MI), Chairman of the House Ways & Means Committee, has produced a tax reform plan that would stop taxpayer subsidies for a company's top five executive officers. It would generate $12 billion over 10 years (Sec. 3802).

These bills would build on precedents in the Troubled Assets Relief Program (TARP) and the Affordable Care Act that set a $500,000 deductibility cap on pay for bailout recipients and health insurers.

Talking points

- Under the CEO pay tax loophole, the bigger the bonuses corporations give to their executives the less the company pays in taxes. That means average taxpayers have to pick up the tab.
- Corporate profits are soaring, CEO pay is skyrocketing, but workers' wages are standing still. It's outrageous that average Americans are subsidizing the lavish bonuses of their bosses.
- Tax loopholes like this make voters feel that the system is rigged against them. And they are right. We need a tax system where everyone plays by the same set of rules.
- When giant corporations don't pay their fair share, small businesses and working families have to make up the difference. The $50 billion cost of this loophole could pay for a lot of things we need – educating our kids, rebuilding roads and bridges and finding new cures for diseases.
- The CEO pay loophole encourages the reckless risk-taking that helped cause the 2008 financial crash. The more CEO bonuses are linked to stock prices and other short-term measures of "performance," the more incentive CEOs have to take giant risks.

Taxpayers Subsidize CEO Pay, Report Says, ABC News

Senators Seek To End Taxpayer Subsidy For Exorbitant CEO Pay, ThinkProgress

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Ending the Taxpayer Subsidy for Exorbitant Executive Bonuses, The Austin American-Statesman

The CEO Aristocracy: Big Bucks for the Big Boss, The Washington Post

Pro-austerity CEOS rake in millions in taxpayer-subsidized 'performance' pay, The Raleigh News and Observer

Walmart's Top-to-Bottom Taxpayer Subsidies, Common Dreams

Resources

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Executive-Pay Tax Break Saved Fortune 500 Corporations $27 Billion Over the Past Three Years, Citizens for Tax Justice

Restaurant Industry Pay: Taxpayers' Double Burden, Institute for Policy Studies

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Corporate Tax Rates

Overview

Corporations are paying a smaller share of federal tax revenue than they did in the 1950s, dropping from one-third then to only one-tenth of the total today. Yet, an army of lobbyists is pushing hard to convince Congress to cut the corporate income tax rate by nearly one-third – from the current 35% to 25%. This issue is at the epicenter of the coming battle over tax reform.

Conservatives have defined the debate in a highly-misleading manner. They focus on the top *statutory* rate – the rate specified by law – instead of the *effective* tax rate – what is actually paid. Because U.S. statutory rates are somewhat higher than other OECD countries, corporations claim that this makes them less competitive, and that it stunts job growth. But their argument is unpersuasive when the debate focuses on *effective* corporate tax rates.

The debate has been further skewed by calls for "revenue neutral" corporate tax reform, in which any revenue raised by closing tax loopholes is used to reduce rates. Corporations haven't contributed a dime towards deficit reduction in recent budget deals. And they want to continue this special treatment while American families shoulder the entire burden. Meanwhile, the country is starved for resources needed to foster economic growth and job creation – from infrastructure to research to improved schools.

U.S. *effective* corporate tax rates are not a burden

The top *statutory* tax rate of 35% in the U.S. is somewhat higher than that of 30 other OECD countries, but the average *effective* tax rate – the actual rate paid after deductions and credits, is slightly lower than our competitors, according to the Congressional Research Service (CRS).

Several studies have found that U.S. corporations pay a similar or a lower *effective* tax rate – the rate actually paid – than corporations in other countries. For example:

- Our average effective tax rate is 27.1% compared with 27.7% for the other 30 OECD countries, according to CRS.
- Profitable corporations paid U.S. income taxes amounting to just 12.6% of worldwide income in 2010, according to the Government Accountability Office.
- Citizens for Tax Justice's survey of 288 corporations, which included most of the Fortune 500 corporations that were profitable each year from 2008 through 2012, found that they paid an average effective federal tax rate of just 19.4% over that period.
- Of 125 corporations in that study that had significant foreign profits, 82 (two-thirds) paid a higher effective rate to foreign governments than they paid to the U.S.

