

Reed, Durbin, Warren Urge President Obama to Address Corporate Tax Avoidance Through Executive Action

Senators call for immediate crack down on corporate inversions as Congress weighs legislative fix



8/05/2014 — **WASHINGTON, DC** — U.S. Senators Jack Reed (D-RI), Dick Durbin (D-IL), and Elizabeth Warren (D-MA) today sent a letter to President Obama urging him to use his executive authority to reduce or eliminate tax breaks for companies that shift their headquarters overseas to avoid paying U.S. taxes. As Congress considers legislative solutions to the problem, the lawmakers emphasized the need for immediate action, considering the growing trend in corporate tax avoidance.

“Although we will continue to work toward a legislative solution to the problem, we urge you to use your authority to reduce or eliminate tax breaks associated with inversions,” the senators wrote. “Inverted corporations take advantage of all the things American tax dollars provide—from tax credits for research and development, investments in transportation infrastructure, and strong patent and copyright protections, to profiting from taxpayer-supported programs like Medicare and the Veterans Health Administration. Yet, these companies claim to be foreign corporations when it’s time to pay their tax bill—denying the United States billions of dollars in tax revenue and thereby increasing the tax burden on other U.S. taxpayers.”

Reed has worked to address corporate tax avoidance on a number of fronts. Last year, he introduced the Stop Subsidizing Multimillion Dollar Corporate Bonuses Act (S.1476), which sought to close a major loophole in current corporate tax law by putting an end to unlimited tax write-offs on performance-based executive pay. Over a 10 year window, the Joint Committee on Taxation estimates this legislation would close a loophole that costs U.S. taxpayers over \$50 billion.

“U.S. businesses need to meet their obligations just like everyone else. Corporate tax loopholes like this increase the debt and force mom and pop businesses and the middle-class to subsidize huge corporate operations at some of the most profitable companies out there. We must restore fairness to the tax code,” said Reed.

Here is the full text of the senators’ letter:

August 5, 2014

President Barack Obama

The White House

1600 Pennsylvania Avenue

Washington, DC 20500

Dear President Obama:

We commend your July 24 remarks decrying “corporate inversions”— transactions in which an American corporation engages in accounting legerdemain to move their domicile overseas to evade U.S. taxes. Although we will continue to work toward a legislative solution to the problem, we urge you to use your authority to reduce or eliminate tax breaks associated with inversions.

In 2004, Congress amended the tax code to prevent inverted corporations from escaping their U.S. tax obligations simply by moving their domicile overseas. Since then, U.S. corporations have taken advantage of a loophole in the law that allows them to avoid U.S. taxes if they simply acquire a smaller foreign competitor, as long as more than 20 percent of the shares are held by new owners who did not hold a stake in the U.S. company, and replace the U.S. parent with a foreign corporation in a low-tax country. These companies are

able to further reduce their U.S. tax responsibility through strategies such as earnings stripping, or shifting income-earning activities to the foreign parent company or its subsidiaries and loading up the U.S. subsidiary with debt.

Inverted corporations take advantage of all the things American tax dollars provide—from tax credits for research and development, investments in transportation infrastructure, and strong patent and copyright protections, to profiting from taxpayer-supported programs like Medicare and the Veterans Health Administration. Yet, these companies claim to be foreign corporations when it's time to pay their tax bill—denying the United States billions of dollars in tax revenue and thereby increasing the tax burden on other U.S. taxpayers.

Forty-seven corporations have inverted in the last decade, and more than a dozen companies have announced plans to invert or are reportedly considering inversion to dodge U.S. taxes. This number will rise dramatically if no action is taken, resulting in a loss of billions of dollars in tax revenue.

Some have argued that comprehensive tax reform and lower U.S. corporate tax rates are the solution to this urgent problem. While we support efforts to restore fairness to the tax code and encourage domestic economic growth and job creation, this ignores the fact that even if tax reform successfully reduces the U.S. corporate tax rate to 28 percent as outlined in your proposal for business tax reform, companies will still chase lower tax rates in jurisdictions like Ireland where the corporate tax rate is 12.5 percent. This is a race to the bottom the United States simply can't win and should not be lured into entering.

We have introduced S. 2360, the Stop Corporate Inversions Act, and are working with our colleagues in Congress to pass legislation as soon as possible to eliminate tax breaks for inverted corporations, including closing the inversion-acquisition loophole. However, our efforts should not preclude executive action to prevent corporate inversions. The coming flood of corporate inversions justifies immediate executive action.

Corporations that renounce their U.S. corporate citizenship should not be able to reap all the benefits that American tax dollars provide. We urge you to use your authority to stand up for American companies which are proud to be part of our nation and reduce U.S. incentives for others corporations which would abandon their responsibilities to their country for a nod of approval from Wall Street.

Sincerely,

JACK REED

United States Senator

RICHARD J. DURBIN

United States Senator

ELIZABETH WARREN

United States Senator

-end-