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Time to tax businesses fairly

The Column

By Kelly Conklin

Recent revelations that Walmart, the world's biggest corporation, is maintaining secret subsidiaries in well-known offshore tax havens are outrageous but far from surprising to small business owners. That's because we're used to seeing large corporations abuse the tax system in ways that hurt our businesses, communities and families. Walmart's hidden web of 78 subsidiaries in 15 tax havens, unveiled in a report by Americans for Tax Fairness, is just the latest example.

ATF says Walmart may have skirted U.S. securities law by not properly reporting its tax-haven subsidiaries. But even if hiding them runs afoul of the law, using tax havens to avoid U.S. taxes is perfectly legal. Yet, every time a big corporation uses accounting schemes to avoid paying its full measure of taxes – the typical use of tax havens – small businesses and working families pay the price, either in higher taxes or deteriorating public services.

A good example lies, ironically, right next to my local Walmart: a traffic-choked, 90-year-old highway desperately needing repair. My cabinet-making company recently had to pay $2,300 to install a new suspension system in a delivery van ravaged by potholes. Now there's talk in Washington of taxing the offshore profits to help fix highways – if it isn't hijacked by those in Congress who want to give corporations even more tax cuts.

Walmart is not alone among big, profitable American corporations using well-known tax-avoidance strategies. In one recent five-year period, famous corporate names like General Electric, Verizon, Boeing and PriceLine.com paid zero federal income taxes, according to Citizens for Tax Justice. It's outrageous that my small business paid more federal income taxes in one year than all of these huge companies combined paid in five years!

Small businesses can't afford an army of accountants and tax lawyers like Walmart can to create offshore tax-avoidance strategies. None of us have shell corporations in Luxembourg (a country smaller than Rhode Island and with just half the population). Walmart has 22 paper subsidiaries there, holding $64 billion in assets. And none of us would get away with paying just 1 percent in taxes – but that's what Walmart paid Luxembourg between 2010 and 2013, on over a billion dollars in profits.

American corporations owe U.S. tax on all their profits earned overseas (less any foreign taxes paid). But a loophole called "deferral" lets them delay paying their U.S. bill until the company brings those profits home. American corporations have $2 trillion in profits stashed offshore.

It makes sense that federal officials are looking to that big cash hoard as a source of highway funding: the federal highway trust fund is going broke and Congress refuses to raise the gas tax to replenish it. But don't be fooled by two similar sounding proposals for tapping that offshore money that are actually very different – and keep in mind a third option that makes the most sense of all.

The worst idea – a repatriation tax holiday – would let companies voluntarily bring their profits home at a tax rate of about 6 percent – way below the normal 35 percent corporate rate. A similar holiday was tried in 2004, and all it did was enrich executives, creating few if any jobs, according to a Congressional report.

President Obama would require corporations to pay tax on their offshore profits whether they brought them home or not. But the proposed rate of 14 percent is so low that 10 companies alone would enjoy an $82 billion tax cut bonanza over the next decade.

The simplest and fairest solution would be to end the deferral loophole and tax corporations at the 35 percent rate on all their income wherever it is earned. This will eliminate corporations' incentives to hide profits in tax havens and ship jobs offshore.

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on the executive committee of the Main Street Alliance.