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Financial Accountability & Corporate Transparency

Briefing Memo: Tax Reform

Important Steps to Fix the Gaming of the Corporate Tax System

A common theme from both Democrats and Republicans in the recent election was the increasing problem that multinational companies are moving money and jobs offshore. These practices are encouraged by loopholes in the tax code, which encourage companies to move. These loopholes should be closed.

Some of the plans from Congress are likely to make matters worse by expanding the loopholes that got us into the mess we are in today. These plans are in direct contradiction with the clear message from the election that we certainly should not be subsidizing companies to move offshore.

There are four straightforward and important steps that would dramatically cut back on the gaming by multinationals at the expense of the rest of us.

1. Stop Giving Multinationals an Advantage over Wholly Domestic and Small Businesses

We should immediately close the loophole that allows companies to defer paying taxes by moving their profits offshore. As U.S. citizens, you and I pay taxes on what we earn, regardless of where we earn it. But companies can create subsidiaries and divide themselves in ways that game the system. It's not fair. They use our roads and bridges to ship their goods, recruit from our colleges and universities, and are protected by our laws and our military. They should not, through loopholes and accounting gimmicks, defer paying their share and leave the rest of us to pick up the tab.

Also, we should not favor multinationals over wholly domestic and small businesses by giving them a special rate. Shockingly, some have proposed a lower tax rate for those companies that shift jobs and money overseas. That makes no sense.

2. Stop U.S. Companies from Claiming Foreign Residence Simply to Dodge Taxes

Some large U.S. companies buy up smaller, foreign companies, move their legal residence to that country (a paper transaction, no moving van required) and claim they are no longer U.S. residents to avoid paying taxes. They still have access to our markets and many of the privileges they enjoyed as U.S. companies, they just won't pay for any of those privileges. That means you and I are left paying their share of taxes. We should strengthen 'anti-inversion' rules to prevent this gaming.

3. Ensure Multinationals Play by the Rules by Publicly Reporting Their Profits and Taxes Paid

Multinational companies do not publicly report on where they are making their money or what taxes they are paying to whom. We have no idea exactly how they are gaming the system—what they tell us versus what they tell other countries. They should have to write it down in one place and report it on a country-by-country basis, so that the public can see what they are really paying.

4. Don't Make Things Worse

Our current system allows U.S. companies to delay paying taxes on U.S. profits they shift overseas. That's bad enough. Some in Congress have proposed allowing the profit-shifting without ever having to pay what they owe. That's the ultimate loophole. If we move toward what's called a "territorial tax system," the only companies left paying U.S. corporate income taxes would be those too small to game the system.

Taken together these provisions are critical if we are to fix the problem of large, well-connected interests gaming the tax system.

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