# GOP stands in way of Obama gambit for offshore corporate cash

**President proposes to tax companies' foreign profits for half-trillion in revenue but faces tough congressional fight**

By Ben Piven
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Under a plan baked into the White House's budget for 2016, U.S. corporations would theoretically be forced to pay hundreds of billions in new taxes on money kept abroad.

Levying fees on the $2.1 trillion in funds largely held by shell companies through an accounting trick called deferral, the move, which President Barack Obama announced last month, is aimed at raising cash for desperately needed public works programs and infrastructure improvements. If he is successful, companies would no longer have a legal way of avoiding the 35 percent corporate tax by indefinitely investing funds outside the U.S.

But analysts say it's unlikely such a tax haven windfall will materialize, because it depends on being included in budget legislation drafted and passed by a Republican-controlled Congress. In that sense, the proposal — part of a larger fiscal document outlining where the White House stands on important questions — is seen as a starting gambit in tax reform negotiations.

Republican politicians have vowed to scupper the plans when they come before Congress, where the GOP has a four-seat majority in the Senate and overwhelming control of the House after midterm elections last year from which they emerged victorious and emboldened.

"For six years the president has pursued higher taxes and higher spending, and our economy has paid the price. This budget is simply more of the same," said House Ways and Means Committee Chairman Paul Ryan, R-Wis.

Yet behind such a stance lie powerful business interests that have long stored cash offshore rather than paying U.S. taxes. Representing hundreds of multinational companies, the U.S. Chamber of Commerce and Business Roundtable successfully defended against more modest tax reforms in Obama's first term.

The Chamber, which spent $33 million for Republicans and against Democrats in the last election cycle, described his budget as “more spending, more taxes, more debt.”

Hundreds of billions in tax revenue are avoided through deferrals. Firms such as General Electric — which has reportedly avoided paying much U.S. tax in the past through a combination of creative accounting and aggressive lobbying — have figured prominently in the precipitous decline in the share of federal revenue paid by corporations, from about 30 percent in 1950 to 10 percent a half-century later.

Many Fortune 500 companies dedicate whole departments to minimizing their tax burden, taking advantage of tax breaks that critics slam as corporate welfare and loopholes that allow for storing capital overseas.

Almost three-quarters of Fortune 500 companies operate enterprises abroad to shelter their cash, with Nike funneling money through Bermuda and Bank of America utilizing 264 shell companies. Ugland House, an infamous five-story office building in the Cayman Islands, is home to 18,857 companies.

And about half of the “offshore” funds registered to foreign subsidiaries are reportedly invested onshore in U.S. assets and securities. The Wall Street Journal has described the current state of U.S. laws as enticing corporations “to engage in semantic games, legal gymnastics and inefficient corporate-financing methods to shield profits from U.S. taxes.”

Some of the most commonly utilized tax havens with low or nonexistent rates are the Netherlands, Ireland, Singapore, Hong Kong, Luxembourg and the Cayman Islands.

But reforming the system and attempting to tax those profits is now on the agenda — including, to some extent, among elements of the Republican Party. “This issue of corporate profits parked overseas essentially to avoid the U.S. corporate tax rate sort of [entered] mainstream consciousness last year,” said Lindsay Koshgarian of the Massachusetts-based National Priorities Project.

The president’s new plan, which would reduce the corporate tax rate to 28 percent, was originally part of an unsuccessful 2012 grand bargain to discourage moving profits to foreign subsidiaries. The proposed tax would be mandatory, unlike a voluntary repatriation “holiday” signed by George W. Bush in 2004, which resulted in $360 billion being sent home.

Conservatives are vehement in their opposition to the White House plan, though many say some form of reform is needed to tax offshore profits. “The fight is over the level of the tax. Obama wants 14 percent of past profits and 19 percent of future profits,” said Daniel J. Mitchell, a senior fellow at the Cato Institute, a conservative think tank. “That's viewed as absurdly greedy, considering that all this income already has been subject to all applicable taxes in the nations where it was earned.”