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Subject: SALT LS: States target overseas corporate cash

Taxes

U.S. States Target Corporate Cash Stashed Overseas

By Mark NiquetteApril 17, 2014

Members of Congress have complained for years about U.S. corporations that park profits overseas to avoid paying federal taxes. Yet efforts to pass corporate tax reform that includes incentives and penalties to prod businesses into bringing that money home have stalled in Washington. Tired of waiting for a fix, several states are going after state tax dollars that disappear into offshore havens.

Oregon enacted a bill last June for the 2014 tax year identifying 39 countries and territories—including Barbados, Liberia, and the U.S. Virgin Islands—as corporate shelters. The state counts profits that corporations and their subsidiaries stash in shelter countries as taxable income, and companies that do business in the state must report it on their state tax returns and pay up. On April 16 the Democrat-controlled Maine legislature gave final approval to similar legislation, over objections from some Republicans that it's anti-business. Minnesota and Rhode Island are studying whether to pursue bills of their own. "The issue at hand is one of fairness," Maine Representative Adam Goode, a Democrat from Bangor, said during the debate on the bill he sponsored. "It really just seemed not in balance, not smart, and not fair that we would allow multinational corporations to hide their corporate income in a place like the Cayman Islands or in Bermuda."

Offshore tax shelters cost the federal government $30 billion to $90 billion annually, according to a 2013 Congressional Research Service report. The U.S. Public Interest Research Group, which tracks corporate taxes, puts the amount that states lose at $20 billion a year. The largest U.S.-based multinational companies have accumulated $1.95 trillion in profits outside the U.S. That's up $206 billion, or 11.8 percent, from a year earlier, according to securities filings from 307 corporations.

Story: Companies' Offshore Profits Keep Piling Up

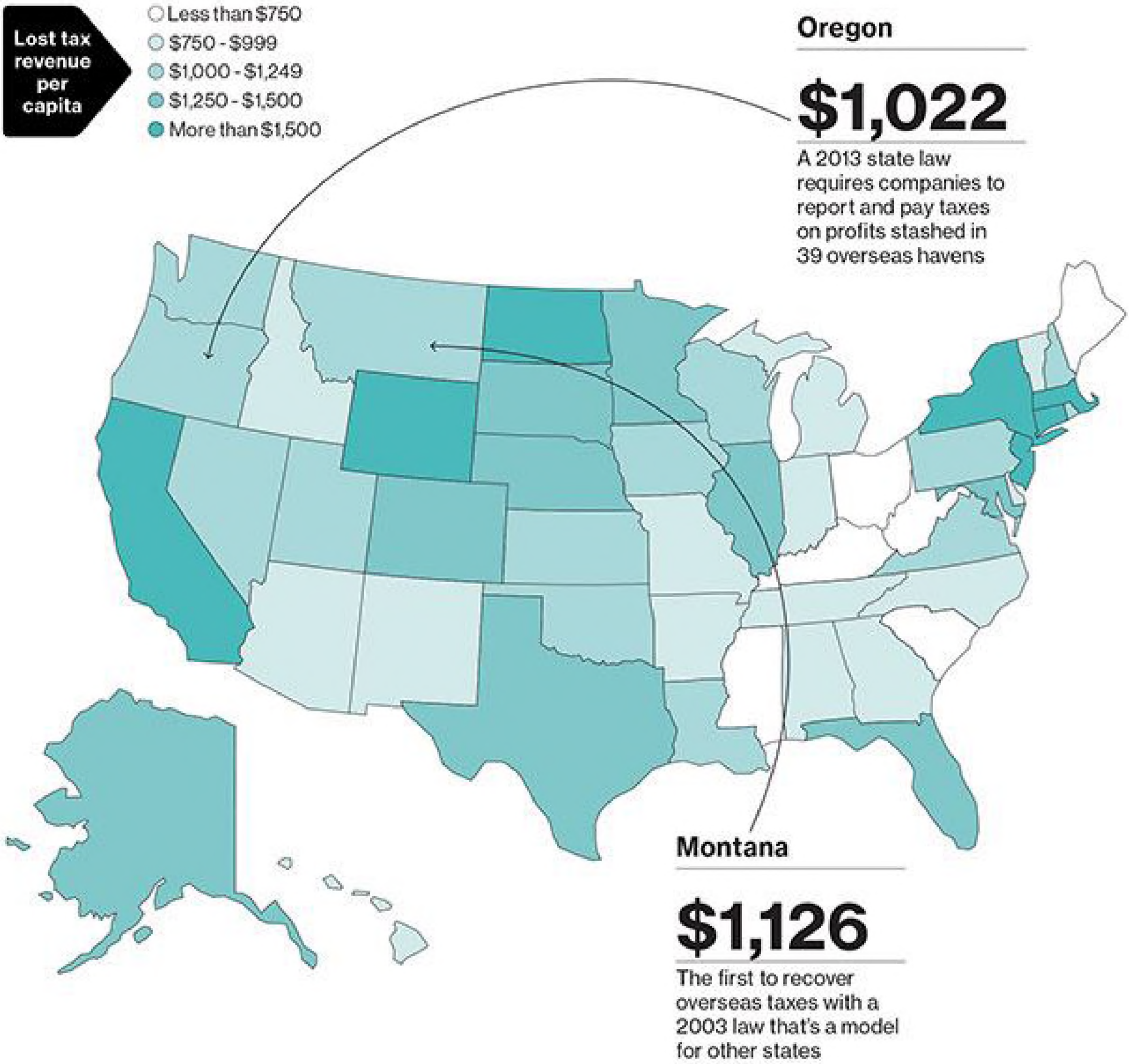
Microsoft (MSFT), Apple (AAPL), and IBM (IBM) accounted for $37.5 billion, or 18.2 percent, of the total increase during the past year. Caterpillar (CAT) avoided $2.4 billion in U.S. taxes over more than a decade by shifting profits from a parts business to a subsidiary in Switzerland, according to a report issued on March 31 by a Senate committee. The company says the move was legal and appropriate.

