



July 7, 2016

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The Honorable Jacob J. Lew  
Secretary of the Treasury  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

**RE: Treatment of Certain Interests in Corporations as Stock or Indebtedness (REG-108060-15; Docket Number: IRS-2016-0014-0002; Docket RIN: 1545-BN40)**

Dear Secretary Lew,

On behalf of the Financial Accountability and Corporate Transparency (FACT) Coalition, I am writing to support the Department of the Treasury's proposed rule on the **Treatment of Certain Interests in Corporations as Stock or Indebtedness**. We believe that a robust implementation of this rule will help curb abusive corporate tax avoidance practices, including the incentive for companies to engage in corporate inversions.

The FACT Coalition is a non-partisan coalition of more than 100 state, national and international organizations working toward a fair and honest tax system that addresses the challenges of a global economy and promotes policies to combat the harmful impacts of corrupt financial practices.<sup>1</sup>

The corporate tax avoidance practice known as earnings stripping has undermined the honesty and fairness of our tax code by allowing multinational corporations to artificially shift income from higher to lower (or zero) tax jurisdictions. Using its broadly granted authority under Section 385, Treasury has appropriately proposed to restore some honesty to cross-border transactions by curbing the incentive for companies to use intercompany debt to artificially shift their income.

Earnings stripping is one of the most significant incentives behind the recent slew of inversions because it allows U.S. companies to permanently, rather than temporarily, shift income outside of the taxing jurisdiction of the United States. In addition, curbing earnings stripping will not only raise much needed revenue, but it will also level the playing field between purely domestic businesses and the multinational companies with which they compete. This is why it is so important that Treasury choose to apply its new rules to all companies, rather than just those which have recently engaged in an inversion.

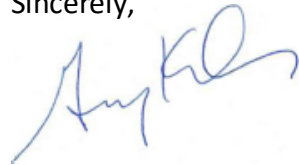
While legislation to curb these inversions would be ideal, the political reality is that Congress is unlikely to act in the near term. Unfortunately, the many planned inversions—such as those by Pfizer, IHS, and Johnson Controls—show that immediate action is needed to prevent a significant erosion in the corporate tax base. In fact, analysts at Citizens for Tax Justice (CTJ)—a FACT Coalition member—estimate that Pfizer alone could have used an inversion to avoid \$40 billion in taxes on the \$194 billion that the company has in untaxed offshore earnings.<sup>ii</sup>

A recent study by CTJ found that U.S. companies likely owe as much as \$695 billion on the \$2.4 trillion in earnings they hold offshore.<sup>iii</sup> Given the substantial sum owed in taxes by these companies, allowing them to avoid taxes entirely through earnings stripping and related inversions could have negative implications on the tax base moving forward.

The gaming of our international tax system exacerbates economic inequality; drains revenue out of both developed and developing countries; hurts legitimate businesses, families, and communities; and undermines our country's ability to govern. It is time we eliminate this egregious offshore loophole to make sure that the corporations that benefit from all of the resources, protections, and markets in the United States pay their fair share of taxes.

Thank you for your careful consideration of this matter.

Sincerely,



**Gary Kalman**  
*Executive Director*  
*The FACT Coalition*

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<sup>i</sup> A list of FACT Coalition members is available at <http://thefactcoalition.org/about/coalition-members-and-supporters/>.

<sup>ii</sup> Richard Phillips, "How Treasury Could Take Action to Prevent Inversions," *Citizens for Tax Justice*, March 23, 2016 (accessible at [http://www.taxjusticeblog.org/archive/2016/03/how\\_treasury\\_could\\_take\\_action.php](http://www.taxjusticeblog.org/archive/2016/03/how_treasury_could_take_action.php)).

<sup>iii</sup> Jenice Robinson, "Fortune 500 Companies Hold a Record \$2.4 Trillion Offshore," *Citizens for Tax Justice*, March 3, 2016 (accessible at <http://ctj.org/pdf/pre0316.pdf>).