Cayman Compass

Billions could drain from Cayman entities as Trump is elected

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Billions of dollars held by U.S. multinationals in Cayman entities could be repatriated to the United States, if president-elect Donald Trump's tax plans come to fruition.

During the election campaign, most of Mr. Trump's policy plans were a black box. On taxes, however, the surprise winner of the U.S. presidential election has been both outspoken and specific.

Donald Trump's tax plan would end the deferral of taxes on corporate income earned abroad and charge a one-time, 10 percent tax on cash held overseas so it can be repatriated.

The goal is to halt the practice of U.S. multinationals holding hundreds of billions of dollars in offshore accounts, many of them in the Cayman Islands, to reduce their U.S. tax liability.

Earlier in October, Trump told reporters "they think it is $2.5 trillion" in corporate cash that is held offshore. "I think it is much more than that and boy, if it is, we have hit pay dirt."

The Congressional Research Service estimates large corporations are legally avoiding $100 billion in U.S. taxes by not repatriating profits earned abroad. Activist group Citizens for Tax Justice believes the figure is much higher. A March 2016 report by the organization said last year Fortune 500 companies alone avoided $695 billion in U.S. federal income tax on $2.4 trillion in offshore holdings.

Technology company Apple, for instance, maintains about $200 billion in foreign earned income as cash, cash equivalents and marketable securities in offshore entities.

"We are used to hearing around election time in the U.S. that there will be further clampdowns on the use of offshore centers. This normally amounts to no more than campaign rhetoric," said Paul Byles, CEO of First Regents Bank and Trust. "On this occasion, it is safe to say that nothing looks normal, so we should monitor things closely."

If Cayman continues to educate U.S.-based policymakers on how Cayman Islands services help keep U.S. companies competitive globally and create jobs and investment in the U.S. economy, Mr. Byles said, "common sense should prevail."

Former Chairman of the Cayman Islands Monetary Authority Tim Ridley, in turn, sees positive signs in Mr. Trump's agenda to roll back regulation. He said Cayman has seen American presidents come and go, and has a remarkable ability to navigate change very well. "I am optimistic that Mr. Trump will take serious steps to reduce unnecessary regulation that will convert into less burdensome and intrusive limits, particularly on financial institutions. That will be helpful to all offshore jurisdictions, Cayman included," Mr. Ridley said.

Mr. Trump's plan to target U.S. offshore holdings is part of a larger tax plan that seeks to reform U.S. income taxes across the board.

The president-elect proposes to cut the current seven income tax brackets to three at rates of 12 percent, 25 percent and 33 percent. He would align the preferential rates for dividends and capital gains to these new brackets and eliminate the net investment income tax.

U.S. President-elect Donald J. Trump with Vice President-elect Mike Pence, left, and Mr. Trump's family at an election victory party early Wednesday morning in New York City. – Photo: Washington Post

Corporate taxes would be slashed under the Trump tax plan from currently 35 percent to a rate of 15 percent. At the same time he wants to eliminate most business deductions.

Mr. Trump said he would apply the rate of 15 percent to all types of business income. The move would potentially more than halve the tax rates of individuals who receive business income.

The Tax Policy Center estimates the Trump plan will lower federal tax revenue by $6.2 trillion over the next 10 years. Nearly 47 percent of those cuts will go to the wealthiest 1 percent of taxpayers.

As an example, anyone earning less than $48,400 would experience an annual tax cut of less than $400, whereas taxpayers earning more than $700,000 would retain on average an extra $215,000 each year.

"Sensible broader tax reform is certainly needed, but the devil is in the details," Mr. Ridley said. "The lobbyists in Washington have not gone away. And there are many Republicans with constituents that will fight hard to preserve their benefits, whether oil companies, big pharma or individual homeowners.

"Stitching together a viable compromise will be difficult but is probably more likely now than under President Obama. Whatever the final outcome on the tax front, U.S. multinational companies will continue to have worldwide operations and will always be looking to maximize their tax position. And I think offshore financial centers continue to have a role to play. Exactly what that role will be is yet to be seen."

Jude Scott, CEO of Cayman Finance, is equally confident in the pivotal role the Cayman Islands plays in the global economy.c

"We look forward to partnering with our government to initiate proactive and positive dialogue with the new administration that can serve to inform of the benefits that the Cayman Islands efficiently provides to citizens, businesses and the U.S. economy," he said.

For former CIMA board member Richard Rahn, Mr. Trump's aim to lower taxes will have positive effects for both the U.S. and the global economy. "Trump's win will be a net plus for the world economy. Tax rates will be lowered, particularly the corporate rate, spurring investment and innovation," Mr. Rahn said.

Mr. Trump's campaign agenda, in contrast, has been largely protectionist and evoked fears of a trade war. He opposed the Trans-Pacific Partnership deal, he called for significant changes to the NAFTA pact with Mexico and Canada and he threatened to impose punitive tariffs on goods from China.

But Mr. Rahn believes Mr. Trump is likely to back away from his more extreme trade proposals. "Presidents almost always moderate both their rhetoric and their actions once they are given the responsibilities, and so will Trump."

A U.S. low tax strategy might also slow down initiatives that seek to harmonize corporate tax rates worldwide by targeting the zero or low tax rates of offshore centers.

Dan Mitchell, economist for the CATO Institute think tank, said "a potential silver lining to Trump's victory is that his administration presumably will be much less sympathetic to OECD anti-tax competition schemes. And his proposal for a 15 percent corporate tax rate will put America in the pro-tax competition camp."