DEMOCRATIC POLICY COMMITTEE

GOP PROTECTS OFFSHORE TAX HAVENS

SPECIAL REPORT

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House Democratic Policy Committee
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OFFSHORE CORPORATE TAX HAVENS

Today, the House will take up H.R. 4626, the Marriage Penalty Relief bill – with no opportunity for amendment. The GOP Leadership is determined to avoid an amendment to stop tax benefits for corporations moving offshore. Unfortunately, this represents another example in which House Republicans and the Bush Administration are working for the corporate special interests, instead of securing America's future for all families.

In effect, House Republicans and the Bush Administration are refusing to take the steps to stop the exodus of Corporate America. Corporations are moving their addresses offshore to Bermuda in order to escape paying their fair share of taxes. Many of these companies who reap millions in tax breaks are funneling millions into GOP campaign coffers. Clearly, Republicans are putting campaign contributions and their corporate buddies ahead of America's families.

Corporate Expatriates Get Tax Breaks & Federal Contracts

Major U.S. corporations are trading in their U.S. citizenship and moving their business addresses offshore to regulatory and tax havens. As reported by the *New York Times*, ***"A growing number of American companies, encouraged by their financial advisers, are incorporating in Bermuda to lower their taxes sharply without giving up the benefits of doing business in the United States."***

U.S. companies have recently started exploiting this tax loophole. Often, these companies use a "Bermuda triangle" scheme in which they avoid U.S. taxes on foreign-source income and reduce the rights of their shareholders by incorporating in a tax haven (such as Bermuda), and then avoid taxes on U.S.-source income by opening a subsidiary in a third country with a tax treaty with the U.S. (such as Luxembourg or Barbados).

By moving offshore these companies are escaping the payment of millions of dollars in taxes. At the same time, these corporations continue to enjoy the benefits of being a U.S. corporation, as demonstrated by the millions in federal contracts they receive. (See the table on the following page.) Specifically, a sampling of the corporations which have gone oversees, or are planning to, may get up to $525 million in tax breaks for moving offshore. But they also enjoy the benefits of being a U.S. corporation, with more than $2.6 billion in federal contracts. Stanley Works, a Connecticut toolmaker, was one of the most recent to propose to reincorporate in Bermuda, creating an uproar from its workers and shareholders.

Democrats and a few Republicans have sought to make these corporations pay their fair share. In March, Rep. Richard Neal (D-MA) and Rep. Jim Maloney (D-CT) introduced H.R. 3884, the Corporate Patriot Enforcement Act. This bipartisan legislation would stop the rush of corporations giving up their U.S. corporate citizenship in order to avoid federal income taxes. It would eliminate any tax benefit for companies that expatriated after September 11, 2001. Companies that expatriated before that date would be brought back into the U.S. tax system in 2 years.

The Costs and Benefits of Moving Abroad:

Companies Moving Abroad and their Tax Breaks, Federal Contracts, and Federal Campaign Contributions

Company	Annual Tax Breaks for Moving Offshore	Federal Contracts	2000 Campaign Contributions (% to GOP)	2002 Campaign Contributions (% to GOP)
Tyco	$400 million	over $1 billion	$367,550 (81%)	$178,547 (86%)
Ingersoll-Rand	$40 million	$3.8 million	$7,801 (74%)	$1,500 (100%)
Cooper Industries	$55 million	not available	$94,475 (100%)	$26,500 (94%)
Stanley Works	$30 million	$25 million	none	none
Accenture	not available	Over $1 billion	$237,584 (69%)	$207,081 (62%)
Foster Wheeler	not available	Over $600 million	$36,050 (84%)	$10,250 (90%)
Pricewaterhouse Coopers	not available	not available	$1.1 million (76%)	$527,420 (82%)
Total	$525 million	more than $2.6 billion	$1.9 million (77%)	over $950,000 (79%)

Compiled from news sources and the Center for Responsive Politics.

