Burning Our Bridges

Cutting offshore tax rates won’t fund our infrastructure or create jobs. Taxing corporations fairly will.
Burning Our Bridges
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Contents

Key Findings......................................................................................................................... 1

Introduction: The Link Between Public Infrastructure and Corporate Tax Dodging.......................................................... 3

The 26 U.S. Corporations with the Largest Overseas Profit Stockpiles................................. 5

Infrastructure Costs that Could be Covered by Fairly Taxing Offshore Profits ..........7

Taxation of U.S. Overseas Profits: A Short History ....................................................... 9

Common Corporate Defenses of Offshore Tax Loopholes and Cuts in Corporate Tax Rates............................................................................................................................... 11

Policy Options......................................................................................................................... 13

Conclusion.............................................................................................................................16

Appendix 1: Sources and Methodology.............................................................................. 17

Appendix 2: Our Unmet Infrastructure Needs By the Numbers......................................... 18
Key Findings

To generate funds to shore up our nation’s crumbling infrastructure, the U.S. Congress is considering giving corporations large tax cuts on their offshore profits. Under current law, corporations can defer U.S. tax payments on overseas earnings until they bring the profits to the United States. The proposed “tax holidays” would generate a relatively small, one-time revenue bump while allowing large corporations to avoid much larger amounts of tax owed over the longer term.

The last time we tried this, in 2004, it failed miserably. Corporations that participated shaved nearly $100 billion off their long-term IRS bills. And instead of boosting investment, they used the windfalls to buy back their stock and boost dividends while laying off more workers than they hired. Once the holiday was over, they began rebuilding their overseas profit stashes.

This report identifies the 26 U.S. corporations with the largest stockpiles of untaxed overseas profits and analyzes how much these firms could help meet U.S. infrastructure needs if they actually paid the taxes they owe — but can legally put off paying — on their offshore profits.

The American Society of Civil Engineers estimates that $3.6 trillion in infrastructure investment is needed by 2020 to bring our aging infrastructure into the 21st century and keep our economy competitive.

- **Just 26 firms account for more than half of the $2.1 trillion in untaxed profits U.S. corporations are currently holding offshore.** Each of these firms has accumulated more than $20 billion in overseas earnings. Together, they operate 1,086 subsidiaries in tax haven nations.

- **These 26 firms’ offshore profits have exploded more than five-fold since the last tax holiday on overseas earnings.** Microsoft, Google, Apple, and Qualcomm each grew their offshore stashes by more than twenty-fold between 2005 and 2014.

- **If these 26 mega-stockpilers were to pay what they owe on their overseas profits, the federal government could gain a one-time revenue boost of an estimated $364 billion.** That would be more than enough to cover the cost of repairing all of the country’s wastewater and stormwater systems, with enough left over to repair or replace all of the country’s dangerous and deficient dams and restore all the nation’s local, state, and national parks.

- **Apple is the largest offshore profit stockpiler.** If the highly profitable tech firm were to pay what it owes on those earnings, it would be enough to cover 17 percent of the cost of needed repairs on all public school buildings.
• **The second-largest offshore stockpiler is General Electric.** If GE paid the taxes it owes on the $119 billion it holds offshore, that estimated revenue would be more than enough to pay for all of the unmet maintenance needs in local, state, and national parks.

• **Seven pharmaceutical firms are among the 26 mega-stockpilers.** This sector has become adept at avoiding U.S. taxes by shifting ownership of patents and trademarks to subsidiaries in tax havens. If these seven drug companies were to pay the taxes they owe, it would generate an estimated $82 billion, enough to replace all of the deficient bridges in the United States.

• **If just two major oil companies — ExxonMobil and Chevron — were to pay the taxes they owe on their offshore profits, it could cover nearly a quarter of the cost of repairing all of the country’s levees.** This is infrastructure critical for responding to the more volatile and extreme weather we are now experiencing.

• **Closing the offshore tax dodging loophole for all corporations could raise at least $590 billion over the next decade, and $90 billion more every year thereafter.** This would represent a significant down payment on the nation’s overall infrastructure investment needs and could create an additional 1.8 million jobs.
Introduction: The Link Between Public Infrastructure and Corporate Tax Dodging

All businesses — large and small — rely on our nation’s infrastructure for their success. As President Barack Obama put it in this year’s State of the Union address, “21st century businesses need 21st century infrastructure — modern ports, stronger bridges, faster trains, and the fastest internet.”

