



Business Roundtable

Proposed International Tax Increases Would Harm U.S. Economy

The Administration proposes to fundamentally rewrite the basic rules of international taxation that have been in existence for nearly 100 years in a manner that would severely disadvantage American companies and make U.S. workers less secure. The Administration estimates its proposals would increase taxes by \$200 billion on U.S. corporations over ten years.

Since the establishment of the corporate income tax, American companies have been allowed to defer paying U.S. tax on foreign subsidiary earnings until those earnings are paid to the U.S. parent. These rules allow U.S. companies to compete in overseas markets on a level playing field with foreign-headquartered companies. Yet, the Administration's proposals would create new rules that are intended to punish American companies that do not currently remit all of their income from overseas business activity.

The three principal new policies would:

- **Limit the ability to claim current deductions for certain U.S. expenses:** The proposal would disallow a current deduction for a portion of U.S.-incurred expenses (including interest and stewardship expenses) that are deemed related to overseas operations when a company does not remit all foreign earnings to the U.S. parent. Disallowed deductions would be suspended into the future and in some cases would be lost entirely. The proposal would raise the cost of employing American workers to carry out headquarter functions and raise the cost of borrowing to finance U.S. plants and facilities, thereby discouraging these job-creating activities. The Joint Committee on Taxation estimates this proposal would raise \$51.5 billion between 2011 and 2019.
- **New limitations on foreign tax credits:** Under present law, the foreign tax credit is based on the actual foreign tax paid on foreign earnings subject to current U.S. tax. The proposal would reduce the foreign tax credit to an average rate of foreign tax paid on total foreign earnings, including foreign earnings not subject to current U.S. tax. As a result, the proposal would create a new double tax on foreign earnings that are remitted from high-tax countries to the United States. This proposal and other foreign tax credit items are estimated by the Joint Committee on Taxation to raise \$55.8 billion.
- **Limit "check the box" entity classification:** The proposal would overturn Clinton Administration regulations that simplified the classification of U.S.-owned foreign businesses and permitted U.S. companies the flexibility to redeploy earnings among their foreign operations without paying U.S. tax until those earnings are brought home to the U.S. parent company. These rules allowed such businesses to be treated for U.S. tax purposes similar to branches or partnerships of another U.S.-owned foreign corporation rather than as separately incorporated foreign subsidiaries. Branch or partnership status provides flexibility in deploying capital among foreign operations and

in managing tax liabilities paid to foreign governments. The proposal would make it more difficult for U.S. companies to compete with their foreign-headquartered competitors by 1) increasing the foreign country taxes on their foreign businesses, 2) potentially imposing U.S. tax prematurely when earnings are redeployed between foreign businesses, and 3) causing a wave of additional negative financial consequences as these entities are converted into corporate status. The Joint Committee on Taxation estimates this proposal would raise \$31.1 billion.

At the very time our major foreign competitors are moving forward with tax plans to enhance the international competitiveness of their companies and workers, the Administration's proposals would move in the opposite direction, undermining the ability of American companies and their workers to compete with a massive \$200 billion tax hike. Congress should examine international tax policy only as part of comprehensive tax reform with a goal of providing worldwide American companies and American workers the same ability to compete internationally as the tax systems of our trading partners provide for their companies and their workers.

**A massive increase in taxes will disadvantage American companies
and make U.S. workers less secure.**