Key Facts

Corporate share of federal tax revenue has dropped by two-thirds in 60 years – from 32% in 1952 to 10% in 2013.

General Electric, Boeing, Verizon and 23 other profitable Fortune 500 firms paid no federal income taxes from 2008-2012.

288 big and profitable Fortune 500 corporations paid an average effective federal tax rate of just 19.4% from 2008 to 2012.

Profitable corporations paid U.S. income taxes amounting to just 12.6% of worldwide income in 2010.

U.S. corporations dodge $90 billion a year in income taxes by shifting profits to subsidiaries—often no more than post office boxes—in tax havens.

U.S. corporations officially hold $2.1 trillion in profits offshore – much of it in tax havens – that have not yet been taxed here.

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Post Analysis of Dow 30 Firms Shows Declining Tax Burden as a Share of Profits, The Washington Post

Report: Corporations Pay Fraction of Top Rate, The Hill

G.E.'s Strategies Let It Avoid Taxes Altogether, The New York Times

With Tax Break, Corporate Rate Is Lowest in Decades, The Wall Street Journal

U.S. Business Has High Tax Rates but Pays Less, The New York Times

Some corporations pay nothing in taxes

- General Electric, Boeing, Priceline.com, Verizon and 22 other profitable Fortune 500 firms paid no federal income taxes from 2008 through 2012, according to Citizens for Tax Justice.
- 111 profitable Fortune 500 firms paid zero federal taxes in at least one of those five years.
- General Electric, one of the most notorious corporate tax dodgers, got $3.1 billion in refunds on $27.5 billion in profits from 2008 to 2012. The company paid less in federal income taxes in five years than a single American family pays in one year.

Lower tax rates do not boost growth and jobs

Conservatives claim reducing the corporate tax rate will substantially grow the economy. But a cut in the statutory rate from 35% to 25% would increase economic output by less than two-tenths of one percent, according to CRS. Economic growth over the past 60 years has actually been *stronger* when corporate tax rates were higher, according to the Economic Policy Institute. U.S. corporate tax rates also are not hurting profits – before-tax and after-tax corporate profits as a percentage of national income are at post–World War II highs.

There is no relationship between cutting corporate tax rates and job growth, according to a recent study by the Center for Effective Government. Twenty-two of the 30 profitable Fortune 500 companies that paid the *highest* tax rates (30% or more) from 2008 to 2010 created almost 200,000 jobs between 2008 and 2012. The 30 profitable corporations that *paid little or no taxes* over the three years collectively shed 51,289 jobs between 2008 and 2012.

A corporate tax rate cut will blow a hole in the budget

Those who want to cut the corporate income tax rate from 35% to 25% ignore that it will cost $1.3 trillion over 10 years, according to the Joint Committee on Taxation. They say that rate cuts will be paid for by closing corporate tax loopholes, but this will be extremely difficult given the power of the corporate tax lobby. Even if it was possible, there would be no new revenue for investments or deficit reduction. America can't afford that.

Americans don't want to cut corporate taxes

Recent polling shows that the public feels strongly that corporations need to step up and contribute their fair share. For instance:

- By 79% to 17%, voters want to "Close tax loopholes to ensure that American corporations pay as much on foreign profits as they do on profits made in the United States."
- By 82% to 9%, voters believe that "reform[ing] the tax system by closing corporate loopholes and limiting deductions for the wealthy" should be used to "reduce the budget deficit and make new investments" rather than to "reduce tax rates on corporations and the wealthy."

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No Replacement for Corporate Taxes, The New York Times

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Looking at Some Corporate Tax Loopholes Ordinary Citizens May Envy, The New York Times

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Corporate Tax Rates And Economic Growth Since 1947, Economic Policy Institute

Lower Corporate Tax Rates Not Linked to Job Creation, Center for Effective Government

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Taxing Wealthy Americans

Overview

The federal income tax is designed to be progressive – tax rates increase in steps as income rises. For decades this helped restrain disparities in income and helped provide revenue to make public services available to all Americans. Today the system has badly eroded – many multi-millionaires and billionaires pay a lower tax rate than average American families.