To bring our infrastructure up to 21st century standards, the American Society of Civil Engineers (ASCE) estimated in 2013 that it would cost $3.6 trillion by 2020. Instead, Congress has slashed infrastructure spending to the lowest levels since the post-WWII era.

The collapse in infrastructure spending has paralleled a sharp decline in corporate taxes as a share of federal revenue, despite record corporate profits. This is the result of the multiple tax credits and loopholes won by high-priced corporate lobbyists over the past several decades. One particularly costly loophole allows large corporations to shift their U.S. profits to jurisdictions where corporate taxes are low or non-existent. Offshore corporate tax abuse costs the U.S. Treasury as much as $90 billion a year. If we invested those funds in infrastructure projects, we could create and sustain 1.8 million new jobs for American workers. The ASCE warns that if we fail to make these investments, American citizens and businesses will face costs of $1.8 trillion a year in travel delays, water leaks, and power failures.

Unfortunately, President Obama and some members of Congress think the easiest way to fund infrastructure is by granting corporations a large tax cut on their untaxed offshore profits. In exchange for raising a smaller amount of tax revenue in the near term, all of these proposals forgive larger amounts of tax owed over the longer term.
President Obama’s plan, sent to Congress on March 30, is the strongest of the three. It would establish a 19 percent minimum tax on offshore profits and a mandatory one-time 14 percent tax on the $2.1 trillion in profits U.S. corporations currently hold offshore. The president would use the $238 billion raised for surface transportation infrastructure projects. While the president’s plan provides much-needed short-term infrastructure funding, it forgoes forever as much as $300 billion in taxes multinational corporations already owe.

Members of Congress have introduced two similar bills. Like the president’s proposal Rep. John Delaney (D-MD) would impose a mandatory one-time tax on offshore corporate profits. Delaney’s “Infrastructure 2.0 Act” (H.R. 625) would impose an 8.75 percent tax rate on corporate offshore profits, with revenue going toward replenishing the Highway Trust Fund and creating a new national infrastructure bank. If Congress failed to complete corporate tax reform within 18 months, remaining offshore profits would face an additional sliding-scale mandatory tax of no more than 12.5 percent.

Sens. Barbara Boxer (D-CA) and Rand Paul (R-KY) have floated a bipartisan proposal that would offer a tax rate of just 6.5 percent on repatriated profits voluntarily returned to the U.S. The legislation requires that these corporations use some of the funds brought back for job creation, pension improvements, research and development, and environmental protections. The Boxer-Paul plan revenue would be used to replenish the Highway Trust Fund. These three proposals share three flaws:

1. They are a very expensive way to build infrastructure. They require taxpayers to first pay the costs of the corporate tax cut, then to pay for the cost of infrastructure improvements. Each raises some money today but forgives even greater amounts of taxes already owed that could fund our infrastructure needs well into the future.

2. Each of the plans focuses on surface transportation, with a concentration on roads. They ignore the enormous need for other infrastructure improvements: levees and dams, school buildings, and water and sewer systems, to name a few.

3. They don’t do enough to close the loopholes that make corporate offshore tax abuse possible. Each of the plans creates strong incentives for companies to recommit themselves to shifting profits earned in the United States offshore in order to cut their future tax bills.
The 26 U.S. Corporations with the Largest Overseas Profit Stockpiles

The big winners from a corporate “tax holiday” would be the handful of giant U.S. corporations that dominate the offshore tax dodge game. According to the research firm Audit Analytics, U.S. corporations are holding an estimated $2.1 trillion in profits offshore, out of reach of U.S. tax authorities. Based on our analysis of corporate quarterly and annual reports, we have determined that more than half of this stockpile is held by just 26 of America’s 28 million businesses. Each of these firms has accumulated more than $20 billion in overseas earnings. Together, they operate 1,086 subsidiaries in tax haven nations.

The 26 firms studied have increased the amount of their offshore profits more than five-fold over the last decade. Google, Apple, and Qualcomm each grew their offshore stashes by more than twenty-fold between 2005 and 2014. This suggests that firms are accumulating profits overseas in anticipation of another tax holiday like the one in 2004.

