Tax Foes Target Obama Plan for 14 Percent Penalty on Foreign Profits

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February 3, 2015

No sooner was it officially floated on Monday than an administration "trial balloon" to tax all previously accumulated foreign-source income at 14 percent was fired upon by conservative tax experts.

Both Grover Norquist, president of Americans for Tax Reform, and Dan Mitchell, senior fellow at the Cato Institute, weighed in sharply at the proposed new tax, which would also tax all future foreign-source income at an even higher rate of 19 percent.

"This is a 14 percent double tax income that has already faced taxation overseas," Norquist told Newsmax. "We're talking about a double tax here in a tax code that is already the worst in the world."

Cato's Mitchell told us "the real problem is that we have a very high corporate tax rate, which Obama won't change, and a largely worldwide tax system, and all Obama wants to do is reshuffle it."

Hailed as a means of paying for the overhauling of American infrastructure that the president wants, the mandatory tax on "all dollars overseas" was unveiled Monday morning in the president's budget plan for fiscal year 2016. At a subsequent press briefing at the White House in the afternoon, the president's top economic team vigorously promoted the "14 percent tax" as a key part of the Obama agenda in the coming budget battle.

"So this is not voluntary; it's mandatory," Jeff Zients, director of the National Economic Council, told White House reporters, "And the dollars would come back to the U.S., hopefully to be invested in good U.S. jobs and manufacturing facilities, but there would not be a specific requirement on those dollars. The requirement is that they all pay 14 percent."

Dubbing the proposed tax "a comprehensive approach to business tax reform," Zients added that "a very important component of that is to make sure that this is also good for middle-class families, infrastructure investment being central to that."

He also estimated that there is $2 trillion in U.S. money that is overseas and "the long-term plan here is revenue neutrality, [which means] no additional money from corporate or business taxes. So it's long-term revenue neutral, but [there is a] one-time opportunity to tax the $2 trillion, which has not been taxed, which is overseas, at 14 percent."

Jason Furman, chairman of the Council of Economic Advisers, told reporters that the 14 percent tax, if enacted into law, "raises money — $270 billion over 10 years" and would be "part of a plan to reform the tax system."

Under the long-term "reform," Furman said, "you would have a 19 percent minimum tax on all the earnings of foreign subsidiaries of U.S. corporations. And because it's part of a plan that deals with the earnings that have been incurred in the past and the earnings in the future, it becomes a stable system as opposed to a one-time measure that then raises a question about how you're going to deal with it again in the future."

As to how such a tax increase could have a chance at emerging from a Republican-controlled Congress, the Obama team is clearly banking on support from House and Senate Republicans who agree with the president that infrastructure needs overhauling and see this plan as an alternative to raising the gas tax — something, as his adviser, Zients, made clear to reporters, "the president has not proposed and has no plans to propose."