

THE TAXONOMIST

The GOP's Multinational Tax Deform

By Robert S. McIntyre

Responding to public outrage, Congressional Democrats have been clamoring loudly for a crackdown on corporate offshore tax dodges. They've particularly focused on the notorious Bermuda loophole whereby unpatriotic companies such as Tyco, Stanley Works, Accenture (formerly Andersen Consulting) and Pricewaterhouse-Coopers Consulting have or are planning to set up mail drops in Bermuda to avoid taxes on their U.S. profits.

Sensing the public mood, Bill Thomas, the California Republican who chairs the Committee to Bankrupt America (formerly the House Ways and Means Committee), says Republicans too want to address the problem. But while the GOP bill offers lip service to stopping multinational tax abuses, it consists mainly of measures that go in exactly the opposite direction.

A little background: Over the past several years, the World Trade Organization has repeatedly ruled that a foolish \$5 billion-a-year U.S. tax subsidy for Boeing, General Electric, Caterpillar and a handful of other big exporters violates our international trade agreements. Various attempts to rewrite the tax break to make it legal have failed to impress the WTO, and U.S. companies now face significant trade sanctions unless the subsidy is repealed. Even most backers of the tax break have finally conceded that it has to go.

That would be good news, you might think, since not spending the \$51 billion that the subsidy would cost over the next decade would make at least a modest dent in the huge Bush budget deficits. (This year's shortfall will exceed \$300 billion, outside of Social Security, and the red ink will measure in the trillions over the upcoming decade.) But that's not how the corporate tribunes who make up the majority of the Committee to Bankrupt America think. Under the rubric of "competitiveness"—slogan: "competition means subsidies"—they've insisted that every penny gained from ending the export subsidy must be funneled back into other costly multinational tax loopholes.

Politics forced Republicans to pretend to attack the Bermuda loophole, but their bill does as little as possible. For starters, they sharply watered down a Democratic proposal to disallow sham Bermuda reincorporations—and then insisted that even that limited reform must expire after three years! Although the change may at least temporarily stop Stanley's Bermuda plans, it explicitly grandfathered companies like Tyco that set up their mail drops early.

Another of the GOP's Bermuda-related measures would limit schemes to shift profits offshore through interest write-

offs, but would not curb similar deductions for the use of patents, trade names and so forth. That seems to have been carefully designed to protect the Bermuda tax sheltering activities of Accenture and PwCC—who remonikered themselves (to "Monday" for PwCC) to get around a law forbidding expatriate companies from charging their American operations hefty deductible fees for the use of pre-existing trade names.

In total, these and a few other reforms in the bill are estimated to curb tax-shelter abuses by about \$15 billion over the next decade. In sharp contrast, Republicans want to spend \$83 billion on what they outlandishly calls "simplification" measures. As Wayne State law professor and leading international tax expert Michael J. McIntyre notes in a written analysis of the GOP bill, these eighteen new "loophole provisions . . . would reduce the fairness and efficiency of the tax system and reduce the competitiveness of the U.S. economy. . . . Their unifying aspect is that they have been on various goody lists prepared by the big accounting firms over the past several years."

For example, while the Bermuda-related reform curbing improper interest write-offs would raise \$5.5 billion over ten years, another provision in the bill would *increase* unjustified interest deductions for multinationals, at a cost of \$23.4 billion. Another measure would lose \$37.4 billion by scrapping a long-standing rule that's made it harder for companies to artificially shift profits into tax havens by manipulating intracompany "transfer pricing." Other provisions would undo essential prior reforms, expand existing loopholes or create brand new ones.

Most Americans probably believe that multinational corporations, whether U.S. or foreign owned, ought to pay taxes on their American profits just like purely domestic companies. Unfortunately, we learn more every day about how severely that goal has been undermined by aggressive tax sheltering on the part of unscrupulous corporate bosses and their accountants. Perhaps less well known is how enthusiastically the current management in the House of Representatives and the White House supports these abuses.

In fact, as things now stand, the only plausible chance that Thomas's outrageous bill may fail in committee is that a few Republican members, notably Washington-state Representative (and anti-estate-tax zealot) Jennifer Dunn (R-Boeing), think its corporate giveaways are insufficient.

If you're wondering why our tax laws are so messed up, the pending multinational tax deform bill ought to be Exhibit A against the perpetrators.