Seven of these 26 corporations reported the amount of their U.S. tax liabilities (after accounting for foreign tax credits) in SEC filings. For those that did not, we estimated their liability to be approximately 28.3 percent. This is the average among Fortune 500 companies that have reported their tax liabilities on overseas profits, according to Citizens for Tax Justice. Based on these calculations, we conclude that the 26 largest corporate stockpilers owe $364 billion in U.S. taxes on accumulated overseas profits. Actual amounts owed by any particular firm may be higher or lower.
# The 26 Largest Offshore Profit Stockpilers

<table>
<thead>
<tr>
<th>Company</th>
<th>Unrepatriated Offshore Profits (Sbillions)</th>
<th>Estimated taxes due on offshore profits* (Sbillions)</th>
<th>Subsidiaries in tax havens</th>
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<tbody>
<tr>
<td>Apple</td>
<td>1.2</td>
<td>5.1</td>
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<tr>
<td>General Electric</td>
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<td>IBM</td>
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<td>37.9</td>
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<td>Merck</td>
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<td>44.3</td>
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<td>Johnson &amp; Johnson</td>
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<td>24.8</td>
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<tr>
<td>Procter &amp; Gamble</td>
<td>10.3</td>
<td>21.0</td>
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<tr>
<td>Citi</td>
<td>10.6</td>
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<td>PepsiCo</td>
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<td>Chevron</td>
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<tr>
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<td>JPMorgan Chase</td>
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<td>United Technologies</td>
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<td>14.9</td>
<td>31.9</td>
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<td>225.8</td>
<td>532.1</td>
<td>824.2</td>
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*Self-reported tax liabilities are in black. Red/italic figures are estimates based on the average 28.3% rate for Fortune 500 corporations, after accounting for foreign tax credits. For more on sources and methodology, see Appendix 1.
Infrastructure Costs that Could be Covered by Fairly Taxing Offshore Profits

What fair taxation of the 26 stockpilers could pay for

The estimated $364 billion that could be raised by closing current loopholes and asking these 26 mega-stockpilers to pay the taxes they owe on past profits would be enough to:

- Entirely close the $167 billion 10-year gap in the nation’s Highway Trust Fund (with nearly $200 billion left over for other infrastructure needs); or
- Pay for the cost of repairing all of the country’s wastewater and stormwater systems, with enough left over to repair or replace all of the country’s dangerous and deficient dams. According to the American Society of Civil Engineers, $298 billion in investments is needed over the next 20 years to shore up these systems in order to prevent environmentally destructive sewer outflows into rivers, lakes, and oceans.

No. 1 overseas stockpiler: Apple

A 2013 U.S. Senate investigation found that Apple avoided U.S. taxes on $74 billion of profits earned in the United States but shifted to Ireland and other tax haven nations, in such a manner that the funds were not subject to taxation in any nation. These days, the tech firm is breaking historic corporate profit records, and yet it remains a champion tax-dodger.

According to the company’s most recent 10-Q report, Apple is holding $158 billion in profits offshore. If it were to pay the taxes it owes on those earnings, it would be enough to cover 17 percent of the cost of needed repairs on all public school buildings.

GE could fix up all of our nation’s parks

General Electric, another long-time leading tax dodger, is currently holding $119 billion in offshore profits. If GE paid its deferred taxes on that sum, it would be more than enough to pay for all of the unmet maintenance needs in the country’s local, state, and national parks.

Fair taxation of oil profits could help the country mitigate climate change

If just two major oil companies — ExxonMobil and Chevron — were to pay the taxes they owe on their offshore profits, it could cover nearly a quarter of the cost of repairing all of the country’s levees. This is infrastructure critical for responding to the more volatile and extreme weather we are now experiencing.
Big Pharma could replace all our bridges

Seven pharmaceutical firms are among the 26 mega-stockpilers, with $290 billion in combined offshore profits. This sector has become adept at avoiding U.S. taxes by shifting ownership of patents and trademarks to subsidiaries in tax havens. If these seven drug companies were to pay what they owed, it would generate an estimated $82 billion, enough to replace all of the deficient bridges in the United States.

The big pharmaceutical companies were some of the biggest abusers of the last tax holiday in 2004. Pfizer repatriated $40 billion to take advantage of the temporarily discounted tax rate of only 5.25 percent. Instead of boosting jobs, as promised by the tax reform supporters, Pfizer laid off more than 58,000 employees in the six years following its tax break. Merck brought back $25 billion and paid the deeply discounted tax rate, only to slash its payroll by 44,400 jobs.
Taxation of U.S. Overseas Profits: A Short History

The 26 corporations we’ve highlighted in this report are only the most extreme examples of overseas profit hoarding. Over the years, armies of corporate lobbyists and tax accountants have won loopholes in the corporate tax code that allow U.S. corporations to legally shift profits earned in the United States to foreign nations with low or no corporate taxes.