"To the extent that they have figured out ways to avoid paying their proper share, then it's our job to try to prevent them," says Oregon State Representative Phil Barnhart, a Democrat who sponsored tax-haven legislation there. The model for the recent legislation is Montana, which began taxing sheltered profits a decade ago, followed by Alaska, West Virginia, and the District of Columbia. Montana recouped $7.1 million in taxes in 2010 from companies that held money in five top havens, according to a 2012 state report. Oregon estimates its new law will allow it to bring in $18 million a year initially. Maine projects $5 million in additional yearly tax revenue if Governor Paul Le Page, a Republican, signs the bill. (He hasn't said whether he will.) That's not much by Washington standards, but it's a sizable windfall for smaller states struggling to meet their budgets. Few of the states that have passed or are contemplating tax-haven legislation are home to a large multinational such as Microsoft, which is based in Washington, or Apple in California, IBM in New York, or Caterpillar in Illinois. Those states would stand to collect far more from such measures. California lost the most to offshore havens in 2011, an estimated $3.3 billion, the Public Interest Research Group reports. Ron Erickson, a former lawmaker who sponsored Montana's bill in 2003, expects more states to start demanding their share. "I'm discouraged that it's gone this slowly," he says, "but I'm also of the confident sort that thinks that eventually fairness wins out."

Story: An Immodest Proposal: A Global Tax on the Superrich

Companies' Foreign Tax Havens Cost You Plenty

Microsoft, Pfizer, and other businesses avoid U.S. taxes by keeping billions in profits overseas. Here's what the revenue would add up to, per person, if states and the IRS could get it.



States that would gain the most per capita

District of Columbia $2,783	**Massachusetts** $1,886
North Dakota $2,547	**California** $1,783
Wyoming $2,546	**New Jersey** $1,560
Connecticut $2,537	**Illinois** $1,396
New York $1,919	**Colorado** $1,361

DATA: U.S. PIRG

Video: A Look at the Overseas Cash Stash Problem

The bottom line: *States want their share of $20 billion in lost tax revenue from companies that park profits in foreign tax havens.*

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