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June 1, 2009 8:36AM

## Bailed Out Companies Also Tax Cheats?

By [Elizabeth MacDonald](#)

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The White House is moving rapidly to crack down on overseas tax havens, used by US companies to evade US taxes, in order to help pay for the government's massive deficit spending for the bailouts of the financials, the economic stimulus package, and a \$3.6 tn budget.

President Barack Obama said that his crackdown on tax havens would generate \$210 bn in new tax revenues over 10 years and "make it easier" for companies to create jobs at home.

"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. Unfortunately, that's exactly what we're doing," the president said, adding the government is hiring nearly 800 new tax agents "to detect and pursue American tax evaders abroad."



The president has noted: "You've got a building in the Cayman Islands that supposedly houses 12,000 corporations. That's either the biggest building or the biggest tax scam on record."

### Start With the Bailed Out Companies

The president could start with the companies that the US taxpayer has either bailed out or is moving to bail out since last year, many of which use the Cayman Islands and similar locales to shelter income from US corporate taxation.

Most all of the big banks, including Citigroup, Bank of America, Goldman Sachs and Wells Fargo, the big insurance companies, including AIG and Hartford Financial, and GM and GMAC, which are now essentially government-owned, regularly use tax havens overseas, in tax haven jurisdictions such as the Cayman Islands, Barbados, Bermuda, and Switzerland (for the full list, see below).

It's an embarrassing development for the Administration and the Congress, which has fought to defend the massive bailouts of the financials and automakers to restless taxpayers, now growing increasingly angry that the bailouts were reckless and have long since derailed.



The use of tax havens by companies that the US taxpayer has bailed out also raises a broad range of policy issues for the Administration and the US Congress, which are moving to stabilize the economy and at the same time have argued that the bailouts will reap a profit for US taxpayers.

The controversy also reignites a heated debate over the nosebleed corporate tax rate US companies must pay, nearly 40%, a rate that is higher than the one companies pay in socialist economies such as Sweden, France, Norway, or even in Canada.

This analysis was done with James Farrell, a top analyst and expert with Fox News, and is based on government reports, including a study by the Government Accountability Office.

### Bailed Out Companies' Tax Haven Controversy

The question is, once the government either invests in or takes over these companies, notably GM, will it crack down on the companies' subsidiaries to generate more tax revenue and benefit taxpayers?

Or will the government turn a blind eye to improve profitability and benefit the taxpayers as shareholders?

US companies have a fiduciary obligation to maximize value for their shareholders, Farrell says. However, the government tends not to operate on a profit-maximization requirement, Farrell adds.

Tax Evasion Issues

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June 1, 2009



Obama's crackdown of overseas tax havens.

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President Obama's crackdown on corporate tax havens has ignited a debate over the US's high corporate tax rates.

The US has the second highest corporate tax rate of the countries in the 30-nation Organization for Economic Co-operation and Development, (Japan is number one), which some economists note is a crushing burden that companies typically don't pay.

Even Democrat Ways and Means Chairman Charles Rangel has proposed a cut in the federal corporate tax rate from nearly 40% to 30.5%.

Instead, economists, academics and experts who have studied the issue note that companies pass these costs along to shareholders, customers and workers-with workers likely shouldering most of the costs.

Though analysts have noted that the effective rate is 18%, that figure is arrived at after US companies avail themselves of moves to lower their tax bills under the much higher rate.

The combined U.S. federal and average state rate of 40% is almost 9 percentage points higher than the average OECD top corporate rate of 31.4%, the Cato Institute notes. Even socialistic Sweden has a top corporate tax rate of around 28%.

Cato adds that in the last few years, the corporate tax rate was cut in Denmark, France, Ireland, Germany, Poland, and Portugal, as well as many countries outside of Europe.

#### Corporate Tax Avoidance?

Because of the variation in corporate tax rates across countries, US multinationals have an incentive to cut their overall tax burden by maximizing the income they report in countries with low income tax rates and minimizing the income they report in or repatriate to countries like the United States with high income tax rates.

While there may be normal business reasons for these transfers, such as doing business with foreign units, government officials believe "tax avoidance" or "tax evasion" is at play.

The Government Accountability Office says that historically, offshore subsidiaries are used by companies for reducing tax costs and shielding transactions from public view.

#### Bailed Out Companies' Tax Havens

##### Bank of America

Total assets: \$1.82 tn

2008 results: \$2.56 bn in profits  
Stock performance: -73.6%\*

Bailout Sum: \$142.2 bn (\$45 bn in TARP money, \$97.2 bn US asset guaranty; BofA takes the first hit on \$20.8 bn in bad assets)

# of subsidiaries in tax havens: 101

##### BofA's tax havens

Bahamas (3)

Bermuda (2)

Cayman Islands (59)

Gibraltar (2)

Hong Kong (8)

Jersey (3)

Luxembourg (15)

Mauritius (3)

Singapore (5)

U.S. Virgin Islands (1)

##### Citigroup

Total assets: \$1.95 tn

2008 results: \$18.7 bn in losses

Stock performance: -83%\*

Bailout Sum: \$299.3 bn (\$50 bn in TARP money, \$249.3 bn US asset guaranty; Citi takes the first hit on \$56.7 bn in bad assets)

# of subsidiaries in tax havens: 411

##### Citi's tax havens

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- St. Kitts and Nevis (1)
- Singapore (18)
- Switzerland (8)
- Turks and Caicos Islands (1)

**Goldman Sachs Group** (now a bank holding company with access to Federal Reserve funding)

Total assets: \$885 bn  
2008 results: \$2.32 bn in profits  
Stock performance: -16.7%