The U.S. corporate income tax was established in 1909. Since the start, the United States has operated a worldwide tax system, meaning that we tax corporate profits regardless of where in the world those profits are earned. In order to prevent profits from being taxed twice, the IRS provides a dollar-for-dollar tax credit for all taxes that firms pay to foreign governments.

In the early decades, individual tax rates were much higher than corporate tax rates, so wealthy industrialists preferred to keep their profits inside the corporation rather than paying them out as dividends where they would be taxed on individual tax returns. This strategy caused significant profits to build up within corporations. So in 1936, Congress sought to deal with this avoidance scheme by imposing a 20 percent undistributed profits tax on any earnings above a certain level retained by companies. The tax served the country well for half a century, providing incentives for corporations to reinvest their profits in new products, new plants, and new jobs.

Major tax reform legislation passed in 1986 lifted the undistributed profits tax for corporate assets held offshore, leaving offshore profits untaxable until they were repatriated. This change in the tax code lit the fuse for the explosive growth of offshore profit-stashing by U.S. corporations.

By 2004, U.S. corporations had hundreds of billions of dollars sitting in offshore banks and tax havens. This led to an ill-fated experiment with a “tax holiday” on repatriated profits. In the midst of an economic slowdown, corporate-friendly members of Congress pushed through the American Job Creation Act, which promised U.S. businesses a significant tax break on the profits they held offshore as a means of encouraging them to reinvest in America and create thousands of new jobs.

Instead of paying 35 percent tax on their foreign profits, the bill enticed corporations with a 5.25 percent rate. Nearly 10,000 U.S. businesses had offshore earnings and would have qualified for the tax break, according to the IRS, but just 843 firms took advantage of the deal, bringing back $312 billion among them. This relatively low number of takers on this generous tax break suggests that the vast majority of U.S. businesses with offshore profits actually have those funds invested in productive assets, not sitting in a bank account in order to avoid U.S. taxes.
Subsequent studies found that these businesses used the money to pay shareholders dividends and to repurchase stock as a means of boosting share prices. Not only were few jobs created, but some of the firms that benefited the most took the tax cut and proceeded to lay off tens of thousands of workers in the months that followed.

Fifty-eight corporations that benefitted from the 2004 tax holiday slashed a total of nearly 600,000 jobs. These 58 giant corporations (which included 15 of the 26 corporations in this study) accounted for nearly 70 percent of the total repatriated funds and collectively saved an estimated $64 billion from what they otherwise would have owed in taxes. With one tax holiday concluded, corporations redoubled their efforts to move U.S. profits offshore. By 2014, offshore holdings of the S&P 500 exploded to more than $2.1 trillion.

Tax haven abuse is a major reason why U.S. corporations reported record profits last year while continuing to pay near-record low corporate tax rates. The average Fortune 500 company paid 19.4 percent of its profits (that which is left after all the other bills are paid) in federal corporate income tax between 2008 and 2012, slightly more than half of the official corporate tax rate. If we want to fix our broken infrastructure, we would do well to start by fixing our broken corporate tax system.

*Untaxed Offshore Profits of All U.S. Corporations*

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<th>Year</th>
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<td>2005</td>
<td>$557</td>
</tr>
<tr>
<td>2008</td>
<td>$1,098</td>
</tr>
<tr>
<td>2009</td>
<td>$1,188</td>
</tr>
<tr>
<td>2010</td>
<td>$1,362</td>
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<td>2011</td>
<td>$1,628</td>
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<tr>
<td>2012</td>
<td>$1,885</td>
</tr>
<tr>
<td>2013</td>
<td>$2,119</td>
</tr>
</tbody>
</table>

Sources: Audit Analytics and Congressional Research Service.
Common Corporate Defenses of Offshore Tax Loopholes and Cuts in Corporate Tax Rates

1. U.S corporate tax rates are the highest in the world, posing a competitive threat in the global marketplace.

The 35 percent U.S. corporate tax rate is the highest among other industrialized countries. But with the huge number of deductions and tax credits afforded U.S. businesses, few corporations actually pay that rate. The average Fortune 500 company paid a tax rate of just 19.4 percent between 2008 and 2012, according to The Sorry State of Corporate Taxes, a report published by Citizens for Tax Justice.

