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Financial Accountability & Corporate Transparency

FACT Sheet

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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.1785/ S.714)** 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* would raise between $657 and $980 billion over ten years.[4] It would also protect the tax bases of developing countries.
- IRS data show that US multinationals book 41% 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 Papers[6] 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.

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[1] Routine profits are defined as a return of 10% on tangible assets. Residual profits are actual profits minus routine profits. The foreign tax credit is 80% of foreign taxes paid worldwide.

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

[3] Kimberly Clausing, "Fixing our 'America Last' Tax Policy", The Hill, April 11, 2019, https://bit.ly/32z0KUl.

[4] The lower estimate is extracted from the FY2022 federal budget (Treasury Department, May 2021, https://bit.ly/2STRszU). The higher one is from the Joint Committee on Taxation's scoring of a bill that contains similar provisions, the Corporate Tax Dodging Prevention Act, https://bit.ly/3vdzm9V. See also: Kimberly Clausing, "Five Lessons on Profit Shifting from the U.S. Country by Country Data," Tax Notes Federal, November 24, 2020, https://bit.ly/3qh36jl.

[5] Internal Revenue Service, "Table 1A: Country-by-Country Report (Form 8975): Tax Jurisdiction Information (Schedule A: Part I) by Major Geographic Region and Selected Tax Jurisdiction, Tax Year 2017", https://bit.ly/3dEQfmi.

[6] International Consortium of Investigative Journalists, https://www.icij.org.

1100 13th Street, NW, Suite 800 | Washington, DC | 20005 | USA
@FACTCoalition | www.thefactcoalition.org

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 American workers *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% owned by Americans or managed and controlled in the United States.

Didn't the Tax Cuts and Jobs Act end tax havens abuse? No, data for 2017 and 2018 do not show any significant changes in US multinational corporations' use of tax havens.[7]

For more information, please contact Erica Hanichak at ehanichak@thefactcoalition.org.

[7] Joint Committee on Taxation, "U.S. International Tax Policy: Overview and Analysis," April 19, 2021, https://bit.ly/3epLHkt.