FACTCOALITION
Financial Accountability & Corporate Transparency

October 3, 2017

The Honorable Orrin Hatch
Chairman, Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510-6200

The Honorable Ron Wyden
Ranking Member, Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510-6200

**RE: October 3rd Hearing on International Tax Reform**

Dear Chairman Hatch and Ranking Member Wyden,

We are writing on behalf of the Financial Accountability and Corporate Transparency (FACT) Coalition to thank you for holding a public hearing on the international aspects of tax reform and to offer our recommendations on how to improve the American tax system.

The FACT Coalition is a non-partisan alliance of more than 100 state, national, and international organizations working toward a fair tax system that addresses the challenges of a global economy and promoting policies to combat the harmful impacts of corrupt financial practices.[1]

While the problems with the tax code span across many areas, we especially appreciate this hearing's focus on updating our international tax system and reforming the tax code so that it strengthens American business. The tax treatment of multinational corporations is one of the areas of the tax code most in need of substantial reform. In fact, a prominent tax economist estimates that up to $135 billion is lost each year to offshore corporate tax avoidance.[2] The ability of companies to defer paying taxes on their offshore earnings has allowed them to accumulate a stunning $2.6 trillion in earnings "offshore" on which they are avoiding $750 billion in taxes.[3]

Allowing multinational corporations to continue to engage in large-scale offshore tax avoidance hurts small and wholly domestic businesses. Every dollar companies avoid in taxes must be paid in one form or another. On the one hand, offshore tax avoidance means that we are short on the revenue to make needed public investments in things like infrastructure, education, and health care that make our economy competitive over the long term. On the other hand, small and domestic businesses are disadvantaged because they are the ones left picking up the tab for all the tax avoidance by their multinational competitors. In fact, one study found that the total potential burden on small businesses for the cost of federal tax avoidance could be as high as $4,481 per company on average.[4]

We, as a coalition, believe that any tax reform effort should take four critical steps to dramatically cut back on the gaming by multinationals.

**1. Stop Giving Multinationals an Advantage over Wholly Domestic and Small Businesses**

We should immediately close the loophole that allows companies to defer paying taxes by moving their profits offshore. As U.S. citizens, you and I — and every domestic company — pay taxes on what we earn, regardless of where we earn it. None of us can defer our tax obligations. But multinational companies can create foreign subsidiaries, divide themselves in ways that game the system, and defer paying all or most of the taxes due on their foreign earnings. It's not fair, and it's anti-competitive. They use our roads and bridges to ship their goods, recruit from our colleges and universities, and are protected by our laws and our military. They should not, through loopholes and accounting gimmicks, defer paying their share and leave the rest of us to pick up the tab.

Also, we should not favor multinationals over wholly domestic and small businesses by giving them a special rate. Shockingly, some — including the so-called "Big Six" — have proposed a lower tax rate for those companies that shift jobs and money overseas.[5] That makes no sense.

**2. Stop U.S. Companies from Claiming Foreign Residence Simply to Dodge Taxes**

Some large U.S. companies buy up smaller, foreign companies, move their legal residence to one of the tax haven countries (a paper transaction, no moving van required) and claim they are no longer U.S. residents to avoid paying taxes. They still have access to our markets and many of the privileges they enjoyed as U.S. companies, but stop paying the taxes needed to support that access. That means you and I are left paying their share. We should strengthen 'anti-inversion' and earnings stripping rules to prevent that type of gaming.

**3. Ensure Multinationals Play by the Rules by Publicly Reporting their Profits and Taxes Paid**

Multinational companies do not publicly report on where they are making their money or what taxes they are paying to whom. We have no idea exactly how they are gaming the system — what they tell us versus what they tell other countries. They should have to write it down in one place and report it on a country-by-country basis, so that the public can see what they are really paying.[6]

**4. Don't Make Things Worse**

Our current system allows U.S. companies to delay paying taxes on U.S. profits they shift overseas. That's bad enough. Some in Congress have proposed allowing the profit-shifting without ever having to pay what they owe. That's the ultimate loophole. If we move toward what's called a "territorial tax system," which really means giving multinational corporations a zero tax on profits they shift abroad, the only companies left paying U.S. corporate income taxes would be those too small to game the system. It also means that multinational companies would face an incentive to offshore jobs to countries



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with lower tax rates than the U.S. That is why more than 100 organizations sent a letter to Congress on Monday urging legislators to reject a "territorial tax system."[7]

If there is one thing that policymakers, the media, and the public can agree on, it is that the tax code is long overdue for a substantial overhaul. We appreciate the diligent work you and committee staff have put into exploring these issues and hope to work with you moving forward on tax reform.

For additional information, please contact Clark Gascoigne at cgascoigne@thefactcoalition.org or Richard Phillips at rphillips@itep.org.

Sincerely,

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| **Gary Kalman** | **Clark Gascoigne** | **Richard Phillips** |
| Executive Director | Deputy Director | Policy & Communications Co-Chair |
| The FACT Coalition | The FACT Coalition | The FACT Coalition |

cc Members of the Senate Committee on Finance

[1] For a full list of FACT Coalition members, visit https://thefactcoalition.org/about/coalition-members-and-supporters/

[2] Kimberly A. Clausing, "Profit shifting and U.S. corporate tax policy reform," *Washington Center for Equitable Growth*, May 2016. http://equitablegrowth.org/report/profit-shifting-and-u-s-corporate-tax-policy-reform/

[3] *Institute on Taxation and Economic Policy*, "Fortune 500 Companies Hold a Record $2.6 Trillion Offshore," March 28, 2017. https://itep.org/fortune-500-companies-hold-a-record-26-trillion-offshore/

[4] Alexandria Robins and Michelle Surka, "Picking Up the Tax 2016," *U.S. PIRG*, November 29, 2016. http://www.uspirg.org/reports/usp/picking-tab-2016

[5] Speaker Ryan Press Office, "Unified Framework for Fixing our Broken Tax Code," *Office of the Speaker of the House*, September 27, 2017. https://www.speaker.gov/sites/speaker.house.gov/files/Tax%20Framework.pdf

[6] *The FACT Coalition,* "FACT Sheet: Public Country-by-Country Reporting," September 27, 2017. http://thefact.co/aIdnl

[7] Clark Gascoigne, "Over 100 Organizations Urge Congress to Reject Giant Tax Loophole for Offshoring and Tax Avoidance", *The FACT Coalition*, October 2, 2017. http://thefact.co/3Kzko