A 2014 study issued by the Congressional Research Service found that U.S. corporations had an average effective tax rate of 27.1 percent, slightly less than the 27.7 percent recorded by other large nations that are members of the Organisation of Economic Cooperation and Development (OECD).

Most other nations that have lower corporate tax rates also have value-added taxes (VAT), a consumption-based national sales tax that is paid by corporations and added to the price of goods. Most U.S. corporations strongly oppose adding a VAT as a means of lowering corporate tax rates. For instance, German corporations pay a corporate tax rate of nearly 30 percent, plus a 19 percent VAT on goods sold.

U.S corporations are quite competitive in the global market place. They reported record profits last year, have seen several stock market records set this year, and continue to pay their CEOs at levels that far outdistance corporate executives of other nations. There is no evidence they are having a difficult time competing with corporations from other nations.

2. Taxing offshore profits is double taxation.

Corporations try to add confusion to the tax debate when they suggest that taxing foreign profits represents double taxation of their profits. The U.S. corporate tax code provides a dollar-for-dollar credit for taxes paid to foreign governments. If a business sells a car to a customer in Berlin and pays taxes on the sale to the German government, it can deduct those payments directly from any U.S. taxes owed.

Companies that pay no taxes to any government are the real problem. A few companies have engaged in complex paper transactions between tax haven nations, making all their income “stateless income,” which means it is taxable nowhere. A company that has employees and produces and sells goods and services is not “stateless.” Yet according to a U.S. Senate investigation, Apple avoided paying U.S. taxes on $74 billion of profits earned in the United
States by shifting income to Ireland and other tax haven nations, in a way that legally excluded the funds from any nation’s taxes.

3. We’re selling goods we made in a foreign country to foreign producers. Why should we have to pay U.S. taxes?

U.S. businesses manufacturing products in a foreign country and selling to foreign customers will pay a tax on that transaction to the foreign government. All taxes paid to foreign governments reduce U.S. tax bills on a dollar-for-dollar basis.

There are, however, many companies that do produce and sell in foreign countries but which also play the tax haven game to reduce their U.S. tax bills. Coca-Cola and PepsiCo are two such examples.

In 2004, Coca-Cola repatriated $7.5 billion under a previous tax holiday scheme. In investigating the outcomes of that tax holiday, U.S. Senate investigators found that “Coca-Cola repatriated nearly all its qualifying dividends from a Cayman Islands subsidiary which had no Cayman employees, and functioned primarily, in the words of Coca-Cola, to fund its offshore operations and ‘provide [ ] legal insulation’ for its U.S. assets.” The report went on to find that “PepsiCo repatriated most of its [$7.5 billion] qualifying dividends from a holding and finance company located in Bermuda with a single full-time employee.”

4. Our profits are trapped offshore and unable to be invested for the benefit of the U.S. economy or to create U.S. jobs.

Despite the low effective tax rate on corporate profits, corporate lobby groups continue to argue that the high statutory rate in the United States “traps” their profits abroad. In reality, corporations have full access to their offshore funds anywhere in the world. They can approach a U.S. bank branch in a tax haven nation and ask for a loan using their hoard of offshore cash as collateral, as General Electric describes in its most recent quarterly report: “Cash and equivalents of $62.4 billion at September 30, 2014 were held by non-U.S. subsidiaries. Of this amount, $5.1 billion was indefinitely reinvested. Indefinitely reinvested cash held outside of the U.S. is available to fund operations and other growth of non-U.S. subsidiaries; it is also available to fund our needs in the U.S. on a short-term basis through short-term loans, without being subject to U.S. tax.” (italics added)

Nearly half of the foreign earnings of 27 large U.S. multinationals were invested in U.S. assets, according to a 2011 study by the Senate Permanent Subcommittee on Investigations. Ninety-three percent of Microsoft’s official offshore profits were invested in the United States, according to a Wall Street Journal report.
Policy Options

Fueled by intense corporate lobbying, the idea that tax cuts are the way to fund our infrastructure needs has gained steam in Washington. As noted previously, the top 26 corporations that are the focus of this report owe an estimated $364 billion on their offshore profits. Three legislative proposals (one by President Obama and the other two by members of Congress) would allow these giant corporations to get away with much lower tax payments.

