AMERICANS FOR TaxFairness

FACTCOALITION
Financial Accountability & Corporate Transparency

PLEASE OPPOSE A REPATRIATION TAX HOLIDAY

June 27, 2014

Dear Senator:

On behalf of Americans for Tax Fairness and the Financial Accountability & Corporate Transparency (FACT) Coalition, we write to urge you to oppose any legislation that would lower the U.S. tax rate on offshore profits that multinational corporations officially bring back to the United States. Commonly known as a "repatriation tax holiday," such a proposal costs more than it raises, rewards companies that use offshore loopholes to dodge paying their fair share of taxes, is not necessary because a lot of these offshore profits are already invested here, and will accelerate future tax avoidance and the offshoring of American jobs.

The cost to taxpayers of offshore tax-avoidance by corporations is estimated to be $90 billion a year. This revenue is desperately needed here – to invest in our communities, grow the economy, create jobs and reduce the deficit. Working people and small businesses should not have to pick up the tab for this corporate tax dodging.

A repatriation holiday is very unfair to average taxpayers and to U.S. businesses paying their fair share of taxes. Many middle-class taxpayers are paying a higher effective U.S. income tax rate than some multinational corporations. Many U.S. firms, from major domestic manufacturers and retailers to small businesses on Main Street, are paying an effective tax rate of 30% or more, as they should under the tax laws. Yet, a repatriation holiday modeled on the 2004 legislation would reduce the tax rate on offshore profits to about 5%. Our tax policies should not favor big corporations over average taxpayers, nor should they favor one type of company or industry over another.

A repatriation holiday will give huge tax breaks to corporations that are the most aggressive tax dodgers. This tax break goes primarily to companies that book profits in offshore tax havens. Three-quarters of the $312 billion in profits repatriated under the 2004 holiday had been booked in offshore tax havens, according to the IRS. This is not surprising because corporations that have paid little or no foreign taxes (because of their use of tax havens) receive the greatest benefit from a repatriation holiday.

A repatriation holiday will encourage corporations to be even more aggressive in shifting profits, investment and jobs offshore in the future. At the time of the 2004 repatriation holiday, $804 billion in untaxed U.S. corporate profits were reported offshore, according to the IRS. Ten years later the figure is $2.1 trillion – a 250% increase. A repatriation holiday will send a message to U.S. corporations that they can regularly look forward to this steeply discounted tax rate on offshore earnings, accelerating their shifting of jobs, investment, and profits overseas.

A repatriation holiday is not necessary because much of the offshore profits are already invested directly or indirectly in the United States. Much of the $2 trillion in U.S. corporate profits that are offshore are not "trapped" or unavailable for investment. A lot of those profits are already invested here but are going untaxed. For example, the U.S. Senate Permanent Subcommittee on Investigations found that 46% of $538 billion in untaxed foreign earnings held by 27 U.S. firms in 2010 were invested in U.S. financial assets and institutions. Last year Apple had $102 billion in untaxed corporate profits booked offshore but sitting in New York bank accounts, according to The New York Times. In theory, companies cannot use unrepatriated offshore profits to pay their shareholders or expand their business, but even these restrictions are effectively circumvented when a company like Apple borrows for these purposes, effectively using the offshore profits as collateral.

A repatriation holiday will lose nearly $100 billion over 10 years, increasing the deficit and shortchanging new investments. While legislation modeled on the 2004 holiday will raise $20 billion in the first two years, over 10 years it will lose nearly $100 billion, according to the Joint Committee on Taxation. Even if a repatriation holiday is paired with an offset that makes the package essentially revenue neutral, it makes no sense to spend billions of dollars in offsets to fund a tax cut for large multinationals that rewards and encourages tax avoidance.

A repatriation holiday will not increase U.S. jobs and economic growth. Like today, 2004 holiday proponents sold it as a means to boost economic growth and create jobs. However, the National Bureau of Economic Research found that the holiday "did not increase domestic investment, employment, or [research and development]." The repatriated profits were used largely for stock buybacks and to pay bigger dividends. The Congressional Research Service, which examined numerous studies about the 2004 repatriation holiday, found that "empirical evidence is unable to show a corresponding increase in domestic investment or employment."

U.S. multinational corporations are constantly repatriating offshore profits and paying taxes on them. For example, in April eBay announced its intention to repatriate $9 billion in offshore profits and pay up to $3 billion in taxes to do so. Corporations that want to use their offshore profits to directly invest in their own business or pay shareholders should repatriate those profits and pay the tax that is due under the normal rules.

To resolve the problems with our international corporate tax rules, Congress should end the rule allowing American corporations to "defer" paying U.S. taxes on their offshore profits until they are officially repatriated. With this reform there would be no tax incentive to officially hold profits offshore. As a result, our economy and budget would be in much better shape, there would be more resources for critical investments and greater tax fairness would be achieved.

Sincerely,

Frank Clemente
Executive Director, Americans for Tax Fairness

Nicole Tichon
Executive Director, FACT Coalition

For more information, contact Frank Clemente (fclemente@americansfortaxfairness.org) or Mike Russo (mrusso@pirg.org)