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August 24, 2021

The Honorable Richard Neal, Chair
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Neal,

The undersigned unions representing millions of members nationwide urge you to support strong international tax reforms that raise *at least* $600 billion in new revenue from multinational corporations through the Build Back Better reconciliation package. Our members live and work in every congressional district in the country, and they expect their representatives in Congress to take action now to fix the broken system that puts their jobs at risk.

We are disappointed that eleven members of the House Democratic Caucus wrote to you arguing that "enacting tax increases above and beyond the final implemented OECD agreement, or getting out too far ahead of our OECD partners, would risk U.S. international competitiveness." Their position, simply stated, is that the United States should not fix a broken tax system that rewards multinational corporations for moving jobs and profits overseas unless the Estonians and the Irish give their permission. We vehemently disagree with their assessment. There is no good reason for the President and Congress to wait for the OECD negotiations to be concluded or to limit their reforms to those included in the international framework.

We must not waste this historic opportunity to crack down on offshore corporate tax avoidance and align our tax rules with the interests of working people rather than the ultra-wealthy and multinational corporations.

Right now, offshore profits of American corporations are taxed at roughly half the rate applied to U.S. profits under the rules enacted as part of the Tax Cuts and Jobs Act (TCJA) of 2017. Furthermore, strategic planning encouraged by these rules, including rules that do not require foreign tax credits to apply on a country-by-country basis, often results in much lower effective tax rates. Other provisions in the TCJA, such as the Foreign Derived Intangible Income rule, punish firms for their investments here at home.

Opposition to TCJA, and especially its brazen corporate giveaways, helped create the House Democrats' majority, bringing new Democratic lawmakers to office in 2018 with a clear mandate to ensure that government works for the people. It would be demoralizing indeed for our members who worked so hard if Democrats now back away from fixing these destructive tax breaks.

The OECD negotiations are very important and potentially beneficial. But there is no guarantee that those negotiations will conclude anytime soon. More importantly, the rules that are being developed in these negotiations, particularly the minimum tax on corporate profits in Pillar 2 of the BEPS framework, are designed to be a *minimum* standard for nations to follow, *not* a maximum standard.

U.S. multinationals currently pay an effective tax rate of 7.8%, according to the Joint Committee on Taxation, far lower than the 18.1% effective rate levied by our top ten global trading partners. Non-partisan analysis by Reuters confirms that *even if all* of the proposed Build Back Better corporate tax reforms are enacted, U.S. firms will still pay an effective tax rate that is several points lower than their foreign rivals.

There is no basis for the defeatist argument that we can't take "unilateral or preemptive U.S. action" in fixing our own broken tax code, nor for concern about "the potential for foreign takeovers of U.S. companies." The Biden administration's proposed Stopping Harmful Inversions and Ending Low-Tax Developments (SHIELD) rule would remove any advantage to foreign corporations that want to access the enormous consumer market here in the U.S. and it would encourage other countries to join our efforts to crack down on tax avoidance. Further, the President's plan includes provisions that improve prior rules preventing companies from "inverting" or improperly claiming a foreign residence by effectively changing their address (via mergers with smaller foreign companies or otherwise) to a foreign one for tax benefits.

The eleven lawmakers are concerned with competition for consumers abroad, and they mention "the vast majority of consumers residing outside the United States." They seem to believe that our enormous consumer market, which most multinational corporations desperately want to access, does not provide us with any leverage as we attempt to crack down on tax avoidance. They should remember that, under the current rules, American multinational corporations claim that huge portions of their profits are earned in tiny countries where there are *almost no consumers*, like Bermuda and the Cayman Islands, which do not tax corporate profits. These corporations also claim to generate huge profits in countries like Ireland, which has a low tax rate and facilitates schemes to further shift profits to other tax havens.

For example, according to the IRS, American corporations collectively reported in 2018 that they earned $97 billion in Bermuda, a country with only 64,000 inhabitants and a gross domestic product that year of $7.2 billion. In other words, American corporations are using accounting gimmicks to claim that their subsidiaries in Bermuda earned $97 billion, which is more than 13 times the entire economic output of that tiny nation. This is plainly ridiculous, and Congress should not wait to address it.

This kind of offshore corporate tax dodging does not benefit working people in the United States. It benefits corporate shareholders who are mostly wealthy Americans and foreign investors. (A recent study found that 40 percent of the shares in American corporations are owned by foreign investors.) Corporate tax dodging is a bad deal for working people — and our members know it.

A non-partisan public opinion poll released in June showed that more than 60 percent of respondents approved of every corporate tax increase presented to them, including 70 percent who supported a hypothetical proposal to "[r]aise the corporate tax rate on foreign profits from 11% to 28% to equal to the rate on domestic profits." This means that 70 percent of respondents would go further than President Biden, who proposed a rate of 21 percent for offshore profits. In fact, raising taxes on multinational corporations significantly increased support for the Build Back Better package — particularly among independent voters.

We strongly urge you not to waste this opportunity to stand up for American workers. Our members won't accept excuses while their jobs are on the line.

Sincerely,

AFL-CIO

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cc Members of the House Committee on Ways and Means