President Obama’s Plan – Offshore Minimum Tax and One-Time Tax on $2.1 Trillion of Offshore Profits

On March 30, 2015, President Obama sent Congress a proposal to address this gaming of the tax system. The president proposed that heading into the future, all corporations pay a 19 percent minimum tax on all of their offshore profits and an immediate, one-time mandatory 14 percent tax on the $2.1 trillion of untaxed offshore profits. He would use the $238 billion raised to replenish the depleted Highway Trust Fund and other infrastructure needs.

While the president’s plan has been widely reported as a new tax on corporations, in reality, it represents a significant cut in taxes prosperous U.S. corporations would already owe. In fact, it rewards the very companies that have most successfully gamed the system with the largest tax windfalls. For instance, according to a recent analysis by Citizens for Tax Justice, Microsoft, which has $93 billion squirreled away in tax havens like Ireland, told its shareholders that it will owe the government $29.6 billion when these funds are returned to the United States. But under the Obama plan, Microsoft would be asked to pay just $11.8 billion. The Obama infrastructure tax cut would deliver Microsoft a $17.8 billion windfall, almost enough to cover the $21 billion cost fix or replace all of the nation’s 4,000 deficient dams.

Worse, the president’s plan does not do enough to close offshore tax loopholes so that in the future, corporations cannot continue to shift U.S. profits offshore through accounting hocus-pocus. In fact, he proposes making two of the most egregious corporate tax loopholes permanent. The Controlled Foreign Corporations Look-Through rule enables corporations to set up a foreign subsidiary with nothing more than a post office box in a tax haven nation. The Active Financing Exception is the principal reason GE has paid a tax rate of just 0.4 percent over the last decade, according to Citizens for Tax Justice. These two loopholes will cost the government $83 billion over the next decade, more than the cost of fixing all of our bridges.

The president’s plan also represents a costly way of funding infrastructure. In sum, the president’s plan would boost more revenue than the others, but it is the best of a bad trio.
Boxer-Paul: The Invest in Transportation Act

Sens. Barbara Boxer (D-CA) and Rand Paul (R-KY) have proposed The Invest in Transportation Act, a voluntary tax holiday that would allow multinational companies a 6.75 percent tax on any untaxed foreign profits brought back to the United States. All of the revenue generated by this one-time tax would be placed into the Highway Trust Fund. The proposal contains language that mirrors the failed 2004 American Jobs Creation Act, which rewarded companies with lucrative tax cuts if they agreed to bring back foreign profits to create jobs. The Boxer-Paul plan mandates that some of the funds brought back to the United States be used for job creation, pension strengthening, environmental protection, and research and development. It also prohibits companies from using the funds for executive compensation or stock buybacks. Language of this sort was in the 2004 tax holiday legislation and proved unenforceable. This is perhaps the most expensive way to pay for infrastructure – taxpayers pay once for the large corporate tax cut and a second time when the infrastructure investments are made.

Delaney: Infrastructure 2.0 Act

Rep. John Delaney (D-MD) has a similar plan with a different twist. Under Delaney’s Infrastructure 2.0 Act, corporations would pay a mandatory 8.75 tax rate on all offshore profits. The funds would be used to replenish the Highway Trust Fund and to capitalize and create a new national infrastructure bank. The bill also proposes that if comprehensive tax reform is not enacted in a timely manner, remaining offshore profits would be subject to a sliding scale tax of between 2.0 and 12.5 percent, depending on how much tax had already been paid on these amounts to a foreign government. But like the Boxer-Paul proposal, Delaney’s solution is expensive, requiring taxpayers to pay twice—once for the cost of the tax cut and again for the cost of the infrastructure.

All of these plans burn our bridges by not insisting that U.S. businesses pay their fair share toward the upkeep of our nation’s infrastructure and other public services, upon which our businesses depend.

There’s no economic reason to reward corporations for successfully gaming the tax code. As University of Michigan Law Professor Reuven Avi-Yonah explains: “These earnings have already been earned, so there’s no competitiveness or efficiency rationale for applying a lower rate to them, since taxing them at 35 percent will neither influence corporate behavior, nor impede competitiveness. A lower rate just rewards U.S. multinationals for managing to earn that much at very low effective tax rates in the past.”

There would be more revenue if policymakers devoted their energies first to permanently closing corporate offshore tax loopholes that annually drain $90 billion from the U.S. Treasury. Rather than a one-time boost of a couple of hundred billion dollars, this could generate nearly $1 trillion of additional tax revenue in a decade, and in every decade that follows.
Legislation that Would Close Tax Loopholes and Raise More Long-Term Revenue for Infrastructure Needs

The following are the main proposals under discussion in Washington to cover the cost of infrastructure investment and to close corporate tax loopholes.

