July 24, 2009
Contact: Bob McIntyre
(202) 299-1066 x22

Multinational Corporate Tax Abuses, and Proposed Solutions: Summary of Comments by Robert S. McIntyre, Citizens for Tax Justice, at Capitol Hill Briefing on July 24, 2009

Right now, big multinational corporations are making a mockery of our corporate income tax by manipulating our international tax rules. The root cause of this problem is that the U.S. does not tax corporations on the profits they earn abroad, at least not until they bring those profits back to the U.S.

Repeal of "deferral" would vastly simplify the taxation of multinational corporations and curb a wide array of abuses. The consequences of deferral are terrible.

First, in some cases, we are actually paying corporations to move plants and jobs abroad.

Second, we are also paying corporations when they make their business *appear* to take place abroad, even if they don't *actually* move plants and jobs abroad. By using investment and transactions that only exist on paper (meaning no products or people actually leave the U.S.) they shift their profits (on paper) to countries that don't tax them. As a result, a big chunk of profits earned in the U.S. go completely untaxed.

A recent GAO report found that 83 of the 100 largest publicly traded U.S. corporation reported having subsidiaries in these countries that don't tax corporate profits. The giant drug company Abbott Laboratories reported 36 such tax-haven subsidiaries. ExxonMobil has 32. The banking giant Citigroup has 427!

A recent report from the Congressional Research Services found that corporations' shifting profits offshore costs the U.S. Treasury as much as $60 billion a year — lost revenues that have to be made up by average American taxpayers.

Conservatives often complain that the U.S. has a high corporate tax rate compared to other countries, but the *effective* tax rate is far lower because of these practices and other loopholes in our tax system.

As a result, U.S. corporate income taxes plummeted from almost a third of all non-Social-Security federal tax revenues in the 1960s to only a sixth of total taxes during the

George W. Bush administration. U.S. corporate income taxes used to be among the highest in the world as a share of the economy. But now they rank near the bottom among all developed countries.

Although President Obama implied during his campaign that he might repeal deferral, he backed away once he took office. But the President does have some useful proposals to protect the U.S. corporate tax base by curbing some of the corporate tax abuses that have helped lead to this sharp decline in corporate tax payments.

He would limit U.S. tax deductions for the costs of earning overseas profits. If corporations get to defer the U.S. taxes on profits they earn abroad, then surely they should also defer taking deductions for expenses related to that offshore income. Our current rules actually provide companies with a negative tax rate on their foreign earnings!

The President also would narrow an egregious loophole that makes it far too easy for companies to artificially shift U.S. profits to tax havens. The President accurately called this "a loophole that lets subsidiaries of some of our largest companies tell the IRS that they're paying taxes abroad, tell foreign governments that they're paying taxes elsewhere — and avoid paying taxes anywhere."

The President proposals are not particularly harsh. If enacted, they would increase corporate tax receipts by only 5 percent. But they would be a step in the right direction toward leveling the playing field between U.S. and foreign investments and curbing egregious corporate tax sheltering.