

Stopping Corporate Tax Traitors



At a time of national sacrifice and rising deficits, a growing number of corporations are taking advantage of a loophole that allows them to avoid potentially tens of millions of dollars in annual taxes by headquartering in a tax haven but keeping their operations in the United States.

For them, it's a simple paperwork transaction. Set up a P.O. Box in Bermuda and declare your new corporate headquarters. Cooper Industries, Ingersoll-Rand, Accenture (formerly Anderson consulting), Tyco, Global Crossing, and a few dozen other companies have all done it.

But every dollar that these corporate expatriates are keeping in profits is a dollar that's not going to schoolteachers, firefighters, veterans and other groups that are finding themselves increasingly stiffed by the government.



Closing the expatriation loophole is a common sense proposal. After all, at a time of war, U.S. companies shouldn't be abandoning America for the beaches of offshore tax havens. Even President Bush has said "I think we ought to look at people who are trying to avoid U.S. taxes as a problem. I think American companies ought to pay taxes and be good citizens."

But don't tell that the high-powered corporate lobbyists (including former Senator Bob Dole, former House Speaker Bob Livingston and former Ways and Means Chairman Bill Archer) these expatriate firms have hired to defend the loophole. Their basic argument is that the U.S. tax structure is uncompetitive and that corporations are only moving offshore to stay globally competitive. Their solution is to further lower corporate taxes for U.S. corporations. But their argument doesn't stand up to fact. U.S. Corporations pay less



taxes than do companies in almost all other industrial nations. According to the Organization for Economic Cooperation and Development (OECD), the official U.S. corporate tax rate of 35% falls somewhere in the middle of developed nations. However, with generous tax write-offs, loopholes, and exceptions, few corporations pay anything near 35%. The average effective tax rate is closer to 20%. Some pay none — at least 41 U.S.

HALLIBURTON companies paid nothing in at least one year between 1996 and 1998. With armies of

lobbyists writing new loopholes and accountants and lawyers discovering old ones, corporations have steadily lowered their taxes over the years. In 1940, corporations and individuals roughly split the U.S. tax bill; today corporations pay just 13.7%, according to Business Week.

Unfortunately, closing the offshore reincorporation loophole will only make a small dent in the hundreds of billions of dollars of corporate tax avoidance. Many U.S. corporations use offshore tax havens as subsidiaries instead of reincorporating outright. For example, Halliburton has 58 offshore tax haven subsidiaries.

Any serious approach to making corporations pay their fair share should also strengthen the ability of the IRS to crack down on a wide range of tax shelters and mandate that corporations disclose their tax returns so that investors and the public can gain more understanding of the extent and nature of tax avoidance. Reformers should also stop giving government contracts to tax expatriates, which have amounted to almost \$1 billion, including an Accenture deal to redesign the IRS web site.



Since offshore reincorporation stands out as the most egregious example, it is an important litmus test. After all, who in Congress can seriously say they support U.S. corporations being able to move their headquarters offshore to stiff the government of tens of millions of dollars, especially during a time of national sacrifice?

Legislative Solutions

The Corporate Patriot Enforcement Act: Essentially denies tax benefits to companies that reincorporate in offshore tax havens. Introduced by Rep. Richard Neal (D-Mass.) in the House as HR 737 and by Sen. Harry Reid in the Senate as S. 384. Could recover up to \$4 billion in lost tax revenue over 10 years.

S. 513: Introduced by Sen. Evan Bayh (D-Ind.). Would consider expatriate companies as U.S. companies if a majority of shareholders are in the U.S. and would strengthen disclosure requirements for companies planning a move.

The Wellstone Memorial Renegade Corporation Act of 2003: Amends the Homeland Security Bill to ban contracts for corporate expatriates (unless there's a compelling national security interest). Introduced by Sen Mark Dayton (D-Minn.) as S. 134. Rep. Neal estimated that corporate expatriates got \$848.7 million in government contracts, \$628.9 of them Defense- and Homeland Security-related. Last year, the Senate passed Wellstone's amendment to the Homeland Security Act eliminating contracts for tax traitors, but that provision was removed in closed-door conference hearings.

Abusive Tax Shelter Shutdown and Taxpayer Accountability Act of 2003: Strengthens the penalties and enforcement mechanisms for the IRS to crack down on tax shelter abuse and could save as much as \$15 billion over ten years. Introduced by Rep. Lloyd Doggett (D-Texas) as HR 1555.

The Corporate Accountability Tax Gap Act of 2003: Requires corporations to disclose the same information to the IRS and shareholders. Introduced by Rep. Lloyd Doggett (D-Texas) as HR 1556. In 1998 (the most recent year for which data has been analyzed), the difference between profits reported shareholders were \$159 billion more than those reported to the IRS.

CALL YOUR ELECTED OFFICIALS AND TELL THEM TO STOP LETTING CORPORATIONS AVOID PAYING THEIR TAXES BY MOVING OFFSHORE!

Resources: Citizen Works (www.citizenworks.org) The Bermuda Project (www.thebermudaproject.com); Citizens for Tax Justice (www.ctj.org)



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