The Star

The country has spoken: time to change direction on tax extenders

By Jaimie Woo

Guest Column

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While the dust is still settling from the mid-term elections and the pundits are trying to figure out what it all means, the American people have made their collective voices heard and delivered a message that they do not like the country's direction. Exit polling data from Election Day showed clear majorities against growing corporate influence on the political process and in favor of greater corporate accountability. The message is clear: inversions must stop, corporate tax avoidance must end, and special corporate loopholes must close.

The question that remains, of course, is whether Congress will hear that message. As the post-election lame duck session gets underway, Congress has an excellent opportunity to show that they've heard the American people loud and clear by acting on tax extenders. There are two extenders that exemplify the very worst of corporate tax avoidance and should be allowed to fade away.

The first is the Controlled Foreign Corporation (CFC) Look-Through rule. The CFC Look-Through rule allows multinationals to create "stateless income," moving income to low or no-tax countries and avoid U.S. tax in the process. They do this by setting up a network of subsidiaries, one of which owns copyrights and patents used by the other foreign subsidiary. The fees paid from the one subsidiary to another create vast profits for these entities and avoid any tax anywhere. Google has heavily utilized the CFC Look-Through rule in its tax avoidance efforts.

The second is the Active Financing Exception. This is an exception to the rule that passive income (interest, dividends, royalties, etc.) is treated as taxable income even if it is not brought back to the United States. Instead, if the income is used for financial operation like financing the sale of jet engines, there is no U.S. tax so long as the profits from the deal stay offshore. However, what constitutes financial operations is so broadly defined as to enable virtually any multinational to take advantage of it. The Active Financing Exception explains why G.E., through its G.E. Capital subsidiary, has paid a negative tax rate on billions in profits over the last five years.

Public sentiment is overwhelmingly against these and other tax avoidance tricks that continue to benefit corporations that are already seeing record high profits. Those who doubt this need to look no further than Walgreen's, which halted a planned inversion of its own in the face of massive public outrage.

These policies hurt all of us. When multinational corporations are able to avoid taxes, it leaves individual citizens and domestic corporations picking up the tab in the form of higher taxes and more public debt. And it further places small businesses, which pay a higher tax rate with none of the loopholes, at a competitive disadvantage. The message to Congress is clear: it is time for corporations quit cashing out without chipping in.

Jaimie Woo is Tax and Budget Associate for U.S. PIRG, a member of the FACT Coalition. Fπounded in 2011, the Financial Accountability and Corporate Transparency (FACT) Coalition unites civil society representatives from small business, labor, government watchdog, faith-based, human rights, anti-corruption, public-interest, and international development organizations. We seek an honest and fair corporate tax code, greater transparency in corporate ownership and operations, and commonsense policies to combat the facilitation of money laundering and other criminal activity by the legitimate financial system.

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