FACTCOALITION
Financial Accountability & Corporate Transparency

CORPORATE INVERSIONS

Inversions are nothing more than corporations fleeing the United States to avoid paying taxes and contributing to the cost of advantages and services which we all enjoy and to which we all contribute.

U.S. corporations are giving up their "citizenship" to avoid paying taxes. In an inversion, a U.S. multinational corporation merges with a smaller foreign entity to move the parent corporation "offshore" to a low or no tax country.

If it takes 50% to win an election or pass legislation, why should you be able to avoid U.S. corporate income tax for far less? A loophole in current law allows the company resulting from a U.S.-foreign merger to be considered a "foreign" corporation even if it is 80 percent owned by shareholders of the American corporation.

The resulting corporation is not *really* moving overseas – just on paper. Most of the business activity and headquarters of the resulting entity are in the U.S. Further, most of the production and current jobs in the U.S. will remain in the U.S. Even the headquarters will remain in the United States and the new foreign firm may even be listed on a U.S. stock exchange.

Inversions are eroding the U.S. tax base, forcing individual taxpayers, small businesses, and domestic corporations to make up the difference. With inversions, corporate tax revenue will fall, exacerbating fiscal problems and the unfairness of the U.S. tax system.

But inversion also makes it easier for a corporation to avoid *U.S.* taxes on its *U.S.*profits. In theory, once a corporation is "foreign," any profits it earns in the U.S. remain subject to U.S. taxes, but offshore profits are not. This is because corporate inversions are often followed by "earnings-stripping," which makes U.S. profits appear, on paper, to be earned offshore.

Lowering the U.S. corporate rate is *not* the answer because most corporations don't pay the full rate anyway. Corporate lobbyists and their allies point to the U.S.'s official corporate tax rate of 35 percent as justification for brazen use of inversions and other tax avoidance schemes. In fact, very few American corporations actually pay that rate as a percentage of their profits. Fortune 500 corporations that were consistently profitable from 2008 through 2012 paid, on average, just 19.4 percent of their profits in federal income taxes over that period. Twenty-six of these corporations paid nothing over the five-year period while collectively earning $169 billion in profits.