COMMENTS TO THE U.S. TREASURY DEPARTMENT AND THE INTERNAL REVENUE SERVICE ON THE PROPOSED "SERIAL INVERTER" RULE
July 7, 2016

Docket Name: Inversions and Related Transactions (REG-135734-14)
Docket ID: IRS-2016-0015-0002
Docket RIN: 1545-BM45

Dear Secretary Lew,

Citizens for Tax Justice is a nonpartisan public interest research and advocacy organization fighting to give American citizens a greater voice in tax laws at the federal, state and local levels. We have frequently spoken out against the practice of corporate tax inversions, which occur when a U.S. company, upon merging with a foreign company, reincorporates itself as a foreign entity and escapes paying U.S. taxes. The Joint Committee on Taxation estimates that corporate inversions could result in a loss to Treasury of $34 billion over the next 10 years; this money could be spent to improve the lives of countless Americans. As a public interest organization, we believe that the American taxpayer should not have to make up for the revenue loss created by this kind of corporate misbehavior.

We strongly support the proposed rule on **Inversions and Related Transactions (Docket ID: IRS-2016-0015-0002)**, also known as the "serial inverter" rule. This action will prevent multinational corporations from circumventing current anti-inversion regulations by engaging in multiple inversions in a three-year period. This proposed new rule will take an important step toward putting an end to offshore tax avoidance.

We've already seen the positive impact of the proposed serial inverter rule in the case of Pfizer, which abandoned its planned $125 billion merger with Allergan shortly after the rule was proposed. This action alone may have saved U.S. taxpayers as much as $40 billion in taxes on offshore profits that Pfizer could have avoided by inverting and will likely prevent billions more revenue losses in the future by preventing other companies from inverting.

While curbing the abuse of serial inverters will undoubtedly help ameliorate the problem of corporate tax avoidance and inversions, further steps can be taken. The Treasury Department should go beyond the scope of this rule to prevent "hopscotch loans," which occur when inverted U.S. companies escape paying taxes on dividends by loaning to a foreign parent, bypassing the U.S. parent. As we've noted in a previous letter, Treasury should expand on its prior Notice 2014-52 by further limiting the ability of inverted firms to use these hopscotch loans and to decontrol their foreign parent companies to avoid taxation. It should do so by applying its rules to all expatriating companies, or at least to those which maintain 50 percent ownership by the original shareholders of the U.S. firm. There is no reason to link these rules to section 7874 (which sets 60 percent as the threshold) considering the broad authority that Treasury has in Section 956.

A recent study by Citizens for Tax Justice found that U.S. companies likely owe up to $695 billion in taxes on the $2.4 trillion in earnings that they stash offshore. The amount held offshore, and thus the amount companies are avoiding in taxes, grows by hundreds of billions of dollars each year. This must end. In the absence of Congressional action to fix this problem, Treasury should take every possible step to prevent the base erosion and profit shifting created by corporate tax inversions and other corporate tax avoidance.

Thank you for your careful consideration of these comments.

Sincerely,

Robert S. McIntyre
Director of Citizens for Tax Justice