



OPTIONS FOR REFORMING BUSINESS TAX CODE

Reference

Deferral system — most foreign operating earnings of an MNC's foreign subsidiaries will be subject to U.S. taxation only when distributed as dividends, which often is never.

Territorial system — most foreign operating earnings, including those within an MNC's foreign subsidiaries, will never be subject to any U.S. taxation no matter whether distributed or not.

Worldwide full-inclusion system — foreign operating earnings, whether directly earned by a U.S. MNC group member or within an MNC foreign subsidiary, will be subject to U.S. taxation currently as earned.

Options: Change the System

- a. Move to worldwide by ending deferral: End deferral of taxes on income multinational companies earn overseas. Companies should instead pay U.S. taxes on overseas income as soon as it is earned, and continue to receive foreign tax credits to offset taxes paid to foreign governments. This option would raise nearly \$600 billion in new revenue, according to the Joint Committee on Taxation. (S.250, Corporate Tax Fairness Act, Senator Bernie Sanders).
- b. Enact a formulary apportionment corporate tax system in which a company's worldwide income is apportioned for tax purposes to the jurisdictions where it does business, based on considerations such as sales, assets, and employees. Often referred to as "combined reporting," at the state level, 23 states have successfully implemented such a system with respect to a company's U.S. (not worldwide) income. A formulary apportionment system would ensure that multinational companies are taxed based on where they actually do business, preventing them from artificially shifting income made in the U.S. to a low tax jurisdiction where little to no business is being done to avoid taxes.

Options: Within the System

- a. End transfer pricing abuses. For example, tax immediately income to foreign affiliates receiving U.S. intellectual property, limiting income shifting through U.S. property transfers offshore, and tightening the rules related to the valuation of "goodwill"

and other intangibles. (S.268, CUT Loopholes Act, Senator Carl Levin), Obama budget.

- b. Prevent companies that are managed and controlled in the U.S. from claiming foreign status. The profits of “foreign” corporations that are managed and controlled in the U.S. should be treated as domestic for tax purposes. (S.268, CUT Loopholes Act, Senator Carl Levin)
- c. Defer the deduction of interest expense related to deferred income. Right now, an offshore subsidiary of a U.S. company can defer paying taxes on interest income in collects from the U.S. based parent, even while the U.S. parent claims those interest payments as a tax deduction. This reform would save nearly \$60 billion over ten years, according to the Joint Committee on Taxation. (Obama FY2013 Budget, S.268, CUT Loopholes Act, Senator Carl Levin)
- d. Determine foreign tax credits on a pooled basis to stop companies from manipulating foreign tax credits to avoid taxes. This reform would save \$57 billion over ten years according to the Joint Committee on Taxation (Obama FY13 Budget, S.268, CUT Loopholes Act, Senator Carl Levin)
- e. Require multinational companies to report employees, revenues, and tax payments on a country-by-country basis. This information would allow U.S. tax authorities to crack down on tax haven abuse (S.268, CUT Loopholes Act, Senator Levin).