Ironically, this has happened while the gap between the wealthy and everyone else has grown wider than ever. The extremely rich aren't only earning and owning more – many are also passing wealth to their heirs tax-free, creating a new American aristocracy with vast fortunes.

How the rich avoid paying taxes – and what to do about it

- **Tax income from investments like income from work.** Billionaires like Warren Buffett pay a lower tax rate than millions of Americans because federal taxes on investment income *(unearned income)* are lower than the taxes many Americans pay on salary and wage income *(earned income.)* Because Buffett gets a high percentage of his total income from investments, he pays a lower income tax rate than his secretary. Currently, the top *statutory* tax rate on investment income is just 23.8%, but it's 43.4% on income from work. To reduce this inequity, *we should raise tax rates on capital gains and dividends* so they match the tax rates on salaries and wages. These loopholes lose $1.3 trillion over 10 years.
- **Cap tax deductions at 28% for the wealthiest Americans.** The rich are able to get much bigger tax breaks for the same tax deductions taken by the middle class. For example, a wealthy family living in a McMansion gets a much bigger tax deduction on the interest on their large mortgage than a middle-class family gets on the interest on their small mortgage on a two-bedroom house. *President Obama* has proposed to *limit the tax break on deductions that the richest 3% can take to 28 cents on the dollar*. In other words, the rich would get the same tax benefit per dollar of deductions as a household in the 28% tax bracket, but not more (as they do now) at the higher 39.6% bracket. This would raise $500 billion over 10 years.
- **Strengthen the estate tax.** Some of the ultra-rich are able to take advantage of loopholes so they pay almost nothing in inheritance taxes. Others take advantage of the fact that the exemption levels for the estate tax are very high – $5.3 million per individual ($10.6 million per couple.) *President Obama proposes to restore the exemptions to their 2009 levels* – $3.5 million for an individual ($7 million for a couple) taxed at a 45% top rate. This and other reforms would raise $131 billion over 10 years. Only three estates for every 1,000 deaths would be affected.

Key Facts

The richest 1% of Americans own 35% of the nation's wealth. The bottom 80% own just 11% of the nation's wealth.

In the 1950s and 1960s, when the economy was booming, the wealthiest Americans paid a top income tax rate of 91%. Today, the top rate is 43.4%.

The richest 1% pay an effective federal income tax rate of 24.7% in 2014; someone making an average of $75,000 is paying a 19.7% rate.

The average federal income tax rate of the richest 400 Americans was just 20 percent in 2009.

Taxing investment income at a much lower rate than salaries and wages are taxed loses $1.3 trillion over 10 years.

1,470 households reported income of more than $1 million in 2009 but paid zero federal income taxes on it.

CEOs of major corporations earn nearly 300 times more than an average worker.

30 percent of income inequality is due to unfair taxes and budget cuts to services and benefits.

The largest contributor to increasing income inequality has been changes in income from capital gains and dividends.

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Carried Interest Tax Break Comes Under Fire Again, The New York Times

Another way to ensure that large inheritances are taxed is to close the income tax loophole that lets wealthy people avoid capital gains taxes by holding their assets until they die. Their heirs then escape paying taxes on these gains. This would raise about $650 billion over 10 years. We should also end specialized trusts that allow families, such as the Waltons who own more than half of Walmart, to completely avoid paying estate and gift taxes.

Other ways to close tax loopholes for the wealthy

- **Pass the Buffett Rule.** The Buffett rule, inspired by billionaire Warren Buffett, would require millionaires to pay a minimum tax rate of 30%. This will guarantee that the wealthy will not pay a smaller share of their income in taxes than a middle-class family pays. It would raise $72 billion over 10 years.
- **Close the Wall Street carried interest loophole.** Wealthy private equity managers use a loophole to pay the lower 23.8% capital gains tax rate on the compensation they receive for managing other people's money. We should close this loophole so that they pay the same rate as others at their income level who receive their compensation as salary. This would raise $17 billion over 10 years.
- **Eliminate the payroll tax loophole for S corporations.** This loophole allows many self-employed people to use "S corporations" to avoid payroll taxes. Used by Newt Gingrich and John Edwards to avoid taxes, closing this loophole would require treating this income as salary rather than profit, making it subject to payroll taxes. This would raise $25 billion over 10 years.