1. **Stop Tax Haven Abuse Act (H.R. 297)**

Rep. Lloyd Doggett (D-TX) and Sen. Sheldon Whitehouse (D-RI) have introduced the Stop Tax Haven Abuse Act, which would close a variety of loopholes that facilitate offshore tax dodging. This bill would treat the foreign subsidiaries of U.S. corporations, whose management and control occur primarily in the United States, as U.S. domestic corporations for income tax purposes. It would also make it more difficult for U.S. companies to merge with foreign partners in lower-tax jurisdictions as a way to reduce their U.S. taxes. It would change corporate disclosure requirements and require corporations to report sales, profits, and taxes paid by country. This would enable tax authorities, investors, and the general public to clearly see corporations that were booking significant amounts of profits in sparsely populated tax haven nations, where the firms had no sales. **Passing this legislation would reduce the incentive to shift profits and jobs overseas and could raise an additional $278 billion over ten years without raising corporate tax rates, according to the Joint Committee on Taxation.**

2. **Corporate Tax Fairness Act**

Introduced by Sen. Bernie Sanders (I-VT) and Rep. Jan Schakowsky (D-IL) in the previous Congress, this proposal would eliminate the ability of corporations to defer tax payments on their offshore profits. Instead, all worldwide profits earned by U.S. corporations would be immediately taxable in the United States. Firms would receive a dollar-for-dollar tax credit for any taxes paid to foreign governments. Corporations earning their profits in places like the United Kingdom, Germany, or France, where effective corporate tax rates are similar to U.S. rates, would pay little if any additional tax to the U.S. government. But **firms stashing their profits in offshore tax havens would be forced to pay up for their years of tax haven abuse. The bill was estimated to raise $590 billion over ten years.**

3. **Bills to Stop Corporate Inversions**

Several bills were introduced in the last Congress to block corporations from renouncing their U.S. incorporation and reincorporating offshore to save on U.S. taxes. The Stop Corporate Inversions Act of 2015 would raise $34 billion over the next decade. Rep. Rosa DeLauro (D-CT) and Rep. Lloyd Doggett (D-TX) introduced The No Federal Contracts for Corporate Deserters Act, which would bar inverted companies from competing for lucrative federal contracts.
Conclusion

As corporate profits and the stock market set new all-time records, CEOs continue to complain that corporate taxes are too high. Regrettably, they view taxes as a cost to be managed, not an investment in America, their workforce, and an infrastructure that will create a competitive, vibrant, and innovative future.

Corporations rely on basic research from the best universities in the world to create new consumer products; they count on direct public investments in the Internet and an array of life-enhancing drugs and medical devices; and they depend on a legal system that enforces contracts and a patent system that protects intellectual property. Our economic growth since the Great Depression has rested on the idea that a strong and secure middle class is the most reliable consumer market for American businesses and the source of an increasingly skilled workforce. All of these investments were paid for by the American people and by U.S. businesses that used to regard their tax payments as investments in America.

It is time for Congress to change the rules. They could start by closing offshore loopholes, ending deferral, and asking corporations to pay the taxes they owe on untaxed offshore profits. Then they could reinstate the rules in effect prior to the 1986 that taxed “excessive cash reserves” wherever that cash was held in the world.

Congress can ensure that America’s corporations pay for the public services and investments on which we all depend, assuring a brighter future for American business – and for all of us.
Appendix 1: Sources and Methodology

**Unrepatriated offshore profits:** Corporations annually report on the amount of untaxed foreign profits that they are holding indefinitely offshore. These figures are typically found in the tax footnote of the company’s 10-K annual report filed with the U.S. Securities and Exchange Commission. In presenting the four select years of data, we presented data from the most recent fiscal year reported as of March 15, 2015. For the majority of companies this will be data for the period ending December 2014. For companies with a fiscal year other than December we included their fiscal 2014 offshore profits numbers reported prior to December. For the three previous years we included data from fiscal years 2011, 2008 (at the start of the Great Recession) and 2005 (just after the last tax holiday).

