



American Made Coalition Issue Spotlight: ***Base Erosion, Intellectual Property, and Inversions***

Highlights

- Border adjustments are a key component of the House Blueprint, helping to make the US a more attractive place to invest and create an additional 1.7 million jobs.
- Border adjustments help to prevent “self-help” tax planning that encourages corporate inversions and further erosion of the U.S. tax base. They eliminate incentives for U.S. companies to shift their headquarters, manufacturing, income and intellectual property to low-tax foreign countries.
- in fact, border adjustments would help make the U.S. a more attractive place for companies to invest and move their operations, bringing more jobs and money here to America.

Discussion

One advantage of the border adjustment is that it simplifies how we tax business while helping to eliminate the base erosion and inversion issues that result from the uncompetitive nature of our current tax code. Here's how:

Inversions: Our corporate tax code is literally driving good U.S. companies out of the country. These “inversions” are where U.S. companies move their headquarters to foreign jurisdictions to escape our worldwide system of taxing corporate income. This “worldwide” approach means U.S. companies are responsible for paying the U.S. tax on their worldwide operations, while many foreign-based companies only pay tax on income earned within their home country's borders.. This imbalance gives foreign companies a competitive advantage and U.S. companies a strong incentive to invert.

Base Erosion: The U.S. has some of the highest business tax rates in the world, and these high rates encourage multinational companies to use tax planning techniques to reduce their reported U.S. income. For example, a company doing business in both the U.S. and Ireland can use related party loans, royalty payments for intellectual property, and transfer pricing techniques to shift income from high-tax America to low-tax Ireland. As long as the Irish subsidiary does not repatriate the earnings back to the U.S. parent, no U.S. tax would be owed on these profits.

The House Blueprint address both of these key issues.

1. The Blueprint moves the U.S. from a worldwide to a territorial system, where U.S.-based companies are only responsible for paying taxes on their U.S. activities. By itself, moving to a territorial system eliminates the inversion challenge. Companies invert largely to increase their ability to compete by operating in a territorial tax system versus our current U.S. worldwide tax system. Eliminate our worldwide system, and the incentive to invert is gone.
2. Meanwhile, the border adjustment eliminates the incentive for companies to shift their income overseas. Under territorial, companies can bring the money back to the US with little or no little tax consequences which eliminates the benefit of , moving income, intellectual property, and operations overseas.

Past efforts to move to a territorial system included a long laundry list of complicated anti-base erosion measurers that were overreaching and oftentimes did not solve the underlying problem. The border adjustment provides a simpler approach that levels the playing field for US products and workers while eliminating the tax motives for profit shifting and inverting.

What Are the Experts Saying?

***“By basing a company's tax liability exclusively on its domestic cash flows, the new system would replace the much more complex calculation of a company's income that takes place now, which must also account for off-shore and cross-border transactions. And because the tax would eliminate incentives for companies to shift operations and profits offshore, it could dispose of the raft of complex tax and regulatory measures developed over the years to discourage such tactics.*”**

Alan Auerbach

Professor of Economics & Law
University of California, Berkeley

“It would eliminate or at least really cut back on the inversion problem -- that's corporations moving off-shore. It would take care of that problem.”

Greg Jenner

Former Acting Assistant Secretary on Tax Policy
U.S. Treasury