AN AMERICA FIRST INTERNATIONAL TAX PLAN:

How the TCJA's Offshoring Incentives **Can be Eliminated with Sales Factor Apportionment**

CURRENT SYSTEM NOT WORKING

Our "origin of income" taxation system requires complex anti-abuse rules like BEAT, GILTI and FDII. It causes corporations to calculate the best place to establish facilities to shift income to low tax jurisdictions.

A SIMPLE SOLUTION

A "destination of sales" taxation system is simple, requires far fewer anti-abuse rules, and eliminates the incentive to move operations to tax havens.

SALES FACTOR APPORTIONMENT (SFA)

SFA, a destination of sales system used by many states, would tax corporate income in proportion to a companies' sales in the US regardless of either domicile or location of operations.

TCJA FAVORS FOREIGN CORPORATIONS OVER US CORPORATIONS

The TCJA's Base Erosion Anti-Abuse Tax (BEAT) is intended to prevent large corporations with over $500M in US sales from shifting profits overseas but:

- A US corporation with $800M in global sales and $400M in US sales WOULD pay higher taxes under BEAT.

- A German corporation with $800M in global sales and $400M in US sales WOULD NOT pay higher taxes under BEAT.

SFA ELIMINATES THIS FAVORITISM

> **"The OECD obsession with tying taxable profits to real business activity [rather than sales] encourages the migration of real business activity to low-tax jurisdictions. "**
>
> **-Sullivan, 2018**

TCJA STILL FAVORS OVERSEAS INVESTMENT OVER DOMESTIC INVESTMENT

The Tax Cuts for Jobs Act narrowed, **but did not eliminate**, the tax benefit for moving operations overseas.

Tax Differential in Favor for a US Company Building a Factory Overseas rather than in U.S.*

1. **Prior Law: 14.5%**
2. **TCJA: 10.5%**
3. **Under SFA: 0%**

**Martin Sullivan, "Economic Analysis: Where Will the Factories Go? A Preliminary Assessment", Tax Analysts, 1/30/18*