In the Senate, Senators Baucus and Grassley, the leading Democrat and Republican on the Finance Committee, are joining together to move legislation. As Sen. Grassley stated, ``We ought to be able to expect American companies to have their heart in America,'' Grassley said. ``I think in time of war, you ought to have your heart in America and your properties here and pay your fair share.'' **(*Reuters*, 5/17/02)**

House Republicans Blocking Action

However, House Republicans are blocking action on measures to stop tax breaks for these "offshore" corporations. *Congressional Quarterly* has reported that "[Ways and Means Chairman Bill] Thomas and corporate interests say Finance's bill [the Grassley proposal] is going for the wrong fix." **(*Congressional Quarterly*, 4/27/02)** In fact, the GOP Chairman of the tax writing committee, has "no intention of moving legislation on corporate inversions

or tax shelters unless it is accompanied by a broad overhaul of corporate tax laws...." **(*Congressional Quarterly*, 4/27/02)** In essence, House Republicans are using these corporate expatriates as an excuse to lower corporate taxes, even though corporate taxes – relative to the economy – are the lowest in 15 years, according to the Congressional Budget Office.

Republicans are so intent on protecting these corporate tax evaders that they canceled a vote on speeding up marriage penalty relief for millions of American families, to prevent Democrats from offering an amendment to the bill that would stop these corporate tax evasion schemes. According to the *Wall Street Journal*, "House Republicans this week canceled a vote on an unrelated tax bill, fearing Democrats would add a proposal to curb tax havens." **(*Wall Street Journal*, 5/17/02)** The Rangel amendment, based in the Neal-Maloney bill, would have closed the loophole allowing U.S. companies to avoid tax through paper reincorporations overseas, while ensuring that Social Security and Medicare would not be raided.

"By refusing to allow a vote on the Rangel amendment, the House Republican leadership has chosen to protect corporate financial traitors over providing much-needed tax relief for married couples. These expatriate companies are willing to profit from government contracts, but they are unwilling to support our government in time of war, and the House Republican leadership wants to let them get away with it." said Rep. Neal.

According to the *Wall Street Journal*, "Among those lobbying against it [the bill to curb tax havens]: Former GOP House tax Chairman Bill Archer. His employer, PricewaterhouseCoopers, is spinning off its consulting arm, which plans to relocate in Bermuda. Consulting giant Accenture, also based there, lobbies to avoid any crackdown. Ingersoll-Rand and Stanley Works also hire help." **(*Wall Street Journal*, 5/17/02)**

Many of these corporations lobbying against cracking down on corporate expatriates and seeking to enjoy the tax breaks in moving offshore have been funneling campaign contributions to Republican federal candidates and parties. As the table on the previous page shows, Accenture contributed $237,584 (69% to the GOP) in the 2000 elections, and $207,081 (62% to Republicans) so far for the 2002 elections. Pricewaterhouse Coopers contributed more than $1.1 million (76% to Republicans), and more than $500,000 (81% to the GOP) already for the 2002 elections. Overall, these companies contributed nearly $2 million in 2000, with nearly another million thus far in 2002 – more than three-quarters going to GOP federal campaigns. These millions in contributions are clearly paying off.

Bush Administration Also Failing to Crackdown on Expatriates

The Bush Administration has also failed to act on this important matter. In fact, "Senator Grassley has asked Treasury Secretary O'Neill why the administration hasn't done more to fight corporate shelters." ***(St. Petersburg Times, 3/17/02)*** As Paul Krugman wrote, "the Bush administration, always quick to question the patriotism of anyone who gets in its way, has said nothing at all about Stanley Works, and little about the growing number of U.S. corporations declaring themselves foreign for tax purposes." **(Krugman column, *New York Times*, 5/14/02)**

Finally, last week, the Treasury Department noted that there has been a ``marked increase'' in the frequency and size of the companies involved in these offshore transactions. And yet, instead of proposing to act, the Treasury Department recommended waiting until there could be a complete overhaul of the entire corporate tax code. "Treasury Secretary Paul O'Neill said on Friday the overly complex U.S. corporate tax code needs to be fixed at the same time as lawmakers seek to stop companies from moving the addresses of their headquarters offshore to lower their taxes." **(*Reuters*, 5/17/02)** "`Measures designed simply to halt inversion activity may address these transactions in the short run, but there is a serious risk that measures targeted too narrowly would have the unintended effect of encouraging a shift to other forms of transactions to the detriment of the U.S. economy in the long run,'' the report said." **(*Reuters*, 5/17/02)**

Either by avoidance or by blocking action, it is clear that Republicans in the House and in the Administration are working to protect these corporate expatriates. The GOP is working to please these corporations that are pouring millions into their campaigns. Democrats will continue to work on behalf of America's families by making these "offshore" corporations pay their fair share.