What conservatives say – and why it's wrong

Conservatives claim the wealthy are overtaxed. But the overall share of taxes paid by the top 1% and the top 5% is about their share of total income. This shows that the tax system is not progressive when it comes to the wealthy. The richest 1% pay an effective federal income tax rate of 24.7%. That is a little more than the 19.3% rate paid by someone making an average of $75,000. And 1 out of 5 millionaires pays a lower rate than someone making $50,000 to $100,000.

Conservatives claim that the estate tax is a "death tax," wrongly implying that the tax is paid when every American dies. In fact, the tax primarily is paid by estates of multi-millionaires and billionaires. The vast majority of deaths – 99.9% – do not trigger estate taxes today.

Talking points

- It's time for the wealthiest Americans and big corporations to pay their fair share of taxes. When they take unfair advantage of the many loopholes in the tax code the rest of us pick up the tab.
- Instead of cutting education funding for our children, we should ask millionaires to pay a tax rate at least as high their secretary's.
- Instead of cutting Social Security and Medicare, we should ask the wealthy to give up a few tax loopholes so that we can make sure everyone has a secure retirement.

Opinion

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Americans for Tax Fairness *is a diverse coalition of 425 national and state organizations that collectively represent tens of millions of members. ATF was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs.*

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The Estate (Inheritance) Tax

Overview

The federal estate tax, also known as the inheritance tax, is primarily paid by the estates of multi-millionaires and billionaires before their assets are passed to their heirs. It was created nearly 100 years ago to raise revenue from those with the greatest ability to pay, encourage charitable giving and put a brake on the concentration of wealth and power. Conservatives call it the "death tax" in order to mislead people to believe that all Americans pay the tax. But the truth is the vast majority of deaths – 99.9% – will not trigger estate taxes in 2014.

Who pays the estate tax and how much do they pay?

Currently, the tax is assessed only on estates with assets exceeding $5.3 million ($10.6 million per married couple). Families with an estate worth less than those amounts pay nothing. Most families with estates worth $10.6 million or more do careful planning to avoid the tax. Tax loopholes let many wealthy families greatly reduce what they pay or pay no taxes at all. The estate tax is graduated – like the income tax – with a top rate of 40%. However, the average effective tax rate is 17% for those 1 out of 700 deaths that result in paying an estate tax.

Why is the estate tax important?

Very wealthy Americans have many ways to avoid paying their fair share in taxes. Some billionaires pay a lower federal tax rate than an average worker. Large portions of the incomes of the very rich are never taxed at all.

American society is rapidly becoming divided between the extremely rich – the top 1% – and everyone else. Huge family fortunes are passed down from generation to generation, creating a new American aristocracy. The estate tax is a small step toward levelling the playing field. And revenues generated by the estate tax – $14 billion in 2013 from 2,667 deaths – help fund essential services enjoyed by all.

Correcting misinformation about the estate tax

Conservatives misleadingly imply that every American will have to pay the estate tax when he or she dies. But this is pure propaganda – only 1 out of every 700 deaths results in paying estate taxes.

Conservatives claim that many small, family-owned farms and businesses must be sold to pay estate taxes. But in the entire country just 20 small, family-owned farms and businesses owe any estate tax a year. Virtually none of them get sold to pay the estate tax.

Conservatives claim that the estate tax constitutes "double taxation" because it applies to assets that already have been taxed once as income. But large estates consist mostly of "unrealized" capital gains that have never been taxed, like income from Wall Street investments and from real estate.

Key Facts

The estate tax raised $8.5 billion in 2012 – less than 1% of the $1.2 trillion inherited that year.

Only 1 out of every 700 deaths results in paying the federal estate tax today. The vast majority of estates – 99.9% – do not pay federal estate taxes.

