ITEP
INSTITUTE ON TAXATION AND ECONOMIC POLICY
Informing the debate over tax policy nationwide

What You Need to Know About Repatriation Proposals

Fortune 500 corporations collectively have stashed $2.5 trillion in profits offshore, on which they have avoided up to $718 billion in taxes. It's no wonder that policymakers on both sides of the aisle are weighing legislative options to either tax these profits or create an incentive for corporations to "repatriate" or bring these profits to the United States so that they are subject to taxation.

Lawmakers have introduced several "repatriation" proposals that would glean tax revenue from these offshore profits. But the only solution that will ensure corporations pay taxes on their offshore profits AND shut down the practice of stashing cash offshore is to end deferral, the tax code loophole that allows corporations to indefinitely avoid paying taxes on profits stashed offshore.

Types of Repatriation Proposals

1. Repatriation holiday: Allows corporations to voluntarily repatriate earnings to the U.S. at a reduced tax rate for a limited time.
2. Deemed repatriation: Levies a mandatory one-time tax on accumulated foreign profits. Existing proposals would do this at a reduced rate.

Effects of a Repatriation Holiday or Deemed Repatriation

- A repatriation holiday creates incentives for companies to continue shifting their profits into tax havens in anticipation of another tax break in the future. In fact, this is what happened after the 2004 repatriation holiday.
- While repatriation holidays are touted as a way to spur investment in domestic capital or job creation, the history of the 2004 repatriation holiday reveals that repatriated earnings will instead be spent on issuing shareholder dividends and stock buybacks.
- Both types of proposals would raise revenue in the short run but may lead to a long-run revenue loss since corporate earnings would be taxed at preferential rates.
- Both types of proposals reward companies that have engaged in aggressive tax avoidance. Since U.S. tax liability is reduced by foreign tax credits, companies that have shifted more of their earnings into tax havens (and paid little to no foreign tax) receive a larger tax break from the rate reduction than those with profits in higher-tax jurisdictions.

A Better Solution: End Deferral

The most straightforward way to address the offshoring of corporate profits is to no longer allow U.S. multinationals to defer taxes on the profits they hold in their foreign subsidiaries. Instead, all income of U.S. companies would be taxed when it is earned, regardless of the location. This removes the incentive for companies to artificially book earnings in tax havens through tactics such as transfer pricing and earnings stripping. A transition to a system without deferral would also need to implement a one-time tax (preferably at the full 35 percent rate) on the accumulated offshore profits.

For more information, see ITEP's Guide to Repatriation Proposals at:
http://www.itep.org/itep_reports/2016/11/comprehensive-guide-to-repatriation-proposals.php

See reverse side for details on recent repatriation proposals.

RECENT REPATRIATION TAX PROPOSALS

Proposed Repatriation Measure	Voluntary or Mandatory	Part of Comprehensive Reform Proposal?	Proposed Maximum Rate	Notes
Trump Corporate Tax Reform Proposal	Mandatory	Yes	10%	• Part of a reform proposal that would reduce the corporate rate to 15% • Initial proposal would have ended deferral after one-time deemed repatriation, but revised plan is silent on this
Speaker Paul Ryan - "A Better Way" Tax Reform Plan	Mandatory	Yes	8.75%	• Would serve as a transition to a territorial tax system with "border adjustments" • A 3.5% rate would apply to non-liquid assets • Payable over 8 years
Obama 2016 Budget Proposal - Transition Tax	Mandatory	Yes	14%	• JCT estimated tax would raise $195 billion over 10 years • Payable over 5 years • After one-time tax, a minimum rate of 19% on foreign income
Rep. Dave Camp - Tax Reform Act of 2014	Mandatory	Yes	8.75%	• JCT estimated that proposal would raise $170 billion over 10 years • A 3.5% rate would apply to non-liquid assets • Payable over 8 years
Sen. Ron Wyden - Bipartisan Tax Fairness and Simplification Act of 2011	Voluntary	Yes	5.25%	• Would serve as a transition tax to a system that would end deferral • Ending deferral estimated to raise $582 billion
S&P Global Repatriation and Infrastructure Proposal	Voluntary	No	0%*	*Corporations would be given a time-limited opportunity to repatriate funds tax-free, but would be required to invest 15% of the repatriated amount in qualifying infrastructure projects
Senators Barbara Boxer and Rand Paul - Invest in Transportation Act, 2015	Voluntary	No	6.5%	• JCT estimated bill would cost $118 billion over 10 years in lost revenue • Revenues would be transferred to Highway Trust Fund
Rep. John Delaney - Infrastructure 2.0 Act, 2015	Mandatory	Yes	8.75%	• Estimated to raise $170 billion over 10 years • Revenues would go to replenish Highway Trust Fund and capitalize an American Infrastructure Fund
Rep. John Delaney - Partnership to Build America Act, 2015	Voluntary	No	0%**	**While repatriated funds would technically be tax-free, corporations would only be allowed to repatriate a certain amount for each dollar of "qualified infrastructure bonds" they purchase, so the effective tax rate would vary
Sen. Max Baucus - International Business Tax Reform Discussion Draft, 2013	Mandatory	Yes	20%	• Transition tax payable over 8 years
2004 Repatriation Holiday (American Jobs Creation Act)	Voluntary	No	5.25%	