Taming the Offshoring of Jobs and Profits: The Case for Equalizing Rates

US multinational corporations currently pay no federal tax on their routine foreign profits, and half the statutory rate (minus a foreign tax credit) on their residual foreign profits.¹ This makes investment in foreign operations relatively less expensive and incentivizes shifting profits to tax havens.

The Administration has called for a more effective corporate tax system to bring back jobs and raise needed revenue. The No Tax Breaks for Outsourcing Act (H.R.____ / S.____) will do that by:

- Requiring corporations to pay at least the federal statutory rate on income in every country in which they operate, and
- Strengthening provisions against US corporations inverting into foreign corporations.²

Why is Equalizing Rates Needed?

Equalizing rates will protect US jobs. US multinational corporations currently get a tax break on their investments in low-tax countries. Worse, they can even get a tax break by investing in high-tax countries and shifting their profits to tax havens.³ To protect US jobs, it is better to increase the foreign rate than the domestic rate to raise a given revenue goal.

Equalizing rates will raise revenue: Our country faces many needs, from infrastructure to childcare, that require additional revenue. Consider:

- The No Tax Breaks for Outsourcing Act could raise up to $771 billion over ten years.⁴ It would also protect the tax bases of developing countries.
- IRS data show that US multinationals book 41 percent of their foreign profits in just 10 tax havens.⁵

Equalizing rates will level the playing field for small businesses: When multinationals use accounting tricks to shift their profits to tax havens, other taxpayers like small businesses and consumers pick up the tab. This bill will help reverse the trend of the tax burden shifting from corporations to other taxpayers.

Equalizing rates will help restore public trust: Repeated scandals like the Panama and Paradise Papers⁶ have raised public awareness and anger regarding corporate tax dodging. By ending incentives for US corporations to abuse tax havens, this bill will improve public trust in the tax system.

Q & A

Will equalizing rates harm US competitiveness? No, it will improve the competitiveness of the United States as a destination of investment and make the American worker more competitive.

Will equalizing rates induce US corporations to invert into foreign corporations? No, under this bill, inverted corporations will continue to pay US tax like domestic corporations as long as they are 50 percent owned by Americans or managed and controlled in the United States.

Didn’t the Tax Cuts and Jobs Act end tax havens abuse? No, the Congressional Budget Office and an academic study project the TCJA will only cut profit shifting by, respectively, about 20 percent or 14 percent.⁷

For more information, please contact Erica Hanichak at ehanichak@thefactcoalition.org.
Routine profits are defined as a return of up to 10 percent on tangible assets. Residual profits are actual profits minus routine profits. The foreign tax credit is 80 percent of foreign taxes paid worldwide.

The bill includes further provisions: ending the exemption for foreign profits of extractive industries; raising the foreign tax credit to 100 percent; ending the tax break known as Foreign Derived Intangible Income; limiting deduction of interests.


