THE SCHAKOWSKY/SANDERS CORPORATE TAX FAIRNESS ACT (H.R. 694/S.250)

Representative Jan Schakowsky (D-IL) and Senator Bernie Sanders (I-VT) have introduced the Corporate Tax Fairness Act to keep profitable corporations from sheltering profits in the Cayman Islands and other tax havens. This bill also would stop rewarding companies that ship jobs and factories overseas with tax breaks.

The Joint Committee on Taxation (JCT) has estimated in the past that the provisions in this bill will raise more than $590 billion in revenue over the next decade.

The Corporate Tax Fairness Act will reform the tax code by:

1. **Ending the deferral of foreign source income that allows U.S. corporations to avoid paying taxes on overseas profits**. (Section 2 of the bill.)

   Under current law, U.S. corporations are allowed to defer or delay U.S. income taxes on overseas profits until this money is brought back into the United States. U.S. corporations are also provided foreign tax credits to offset the amount of taxes paid to other countries.

   This offshore tax scheme has provided two perverse incentives for American corporations. First, it motivates large companies to shift as much of their profits as possible overseas by setting up subsidiaries in the Cayman Islands and other tax haven countries. Second, it allows corporations to receive huge tax breaks for establishing manufacturing facilities in countries with very low or no corporate tax rates. Closing these tax loopholes would reduce the deficit and create jobs that millions of Americans need.

   According to a 2008 Government Accountability Office Report, 83 of the Fortune 100 companies in the United States use offshore tax havens to lower their taxes. Today, U.S. corporations have an estimated $1.7 trillion of un-repatriated foreign profits sitting offshore.

   The Corporate Tax Fairness Act will end these loopholes by requiring U.S. companies to pay taxes on all of their income by ending the deferral of foreign source income.

   Under this legislation, corporations would pay U.S. taxes on their offshore profits as they are earned. This legislation takes away the tax incentives for corporations to move jobs offshore or to shift profits offshore because the U.S. would tax their profits no matter where they are generated.

   Under the Corporate Tax Fairness Act, U.S. corporations would continue to get a credit against their U.S. taxes for foreign taxes they pay. That means that when an American corporation has profits in a country with lower corporate taxes than the U.S., they would pay the federal government the difference between the foreign rate and the U.S. rate. When an American corporation has profits in a country with higher corporate taxes than the U.S., they would pay nothing to the U.S.

2. **<u>Closing loopholes that allows U.S. corporations to artificially inflate or accelerate foreign tax credits.</u>** (Section 4 of the bill.)

   When U.S. corporations earn profits overseas, taxes paid to the foreign country are credited against U.S. tax liabilities. Under current rules and tax planning strategies, corporations are allowed to claim foreign tax credits for taxes paid on foreign income that is not subject to current U.S. tax. As a result, companies are able to use such credits to pay less tax on their U.S. taxable income than they would if it was all from U.S. sources – providing them with a competitive advantage over companies that invest in the United States.

   The Corporate Tax Fairness Act would reform current law to limit foreign tax credits to offset income only from the country in which it is earned.

3. **<u>Preventing corporations from avoiding U.S. taxes by claiming to be a foreign company through the establishment of a post office box in a tax haven country.</u>** (Section 5 of the bill.)

   Each and every year, corporations and the wealthy are avoiding $100 billion a year in taxes by shifting their profits and income to offshore tax havens like the Cayman Islands.

   Offshore tax haven abuse has become so absurd that one five-story office building in the Cayman Islands is now the "home" to more than 18,000 corporations.

   The Corporate Tax Fairness Act would prevent corporations that are American for all practical purposes from avoiding U.S. taxes by claiming to be a foreign company through the establishment of a post office box in a tax haven country.

   Specifically, under this legislation, a corporation could not claim to be from another country if their management and control operations are primarily located in the U.S.

4. **<u>Eliminating tax loopholes for big oil companies that allow them to disguise royalty payments to foreign governments as foreign taxes.</u>** (Section 3 of the bill.)

   U.S. taxpayers are taxed on their income worldwide, but are entitled to a dollar-for-dollar tax credit for any income taxes paid to a foreign government. U.S. oil and gas companies have been disguising royalty payments to foreign governments as foreign taxes. This has allowed them to lower their taxes in the U.S.

   The Corporate Tax Fairness Act would close this loophole which amounts to a U.S. subsidy for foreign oil production for the five largest oil companies.