March 23, 2016

The Honorable Jacob J. Lew
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Lew:

We urge the Department of Treasury to take all action within its authority to curb the ability of corporations to avoid taxes by engaging in corporate inversions. Specifically, we believe that Treasury could take further steps to curb inversions through the use of its regulatory authority under Section 956 and Section 7701.

Treasury should expand its prior Notice 2014-52 limiting the ability of expatriating firms to use so-called “hopscotch loans” and to decontrol their controlled foreign corporations to avoid paying taxes that they owe on untaxed offshore earnings. This can be accomplished by not limiting the prior notice only to firms covered by Section 7874 and instead using your authority under Section 956 and Section 7701 to apply the limitations to all foreign ownership cases. Even lowering the threshold for applying Notice 2014-52 to 50 percent ownership by the original shareholders of the former U.S. firm (rather than 60 percent as under Section 7874) could have the effect of curbing a significant amount of inversion-driven tax avoidance.

While legislation to curb inversion would be ideal, the political reality is that Congress is unlikely to act before next year. Unfortunately, the planned inversions by Pfizer, IHS and Johnson Controls show that immediate action is needed to prevent a significant erosion in the corporate tax base. In fact, we estimate that Pfizer alone could use an inversion to avoid $40 billion in taxes on the $194 billion that the company has in untaxed offshore earnings.

To be clear, these actions are not just about one company. Pfizer could just be the tip of the iceberg as other companies (like IHS and Johnson Controls have already) seek to imitate its tax strategy. A recent study by Citizens for Tax Justice found that U.S. companies likely owe as much as $695 billion on the $2.4 trillion in earnings they hold offshore. Given the substantial sum owed in taxes by these companies, allowing them to avoid taxes entirely through hopscotch loans or decontrolling could have a negative implications on the tax base moving forward.

Thank you for your careful consideration of this matter.

Sincerely,

Robert S. McIntyre
Director of Citizens for Tax Justice