FACTCOALITION
Financial Accountability & Corporate Transparency

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FACT Sheet: Tax Haven Abuse

Average Taxpayers and Small Business Owners Foot the Bill for Offshore Tax Loopholes

Many Large U.S.-Based Multinationals Avoid Paying U.S. Taxes by Using Accounting Tricks to Make Profits Made in America Appear to Be Generated in Offshore Tax Havens—Countries with Minimal or No Taxes.

- The corporate abuse of tax havens costs the taxpayers an estimated $111 billion in lost revenue every year meaning higher taxes, fewer services, or increased debt.
- Wealthy individuals use tax havens to *evade* U.S. taxes, costing an estimated $40 to $70 billion in lost revenue annually.

What Is a Tax Haven?

- A low or no-tax jurisdiction that has high levels of financial secrecy, making it a haven for tax avoiders and evaders.
- There are as many as 60 jurisdictions that fit the description of tax haven. In the Cayman Islands, for instance, a 5-story building called the Ugland House is home to 18,857 corporate "headquarters."

How Do Corporations Use Tax Havens?

- There are many schemes. One common practice is 'transfer mis-pricing,' in which one subsidiary of a company undercharges or overcharges another subsidiary in order to move the company's profits to a low or no-tax country. Here's a simplified example: A pharmaceutical company creates a new drug. They sell the drug patent to a P.O. Box subsidiary in the Cayman Islands for practically nothing. The drug is produced, marketed and sold to U.S. customers. The U.S. company then pays most of its profits in 'royalties' or 'licensing fees' to the offshore subsidiary and, as a result, tells the IRS that it has no profits to tax. But the money has really just moved around to different parts of the same corporation.
- The Congressional Research Service recently found that the profits that American corporations claimed to earn in Bermuda in 2008 equaled 1,000 percent of Bermuda's economic output.

What Is a Corporate Inversion?

- A corporate inversion is when a larger American corporation merges with a smaller foreign corporation that's based in a tax haven—or at least a lower-tax jurisdiction. The company "moves" on paper to the foreign country to lower its tax bill, but the company's functional headquarters usually remains in the United States.

Our Tax Code Gives American Corporations a Powerful Incentive to Shift Profits Offshore.

- U.S. tax laws allow companies to indefinitely avoid paying U.S. taxes on profits they report are earned abroad until they "repatriate" the money to the United States—which they often never intend to do. Indeed, Citizens for Tax Justice estimates that the largest multinational corporations have $2.5 trillion stashed offshore, on which they owe approximately $718 billion in unpaid taxes.

There Is a Cost to Small Businesses and Ordinary Taxpayers.

- Tax havens give large corporations a competitive advantage over the responsible small and mid-sized domestic businesses that must play by the rules and can't afford armies of high-priced tax attorneys.
- The roughly $150 billion per year in tax revenue lost to corporate and individual tax dodging costs each taxpayer $1,026 in additional taxes to pick up the tab. This money could be used to fight child poverty and inequality and invest in American communities.

Legislative Solutions to Stop the Worst Offshore Tax Dodging Gimmicks.

- Congress should pass the Stop Tax Haven Abuse Act (H.R.297, S.174).
- Congress should immediately pass S.922, the Corporate Tax Dodging Prevention Act, to end the deferral of taxes paid by U.S. companies on revenues of their 'foreign' subsidiaries.
- Congress should support efforts to boost tax transparency by requiring public country-by-country reporting, such as H.R.6126.

1225 Eye St. NW, Suite 600 | Washington, DC | 20005 | USA
+1 (202) 827-6401 | @FACTCoalition | www.thefactcoalition.org