



FACTCOALITION

Financial Accountability & Corporate Transparency

September 22, 2016

Representative Mark Pocan
U.S. House of Representatives
313 Cannon House Office Building
Washington, DC 20515

Dear Representative Pocan,

We write in support of the **Corporate Transparency and Accountability Act of 2016** and thank you for your leadership on this important transparency issue. The bill requires publicly traded multinational companies to report in their disclosure statements to investors information about revenues, profits, taxes, and certain operations on a country-by-country basis. If passed, investors will have necessary information with which to make decisions leading to a better allocation of capital and more stable financial markets.

The role played by international tax strategies and rates on the operations and earnings of many public U.S. corporations is enormous and growing. In large part, this trend is due to many U.S. issuers' increasing reliance on moving earnings offshore. A recent report by Citizens for Tax Justice found that earnings held offshore by U.S. corporations had in 2015 reached an eye-popping total of \$2.4 trillion.

Governments around the globe have begun to crack down on perceived tax abuses to increase corporate tax collections and reverse revenue losses. Multinational companies that depend too heavily on tax avoidance schemes for increasing shareholder value are putting investors in a potentially vulnerable financial position.

Currently, shareholders have little information on a company's tax strategy. Profits held offshore and their attendant tax rates can have profound impacts on even the largest U.S. issuers. For example, in 2010, General Electric claimed a U.S. profit of just over \$4 billion. The company's tax refund that year was \$3.2 billion largely based on the company's ability to shift profits overseas to lower tax jurisdictions.

Tax liability can also have a significant impact on company valuations. In one case, the difference in calculation of a company's offshore tax liabilities led "two highly distinguished scholars of valuation science, applying similar valuation principles," to generate opinions that "differed by 126%, or approximately \$28 billion." Almost none of the information needed to resolve the valuation dispute was previously disclosed to investors or the public.

Many analysts have begun to focus on international tax strategies in their stock recommendations. For example, in May 2016, analysts at Goldman Sachs sent out a newsletter urging clients to "Buy stocks with high U.S. sales and high effective tax rates and avoid firms with high foreign sales and low tax rates." This analysis and investment advice is presumably based on perceived risks associated with aggressive corporate tax practices subject to enforcement actions and tax policy changes at home and abroad.

To better inform investors, the Securities and Exchange Commission (SEC) should revise its disclosure framework to specifically require multinational corporations to disclose the information detailed in the Corporate Transparency and Accountability Act.

For markets to function properly, it is critically important for investors and the public to be armed with sufficient information to meaningfully assess the business operations, management, and risks of U.S. public companies. As multinational corporations increasingly rely upon complex, international tax strategies to improve their bottom lines, the SEC's disclosure framework has not kept pace.

We appreciate your leadership on this transparency initiative and look forward to working with you on this important piece of legislation.

Please feel free to contact Clark Gascoigne at cgascoigne@thefactcoalition.org or +1 (202) 813-0290.

Sincerely,

The FACT Coalition

CC: Chairman Jeb Hensarling
Ranking Member Maxine Waters
Subcommittee Chairman Scott Garrett
Subcommittee Ranking Member Carolyn Maloney

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