



Business Leaders Speak Out on Tax Crackdown

Critics Say Obama's Offshore Tax Shelter Crackdown Will Hurt U.S. Businesses

By MATTHEW JAFFE

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Members of the business community today are starting to sound off in opposition to [President Obama's new plan to crack down on offshore tax evasion](#), denouncing the initiative as a "foolish" program that would do more harm than good.

Critics argue the president's effort to raise taxes on the overseas profits of U.S. companies could damage U.S. multinational corporations.

"His proposals would put American corporations at a great disadvantage, which is a very foolish policy in a competitive global marketplace," said Dan Mitchell of the Cato Institute.

Announced earlier today, the Obama administration's two-part plan would remove [tax deductions for companies that take jobs overseas](#) and reduce the amount of taxes lost to overseas tax havens.

"If financial institutions won't cooperate with us, we will assume that they are sheltering money in tax havens and act accordingly," Obama said in announcing the plan today in Washington, adding that the government will also hire 800 new IRS agents to enforce it.

Opposition had already started to build this afternoon, shortly after the president announced the new plan.

"There certainly will be opposition," predicted Phil West, an attorney with the international law firm Steptoe & Johnson LLP.

West, who served as international tax counsel for the Treasury Department under President Clinton, summarized what the opposition would argue.

"It's not fair to treat U.S. businesses worse than their foreign competitors," he said. "A lot of foreign competitors have the benefit of more liberal tax systems, and when you put U.S. companies at a competitive disadvantage, you're going to hurt the U.S. economy at the time when it can least afford it."

Senior administration officials said Sunday that in 2004, the last year that they have records for, U.S. multinational corporations raked in \$700 billion in foreign earnings but paid only \$16 billion in taxes -- a paltry 2.3 percent. They say the new proposals would help save \$210 billion over the next decade.

"The way we make our businesses competitive is not to reward American companies operating overseas with a roughly 2 percent tax rate on foreign profit, a rate that costs taxpayers tens of billions of dollars a year," Obama stated. "The way to make American businesses competitive is not to let some citizens and

businesses dodge their responsibility, while ordinary Americans pick up the slack."

'Large Industrials, High-Tech, Pharma, Multi-Nationals' Hit the Most

None of the president's proposals would go into effect until 2011, and the White House disputed the contention that any of the measures would put hurt U.S.-based multinational companies.

"I think it's important that the American people and businesses understand that this is fairness, not something that will put them at a competitive disadvantage," press secretary Robert Gibbs said at Monday's briefing.

West said that if the administration's proposals do eventually become law, the sectors that will feel the effects of the plan most profoundly will be "large industrials, high-tech, pharmaceuticals and many large multinationals that earn a lot of their income abroad."

One company already speaking out is Cisco, the Internet networking giant.

"Cisco would be adversely affected if tax deferral was implemented by the U.S.," said Cisco spokesman John Earnhardt. "If rules are changed on tax deferral and we are taxed in the U.S. on non-U.S. profit, this significant additional U.S. tax would adversely impact our ability to invest and grow our business in the U.S. and to compete against our foreign competitors who are not subject to this U.S. tax."

Going forward, West forecasts that critics like Cisco will start to direct dissent not only at the administration but also at members of Congress.

"A search for sympathetic lawmakers is going to proceed quickly and vigorously," he said. "It's going to be a fierce battle, I think."

With Congress not coming back in session until Monday afternoon, it remains to be seen how most lawmakers will react to the plans. But with Democrats holding an overwhelming majority in the House of Representatives and now on the verge of reaching the crucial 60-senator threshold in the Senate, Obama will enjoy a strong advantage if reaction falls along party lines.

But even that is unclear, and the administration's plan could still face stiff congressional opposition. Some of the initiatives are based on a 2007 proposal from Rep. Charles Rangel, D-N.Y., chairman of the House Ways and Means Committee, which was met with stern arguments from the business industry.

In today's economic climate, West observed, "The arguments of the business community are stronger now than they were years ago."

Obama Tax Reforms: 'Turning Logic on Its Head'?

The White House is well aware that it will have a fight on its hands.

"I don't think change is ever easy, and I think whenever you're taking on some bigger interests, that mountain gets a little bit steeper," Gibbs said. "But the president strongly believes in the policy that he outlined -- the steps that we have to take to close tax loopholes and ensure some fairness in this process - - is the right policy for America, and the right policy for American business."

Stinging criticism today from former members of the Bush administration emphasized how steep that

challenge could be.

"Raising taxes on U.S. corporations competing in a global market will not create jobs here. Full stop," said Tony Fratto, a former spokesman for the Bush White House. "It's turning logic on its head. This is the White House jumping on another populist bandwagon."

The fight, it seems, is just getting started.

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