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Financial Accountability & Corporate Transparency

# Briefing Memo

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# Ending Offshore Tax Avoidance

There is widespread agreement, across the political spectrum, that the gaming of the tax code by multinational corporations is a problem. When profits and jobs are shipped offshore, we not only harm the U.S. economy, we fuel a tax haven industry that drains wealth around the world.

The tax system under the Tax Cuts and Jobs Act includes loopholes and incentives to shift money and jobs overseas. Consider the following:

- If multinational companies shift profits offshore, they get a discounted tax rate below the rate paid by wholly domestic companies.
- If they move enough jobs and operations offshore, they may pay nothing in U.S. tax.
- If they use more complex structures with shell companies in tax havens, then they may be able to get away with paying no tax on much of their income to any country anywhere in the world.
- They can do all of the above while keeping the benefits of U.S. residence.

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

## 1. End the Tax Preferences Given to U.S. Multinationals' Foreign Profits

Under the new territorial tax system, multinational companies' foreign earnings receive preferential tax treatment compared to wholly domestic and small business earnings. Rather than paying the 21 percent rate owed on domestic earnings, multinational companies will pay a U.S. tax rate between zero and 10.5 percent on their offshore earnings, with the rate decreasing if they book more income or move more operations offshore. Because this lower U.S. tax on foreign earnings is applied on a global average basis, companies will still be able to shield income from taxes when shifting earnings to tax havens.

Multinational companies should not be allowed to avoid paying their fair share by shifting profits and jobs offshore to take advantage of a lower tax rate. Instead, they should be required to pay the same tax rate at the same time on their foreign earnings as they do on their domestic earnings.

## 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 U.S. tax. They still have access to our markets, our legal system, 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 Disclosing Their Profits and Taxes Paid by Country

Multinational companies do not publicly disclose where they make their money or what tax they pay, if any. 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 disclose it on a country-by-country basis, so that the public can see what they are really paying and judge for themselves how well the corporate tax code is working.

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

*For more information, contact Clark Gascoigne at cgascoigne@thefactcoalition.org.*



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