FACTCOALITION
Financial Accountability & Corporate Transparency

May 20, 2014

Dear Representative,

Pfizer – America's largest drug maker – has made headlines recently over its attempt to acquire a smaller foreign competitor that would allow it to avoid U.S. taxes by becoming a "foreign" company for tax purposes. Pfizer is not alone; there has been a surge of American companies in recent years that have changed the address of their headquarters to a foreign country, a maneuver referred to as an "inversion." **The Financial Accountability and Corporate Transparency (FACT) Coalition urges you to cosponsor the Stop Corporate Inversions Act, just introduced by Ways and Means Committee Ranking Member Sander Levin, which would close the inversion loophole.**

Companies that "invert" continue to benefit from America's infrastructure, education system, and security, but force average taxpayers, small businesses, and larger domestic companies to foot their tax bill. Pfizer has been up front with its investors that the company would continue to be managed out of New York, despite being considered a British company for tax purposes.

Inversion allows companies to maximize the benefits of exploiting offshore tax loopholes. Many multinationals use accounting tricks to make profits earned in the U.S. appear on the books of subsidiaries in tax havens like the Cayman Islands. An American company must pay U.S. tax on those profits it claims were made offshore if it wants to use the money to pay dividends to shareholders or make certain U.S. investments. However, once a corporation is characterized as foreign, the profits it books offshore are exempt from U.S. tax, increasing the reward for exploiting offshore loopholes.

Corporate inversions are often followed by "earnings-stripping," in which companies load the American part of the company with debt owed to the foreign part of the company. The interest payments on the debt are tax deductible, officially reducing American profits, which are effectively shifted to the foreign part of the company.

In 2004, bipartisan legislation made it significantly more difficult for a company to invert. That law treats the entity resulting from a U.S.-foreign merger as an American company if it is 80 percent owned by the shareholders of the original American corporation, unless it can prove that it does substantial business in the new country of incorporation. In recent years, companies have discovered a way to circumvent the bipartisan anti-inversion laws by acquiring a smaller foreign company in which shareholders of the foreign company own more than 20 percent of the newly merged company.

Ranking Member Levin's legislation (and its companion bill in the Senate) would stop this wave of inversions by requiring companies that claim to be "foreign" for tax purposes show that at least 50 percent of their shareholders are not the same as those of the pre-inversion parent company.

This important reform is based on a proposal from the President's budget that would save taxpayers $17 billion over the next decade at a time when corporate tax avoidance is leading to substantial revenue losses in the U.S. and around the globe, including in the developing world. Congress should waste no time in closing the inversion loophole. We urge you to join as a cosponsor of **the Stop Corporate Inversions Act.**

Sincerely,

The FACT Coalition

Founded in 2011, the Financial Accountability and Corporate Transparency (FACT) Coalition unites civil society representatives from small business, labor, government watchdog, faith-based, human rights, anti-corruption, public-interest, and international development organizations. We seek an honest and fair corporate tax code, greater transparency in corporate ownership and operations, and commonsense policies to combat the facilitation of money laundering and other criminal activity by the legitimate financial system.