Clinton Proposes 50 Percent Threshold for Inversions

Paul C. Barton

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Domestic corporations should be blocked from merging with foreign companies to escape U.S. taxes unless shareholders of the foreign partner have at least 50 percent ownership in the new entity, Democratic presidential front-runner Hillary Clinton said December 9.

Current law requires that they have only a 20 percent stake, and in the past decade more than 50 firms have resorted to corporate inversions to transfer their home address for tax purposes, according to a fact sheet released by Clinton's campaign.

Clinton, in calling for a crackdown on inversions, also denounced earnings stripping, the financial arrangements, often involving intracompany debt, that allow firms to effectively shift profits to overseas divisions to lower their U.S. taxes.

Clinton called earnings stripping "a loophole" that costs U.S. taxpayers $60 billion over 10 years.

"The maneuvers powerful corporations are using to game the system and leave everyday taxpayers holding the bag are just offensive," Clinton said in remarks delivered in Waterloo, Iowa.

Clinton decried the planned inversion involving U.S. drugmaker Pfizer Inc., which announced last month that it will merge with the Irish firm Allergan PLC so that Ireland will be its new tax home.

Firms that take part in inversions point to the U.S. corporate tax rate of 35 percent being the highest among OECD nations.

But Clinton won't brook such complaints, saying that as president, she would instruct the Treasury Department to address earnings stripping if Congress refuses to.

"All told, inversions by Pfizer and other companies, plus related loopholes, will cost American taxpayers more than $80 billion in revenue over the next 10 years," she said. Her aides said the $80 billion includes the $60 billion lost to earnings stripping.

"That's money we should be investing here at home. This is not only about fairness; this is about patriotism," Clinton said. "I want to raise the cost to corporations that try to get out of paying their fair share."

Americans for Tax Fairness reported in November that Pfizer had $148 billion in profits stashed overseas at the end of 2014.

Clinton is also calling for an "exit tax" on the unrepatriated earnings of U.S. firms before they are allowed to complete an inversion. She did not suggest a rate, however.

Overall, her anti-inversion proposals are "quite sensible," Steven Rosenthal, analyst at the Urban-Brookings Tax Policy Center, told Tax Analysts.

"She also plans to be an active executive: If Congress will not act on earnings stripping, her Treasury will. I agree, we cannot just sit by and watch our corporate tax base erode," Rosenthal added.

Alexandra Thornton, senior director of tax policy at the Center for American Progress, said Clinton put forth "a well-rounded package" and particularly lauded the call against earnings stripping.

"Earnings stripping causes U.S. parent companies to take on too much debt," Thornton said. "That's bad for the long-term stability of the company. It's bad for the company's employees, some of whom may be laid off as the company struggles to afford interest payments. Ultimately, it's bad for the U.S. economy, since the earnings that are stripped leave the country and may be invested elsewhere. Putting a stop to earnings stripping should be a high priority and an urgent one."

But conservative economists said Clinton's proposal amounts to more of a familiar but ineffective approach to inversions.

"Clinton's solution of adding more statutes and regulations to try and prevent the corporate tax base from moving offshore has been the approach of both parties for more than two decades," said Chris Edwards of the Cato Institute. "The rules on American businesses keep piling up, but America is less competitive than ever. The legalistic approach to corporate taxation has not worked. It's time policymakers tried an economic approach to solving the loophole problem, and that is simply to slash the statutory corporate tax rate to 20 percent or less."

And Curtis Dubay of the Heritage Foundation said Clinton's proposals would not have stopped Pfizer.

"Pfizer was purchased by Allergan. This isn't a merger and inversion. It is an outright acquisition. If Clinton's plan is in place, future deals will take the same approach," Dubay said. "There is nothing the government can do to stop U.S. businesses from selling themselves, short of outlawing such sales. The only way to stop this problem is to lower the business tax rate and move to a territorial system. Anything else, businesses will find a way around."

Clinton's campaign said in a statement that she "believes we need comprehensive business tax reform, but we cannot wait for that broader conversation to prevent inversions."