**Estimated taxes due on offshore profits:** Seven of the 26 corporations disclosed their U.S. tax liabilities in public filings. For the others, we estimated their taxes due based on a 2014 [Citizens for Tax Justice](https://www.ctj.org/) report on the 55 Fortune 500 companies that disclosed their U.S. tax liabilities on offshore earnings. CTJ found that the average tax rate that these firms had collectively paid to other countries on this income was 6.7 percent. As CTJ explains, if these companies officially repatriated their “offshore” money to the U.S., they would pay the 35 percent statutory corporate tax rate, minus what they have already paid to foreign governments. Thus, their U.S. tax liabilities were 28.3 percent of their offshore earnings, on average. Actual amounts owed by any particular firm may be higher or lower than estimates shown.

**Number of tax haven subsidiaries:** These were calculated by the report’s authors based on significant subsidiaries reported in 10-K filings. We used a list of 50 tax haven countries compiled by [Citizens for Tax Justice and U.S. PIRG](https://www.citizen.org/) from three sources: the Organization for Economic Cooperation and Development (OECD), the National Bureau of Economic Research, and a U.S. District Court order listing tax havens.

**Infrastructure Costs:** Derived from the triennial [Infrastructure Report Card](https://www.infrastructurereportcard.org/), published by the American Society of Civil Engineers. See Appendix 2 for more detail.

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<th>A Plug for Corporate Tax Disclosure</th>
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<td>The numbers in this report are the best available through public sources. Ideally, the SEC would require all companies to estimate and disclose the amount of taxes owed on profits held offshore. In the meantime, companies should release this information voluntarily. Fifty-five Fortune 500 companies already do so. Further disclosure would also have significant public benefit. If U.S. corporations were required to disclose where they are booking their profits and paying their taxes on a country-by-country basis, policymakers would be able to better understand the abuses of the offshore tax system. Some extractive industries firms are already voluntarily providing such information. Retired Sen. Tom Coburn (R-OK) has proposed that USASpending.gov, the federal government’s online database on tax expenditures, also report on the corporations benefitting from federal corporate tax breaks.</td>
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Appendix 2: Our Unmet Infrastructure Needs By the Numbers

Every three years, the American Society of Civil Engineers issues a report card on the nation’s infrastructure. Their last report, in 2013, gave the state of U.S. infrastructure a “D+” overall and outlined the $500 billion a year ($3.6 trillion between 2013 and 2020) of investments needed to bring our infrastructure into the 21st century. Here is some of what they found:

**Water Infrastructure**  
(up to $1 trillion needed to replace and modernize water system)  
There are nearly a quarter million water main breaks each year. Seventeen percent of the water pumped by municipalities never reaches consumers due to leaks in the system.

**Wastewater and Stormwater Systems**  
($298 billion needed over next 20 years)  
Capacity shortages lead to environmentally destructive sewer outflows into rivers, lakes and oceans.

**School Buildings**  
($270 billion needed to modernize schools)  
Nearly half of the nation’s school buildings were built to serve Baby Boomers, who are now retiring. Spending on school construction in 2012 was $10 billion, about half the annual level prior to recession.

**Parks**  
(States and Cities face $18.5 billion in unmet needs, while National Park Service has maintenance backlog of $11 billion)  
More than 140 million Americans – nearly half the country’s population – make regular use of parks. More than six million Americans depend upon our nation’s parks for their work.

**Roads**  
(An additional $80 billion a year over current spending levels is needed)  
Road congestion costs U.S. drivers more than $100 billion a year in travel delays and added fuel costs. Potholes cost drivers $355 a year in added vehicle maintenance costs.

**Bridges**  
($76 billion needed to repair and replace deficit bridges)  
One in nine U.S. bridges have been deemed structurally deficient. Each day 29 million Americans travel over the bridges. The average age of the nation’s more than 600,000 bridges is 42 years.

**Dams**  
($21 billion to repair and modernize 4,000 dams deemed deficient by inspectors)  
The nation’s 84,000 dams are, on average, 52 years old. Two thousand of the deficient dams safeguard heavily populated areas and are considered high-hazard.

**Levees**  
($100 billion to repair or replace deficient levees)  
There are more than 100,000 miles of levees in the United States. They are estimated to have prevented $141 billion in flood damage in 2011.
CEG and IPS are members of two major tax coalitions:

Financial Accountability and Corporate Transparency (FACT) Coalition – FACT seeks an honest and fair corporate tax code, greater transparency in corporate ownership and operations, and common-sense policies to combat the facilitation of money laundering and other criminal activity by the legitimate financial system.

Americans for Tax Fairness – More than 425 national, state, and local organizations working together on broad issues of tax reform. Promotes revenue positive tax reform in which wealthy individuals and powerful corporations pay their fair share.