While the top estate tax rate is 40%, the average tax rate paid is just 17%.

The estate tax is only paid on assets greater than $5.3 million per individual ($10.6 million couple). Even billionaires pay nothing on the first $5.3 million left to their heirs.

Only 20 small business and family farm estates nationwide will owe any estate tax in 2013.

The estate tax will raise $225 billion over the next 10 years. This is more than the $164 billion 10-year shortfall in the highway and mass transit trust funds.

The Walton family – which owns half of Walmart – has exploited a loophole in the estate tax to avoid paying $3 billion in estate taxes. This could increase by tens of billions in the future.

Casino magnate Sheldon Adelson has exploited a loophole that allowed him to pass $8 billion to family members and avoid $2.8 billion in estate taxes.

News Coverage

Accidental tax break saves wealthiest Americans $100 billion," Bloomberg News

How Wal-Mart's Waltons Maintain Their Billionaire Fortune, Bloomberg News

Cook Couple Passed $6 Billion Fortune to Son to Avoid Tax, Bloomberg News

A Family's Billions, Artfully Sheltered, The New York Times

President Obama wants to strengthen the estate tax

The estate tax will currently raise about $225 billion over 10 years. President Obama wants to restore its parameters to 2009 levels – a $3.5 million exemption for an individual ($7 million couple) and a 45% top rate. This reform and others he proposed will raise $131 billion more over 10 years, and affect three estates for every 1,000 deaths.

Other stronger reform options

- **Restore the estate tax to what it was under President Clinton** – a $2.6 million exemption per couple with a 55% top tax rate. This would generate an additional $249 billion over 10 years – money that could be used to support popular public services and reduce the deficit. Even with this smaller exemption, the tax would affect fewer than 2 out of 100 estates. Rep. Jim McDermott (D-WA) proposed such legislation (H.R. 3467) in 2011.
- **Close the inherited capital gains tax loophole.** Wealthy people avoid capital gains taxes by holding onto their assets until they die and bequeathing them to heirs. The increase in value is not taxable when they are sold. This loophole will allow the wealthy to dodge about $650 billion in taxes over the next 10 years.
- **Close an estate tax loophole used by the super-rich, known as the "Walton" grantor retained annuity trust, or GRAT.** These specialized trusts allow families like the Waltons to completely avoid paying estate and gift taxes. This loophole may have cost the U.S. Treasury $100 billion since 2000.

Conservatives want to repeal the estate tax

There is a significant effort among conservatives to repeal the estate tax – with no plans to replace the $225 billion in revenue that would be lost over a decade. A bill (H.R. 2429) to do that, authored by Rep. Kevin Brady (R-CA), has a majority in the U.S. House cosponsoring it.

Talking points

- The estate tax is paid by billionaires and millionaires – it is not a tax on the middle class. An estate needs to be worth more than $5 million before a dime of it gets taxed. Only 1 estate out of every 700 deaths pays any estate tax.
- A strong estate tax is needed to make sure the wealthy pay their fair share. It is not a tax on small businesses and family farmers – just 20 of them across the country pay U.S. estate taxes each year.
- The richest Americans are amassing huge fortunes, passing them to their heirs and creating a new aristocracy. The rest of us are barely keeping our heads above water. We need a strong estate tax to help restore the promise of America to everyone.
- Repealing the estate tax would blow a $225 billion hole in the federal budget over 10 years. It would give huge tax breaks to those who need them the least – the wealthiest Americans.

Opinion

Changing the tax code could help curb inequality, The Washington Post

Look How Easy It Is to Game Estate Taxes, Bloomberg View

America's Taxation Tradition, The New York Times

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Policy Basics: The Estate Tax, Center on Budget and Policy Priorities

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Fixing and Expanding the Estate Tax, Institute for Policy Studies

Loopholes in the Estate Tax Show Why Revenue Must Be on the Table, Center for American Progress

Wealth and Our Commonwealth: Why Americans Should Tax Accumulated Fortunes, Bill Gates Sr. and Chuck Collins

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