

REFORMING OUR TAX SYSTEM TO CREATE NEW JOBS AT HOME AND ENSURE A FAIR TAX CODE

There is no higher economic priority for President Obama than creating new, well-paying jobs in the United States. Yet today, our tax code actually provides a competitive advantage to companies that invest and create jobs overseas compared to those who invest and create those same jobs in the U.S. In addition, our tax system is rife with opportunities to evade and avoid taxes through offshore tax havens:

- In 2004, the most current year for which we have data, U.S. multinational corporations paid about \$16 billion of U.S. tax on approximately \$700 billion of foreign active earnings - an effective U.S. tax rate of about 2.3%.
- A January 2009 GAO report found that of the 100 largest U.S. corporations, 83 have subsidiaries in tax havens.
- In the Cayman Islands, one address alone houses 18,857 corporations, very few of whom have a physical presence in the islands.
- Nearly one-third of all foreign profits reported by U.S. corporations in 2003 came from just three small, low-tax countries: Bermuda, the Netherlands, and Ireland.

Today, President Obama and Secretary Geithner are unveiling two components of the Administration's plan to reform our international tax laws and improve their enforcement. First, they are calling for reforms to ensure that our tax code does not stack the deck against job creation here on our shores. Second, they seek to reduce the amount of taxes lost to tax havens - either through unintended loopholes in the law that allow companies to legally avoid paying billions in taxes or through the illegal use of hidden accounts by well-off individuals. Combined with further international tax reforms that will be unveiled in the Administration's full budget later in May, these initiatives will help raise \$210 billion over the next 10 years by:

1. **Replacing Tax Advantages for Creating Jobs Overseas With Incentives to Create Them at Home:**

The Administration will raise \$103.1 billion by removing tax advantages for investing overseas - and will use that money to help pay to make permanent a tax credit for new innovation and investment within the U.S. - by:

- **Reforming Deferral Rules to Curb A Tax Advantage for Investing and Reinvesting Overseas:** Currently, businesses that invest overseas can take immediate deductions on their U.S. tax returns for expenses supporting their overseas investments but nevertheless "defer" paying U.S. taxes on the profits they make from those investments. As a result, U.S. taxpayer dollars are used to provide a significant tax advantage to companies who invest overseas relative to those who invest and create jobs at home. The Obama Administration would reform the rules surrounding deferral so that - with the exception of research and experimentation expenses that have significant spillover benefits to the United States - companies cannot receive deductions on their U.S. tax returns supporting their offshore investments until they pay taxes on their offshore profits. This provision will take effect in 2011, raising \$60.1 billion from 2011 to 2019.
- **Preventing Abuse of the Foreign Tax Credit:** Current law allows U.S. businesses that pay foreign taxes on overseas profits to claim a credit against their U.S. taxes for the foreign taxes paid. Some U.S. businesses use loopholes to artificially inflate or accelerate these credits. The Administration would close these loopholes, raising \$43.0 billion from 2011 to 2019.

- **Using Resources Saved from Ending Tax Incentives to Move Jobs Overseas to Permanently Extend the Research and Experimentation Tax Credit to Encourage Businesses to Invest in Innovation at Home:** The Research and Experimentation Tax Credit - which provides an incentive for businesses to invest in innovation in the United States - is currently set to expire at the end of 2009. To provide businesses with the certainty they need to make long-term investments in research that improves productivity, makes U.S. businesses more competitive, and raises living standards, the Administration proposes making the R&E tax credit permanent, providing a tax cut of \$74.5 billion over 10 years to businesses who invest in the U.S.

2. **Getting Tough on Overseas Tax Havens:** The Administration intends to raise a total of \$95.2 billion over the next 10 years through efforts to get tough on overseas tax havens by:

- **Eliminating Loopholes for “Disappearing” Offshore Subsidiaries:** Traditionally, U.S. companies have been required to report certain income shifted from one foreign subsidiary to another as passive income subject to U.S. tax. But over the past decade, so-called “check-the-box” rules have allowed companies to make their foreign subsidiaries disappear for tax purposes - permitting them to legally shift income to tax havens and avoid paying taxes on their foreign profits in the United States or abroad. The Obama administration would reform these “check-the-box” rules to require certain foreign subsidiaries to be considered as separate corporations for U.S. tax purposes. This provision would take effect in 2011, raising \$86.5 billion from 2011 to 2019.
- **Cracking Down on the Abuse of Tax Havens by Individuals:** Currently, wealthy Americans can hide their money and investments in hidden offshore accounts and avoid taxes with little fear that the financial institution or country that houses their money will report them to the IRS. In addition to initiatives taken with the G-20 to impose sanctions on countries that do not comply with information exchange standards - and building on the measures President Obama co-sponsored with Sen. Levin in the Senate - the Obama administration proposes to make it more difficult for financial institutions and wealthy individuals to evade U.S. taxes. The Administration conservatively estimates it will raise \$8.7 billion over 10 years by:
 - **Withholding Taxes From Accounts At Institutions That Don’ t Share Information With The U.S.:** This proposal requires foreign financial institutions that have dealings with the United States to sign an agreement with the IRS to become a “Qualified Intermediary” and share as much information about their U.S. customers as U.S. financial institutions do, or else face the presumption that they are facilitating tax avoidance and have taxes withheld on payments to their customers. In addition, it would shut down loopholes that allow QIs to claim they are complying with the law even as they help wealthy U.S. citizens avoid paying their fair share of taxes.
 - **Strengthening the Law to Make It Harder for Tax Evaders to Avoid Prosecution:** In addition, the Obama administration proposes tightening the reporting standards for overseas investments, increasing penalties and imposing negative presumptions on individuals who fail to report and extending the statute of limitations for international tax enforcement.

- *Devoting New Resources for IRS Enforcement to Help Close the International Tax Gap:* As part of the Obama administration's budget, the IRS will hire nearly 800 new employees devoted to

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- 1) Replace Tax Advantages for Creating Jobs Overseas With Incentives to Create Them at Home**
 - **Reform Deferral Rules to Curb A Tax Advantage for Investing and Reinvesting Overseas**
 - **Prevent Abuse of the Foreign Tax Credit**
 - **Use Revenues To Provide Tax Benefits for Companies That Invest in Innovation and Jobs at Home**
- 2) Get Tough on Overseas Tax Havens**
 - **Eliminate Loopholes for “Disappearing” Offshore Subsidiaries**
 - **Crack Down on the Abuse of Tax Havens by Individuals**
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international enforcement, increasing its ability to crack down on offshore tax avoidance.