



Dear Senators,

Taxes are a means to provide resources needed to maintain the health of a nation. At all levels of government, tax revenues maintain our courts, education system and workforce, our military, and our roads and bridges; they support public safety, food safety, clean air and water; they provide benefits for families, veterans, and an aging population.

The questions surrounding who should be taxed, and to what degree, in order to support these basic functions have incited much debate. As our leaders consider ways to reform our system of taxation, we propose the following principles to guide the process.

Simply citing the need for business tax reform without an understanding of the real problems and facts at hand will lead to 1) solving the wrong problems, 2) making the current problems even worse, and/or 3) deepening the economic problems facing our country and many others around the globe.

Elected officials represent everyone: *every* type of business and *every* person in their districts, states or countries. Those charged with reforming our business tax code should take into account the impact of the current business tax code accordingly.

A partisan process or closed-door process will only lead to special interests and their standard-bearers protecting the current flaws in the system. The final outcomes and results should be transparent and should hold every lawmaker accountable for their contributions.

There are plenty of specific loopholes that should be considered for closing that have been enumerated both in legislative proposals and in the President's budget (listed in the attached "options" document), that we have advocated for – but these guidelines and core principles should inform any changes to our tax code.

## THE PROBLEM

1. Our current code is riddled with loopholes systematically inserted by special interests that result in large, multi-national corporations shifting their tax responsibilities to small businesses, domestic businesses and average taxpayers.
2. Due to huge loopholes and other factors, dozens of big corporations paid no federal income taxes in the last four years, while reaping billions of dollars in profits. Overall, corporations paid an average effective tax rate of 25.6 percent between 1987 (the beginning of the last major corporate tax reform) and 2008. In 2011 corporations paid just a 12 percent effective income tax rate.
3. Corporations benefit from the operation of government just as individuals do (and more so in some cases due to myriad tax benefits and lucrative contracts) and should be expected to contribute, but corporate share of federal revenue was just 8 percent in 2011, having declined by more than 60 percent in the last 50 years.
4. There are many reasons for this massive slide both in contributions to the federal revenues and effective tax rates, but a major contributing factor has been the incentives the current corporate tax code creates for large, multinational corporations to move jobs and profits offshore. Though many of the worst tax-evading corporations plead innocence, these loopholes weren't created by accident—the tax code has been the successful target of massive lobbying efforts to create and maintain loopholes that account for revenue loss.
5. While many American corporations have real operations in other countries, reports from non-partisan governing entities and agencies, both in the U.S. and internationally, have provided ample evidence that many corporations are using subsidiaries in low- and no-tax countries to greatly reduce their taxes through legal channels. These “stateless” corporations drain the treasuries of all countries, which struggle to provide the services and benefits that these same corporations, as well as the citizenry at large, need to function.
6. The same system that enables financial services firms and corporations to shift money around the world with little or no accountability is also used for nefarious purposes by criminals. FACT's member organizations—whether focused primarily on corruption, corporate accountability, or tax justice—are unified in our desire to see this shadow financial system dismantled.

## THE SOLUTION

### ***We need a business tax system that:***

- Holds corporations accountable to report their profits and revenues in a consistent manner to government, shareholders and the public;
- Removes distortions that create incentives for companies to shift profits and jobs offshore;
- Encourages competition based on products, services, innovation and job creation rather than the ability to hire accountants and lawyers to employ tax strategies;
- Does not create unjustified tax/revenue deficiencies in other countries;
- Focuses on the public interest, and does not choose winners and losers based on their ability to lobby and contribute to campaigns;

- Provides for transparency across industries and countries as to transactions, economic activity, and taxes paid, giving investors, shareholders and governing bodies a holistic view of a corporations' activity; and
- Ensures that all businesses -- large and small, domestic and global,-- should pay their fair share of taxes toward ensuring that adequate public investment is made to keep our economy strong and competitive.

Thank you for your consideration,

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