Bailout Sum: \$10 bn in TARP money

# of subsidiaries in tax havens: 28

Goldman's tax havens

- Bermuda (3)
- British Virgin Islands (1)
- Cayman Islands (15)
- Hong Kong (3)
- Jersey (1)
- Mauritius (5)

**JPMorgan Chase & Co.**

Total assets: \$2.17 tn  
2008 results: \$5.6 bn in profits  
Stock performance: -19.8%\*

Bailout Sum: \$25 bn in TARP money

# of subsidiaries in tax havens: 48

JP's tax havens

- Bahamas (1)
- Bermuda (2)
- British Virgin Islands (4)
- Cayman Islands (7)
- Channel Islands (4)

Hong Kong (8)

Luxembourg (8)

Mauritius (8)

Singapore (5)

Switzerland (1)

**Merrill Lynch** (now part of BofA, which received \$20 bn in TARP money to buy the brokerage)

Bailout Sum: \$10 bn in TARP money

# of subsidiaries in tax havens: 19

Merrill's tax havens

Bermuda (2)

Cayman Islands (3)

Hong Kong (4)

Luxembourg (1)

Mauritius (3)

Netherlands Antilles (1)

Singapore (2)

Switzerland (3)

**Morgan Stanley** (now a bank holding company with access to Federal Reserve funding)

Total assets: \$659 bn

2008 results: \$1.59 bn in profits

Stock performance: -36.5%

Bailout Sum: \$10 bn in TARP money

# of subsidiaries in tax havens: 267

Morgan's tax havens

Bermuda (3)

British Virgin Islands (1)

Cayman Islands (158)

Cyprus (2)

Gibraltar (2)

Hong Kong (15)

Jersey (19)

Liberia (5)

Luxembourg (29)

Malta (1)

Marshall Islands (14)

Mauritius (4)

Panama (1)

Singapore (9)

Switzerland (4)

**Wachovia Corp.** (acquired by Wells Fargo)

Bailout Sum: \$10 bn in TARP money

# of subsidiaries in tax havens: 57

Wachovia tax havens

Aruba (1)

Barbados (1)

Bermuda (18)

British Virgin Islands (3)

Cayman Islands (16)

Guernsey (1)

Hong Kong (9)

Mauritius (3)

Singapore (2)

Turks and Caicos Islands (1)

U.S. Virgin Islands (2)

**Washington Mutual** (acquired by JPMorgan Chase)

Bailout Sum: \$10 bn in TARP money

# of subsidiaries in tax havens: 3

WAMU's tax havens

Hong Kong (1)

Mauritius (1)

Virgin Islands (1)

**Wells Fargo**

Total assets: \$1.31 tn

2008 results: \$2.56 bn in profits

Stock performance: -41.6%

Bailout sum: \$25 bn

# of subsidiaries in tax havens: 18

Wells Fargo's tax havens

Barbados (1)

Cayman Islands (9)

Hong Kong (4)

Mauritius (4)

**American Express** (now a bank holding company)

Total assets: \$126 bn

2008 results: \$2.63 bn in profits

Stock performance: -35.2%\*

Bailout Sum: \$3.39 bn in TARP money

# of subsidiaries in tax havens: 39

Amex's tax havens

Bahrain (2)

British Virgin Islands (2)

Cayman Islands (9)

Guernsey (6)

Hong Kong (4)

Jersey (4)

Luxembourg (3)

Netherlands Antilles (2)

Panama (1)

Singapore (2)

Switzerland (4)

**Insurance Companies Use Tax Havens**

Insurers are big players in the "tax haven" jurisdictions, Farrell notes, and have plumbed the depths of the tangled pile of barbed wire that is the US tax code in order to maximize profitability for where they write policies and where profit is recorded. The US Treasury Dept. may set aside \$22 bn in TARP money to help out insurers.

**American International Group**

Total assets: \$1 tn

2008 results: \$99.3 bn loss  
Stock performance: -95%

Bailout Sum: \$170 bn

# of subsidiaries in tax havens: 15

**AIG's tax havens**

Bahrain (2)

Bermuda (5)

Hong Kong (3)

Luxembourg (1)

Panama (1)

Switzerland (3)

**Hartford Financial Services**

Bailout Sum: \$3.4 bn estimated

# of subsidiaries in tax havens: 7 (Bermuda)

**Prudential Financial**

Bailout Sum: \$5 bn estimated

# of subsidiaries in tax havens: 26

**Prudential's tax havens**

Barbados (1)

Bermuda (9)

Cayman Islands (5)

Hong Kong (7)

Luxembourg (1)

Singapore (3)

**General Motors**

Total assets: \$82 bn (against \$173 bn in liabilities, net tangible assets negative \$86 bn)

2008 results: \$30.9 bn loss  
Stock performance: -96%

Bailout Sum: up to \$50 bn (\$19.4 bn to date, up to \$30 more in bankruptcy)

# of subsidiaries in tax havens: 10

**GM's tax havens**

Barbados (1)

Bermuda (2)

Cayman Islands (4)

Singapore (1)

Switzerland (2)

**GMAC**

(owned by GM and Chrysler)

Total assets: \$189 bn

2008 results: \$1.9 bn in profits  
Stock performance: N/A

Bailout Sum: \$12.5 bn in TARP money  
# of subsidiaries in tax havens: 2 (Bermuda and Switzerland)

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ace says:

June 1, 2009 at 9:29 am

So after this fake bankruptcy by GM and Chrysler, next to vcime will be the real bankruptcy chapter 7, but not until the UAW is fully funded and we have lost well over 75 billion dollars.

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