

## **Tax Fairness and Transparency Act**

### ***The Problem:***

Our tax system is riddled with loopholes that incentivize multinational corporations to dodge taxes and hide their profits overseas. While hard-working families and small businesses pay their fair share, corporate interests benefit from a system tilted heavily in their favor.

For example, American corporations are easily able to reincorporate overseas through the inversion process and avoid paying U.S. taxes by shifting their headquarters to a country with a smaller tax burden, even as business activity and general operations frequently remain on American soil. Further, corporations are able to defer paying taxes on their foreign profits until that money is repatriated back to the U.S., often prompting those firms to hold the money abroad indefinitely. These profit-shifting strategies are too often conducted behind closed doors, leaving the public and shareholders in the dark about firms' activities.

When multinationals avoid paying their fair share in taxes, small businesses who pay their taxes and create the real jobs in communities across the country have a tougher time competing. A large burden also falls to middle class families, who are either forced to carry a greater tax liability or lose access to the important services provided by the government. We need a tax system that incentivizes companies to stay in the United States and transparency requirements that shed light on firms engaging in tax avoidance and profit shifting activities.

### ***Bill Summary:***

- **Removes incentives for corporate inversions:** Earnings stripping is a method of avoiding taxes in which U.S.-based groups are loaded up with debt owed to the affiliated foreign company; the U.S. entity then pays high levels of interest on this debt, which nets them significant tax deductions or entirely wipes out their domestic taxable income. This bill limits the tax deductions a corporation may claim to a level at which the U.S. entity's share of interest on debt is proportionate to the U.S. entity's share of earnings. Without the option to shift profits overseas through earnings stripping, corporations lose a major incentive to move their headquarters abroad.
- **Ends tax deferral on overseas profits:** Currently corporations can defer paying taxes on foreign profits until that money is repatriated back to the U.S. This bill closes the loophole and requires controlled foreign corporations to pay U.S. taxes on active income.
- **Brings transparency to profit-shifting strategies:** This bill requires all publicly traded companies to make available to the American people information about multinational tax and business activities on a country-by-country basis, and total profits and taxes paid during the period covered by the report. A [recent report](#) from the FACT Coalition details how the tax strategies of public companies directly impact shareholder risk and market function. Country-by-country tax reporting information must be made publicly available so investors and the general public are sufficiently able to assess investment risk and identify profit-shifting activities.