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Obama targets 'loopholes' for overseas operations

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President Obama on Monday detailed new plans to close off tax loopholes for large corporations and wealthy individuals, the latest move by his administration sure to complicate an already troubled relationship with the business community.

"We are beginning to crack down on Americans who are bending or breaking the rules, and we're helping to ensure that all Americans are contributing their fair share," Mr. Obama said in remarks to reporters at the White House.

Treasury Secretary Timothy F. Geithner and Internal Revenue Service Commissioner Douglas Shulman appeared with the president. Mr. Geithner said the tax breaks and loopholes being targeted are "indefensible."

Going after companies and individuals who funnel money to tax havens in the Cayman Islands or Swiss banks is just one part of the proposal. Much of Mr. Obama's plan aims to limit what the president considers the tax avoidance of multinational corporations who use subsidiaries and foreign branches to avoid paying higher taxes in the United States.

The White House, in a release detailing the plan, said the current tax system "is rife with opportunities to evade and avoid taxes through offshore tax havens."

Administration officials said that 83 of the 100 largest U.S. corporations have subsidiaries in tax havens, citing a government report, and that in 2004 the largest corporations paid about \$16 billion, or a tax rate of about 2.3 percent, on \$700 billion in profits.

The plan, which requires congressional approval and would not go into effect until 2011, includes getting rid of tax deductions for companies that do a large part of their business in other



countries, as well as reducing the amount of foreign income that companies can avoid paying tax on indefinitely through a procedure called "deferral."

The net result is expected to bring in about \$200 billion in extra revenue over the next decade, and the White House also believes the new measures will help curb the appetite of businesses to send jobs overseas.

"Our tax code actually provides a competitive advantage to companies that invest and create jobs overseas compared to those that invest and create those same jobs in the U.S.," the White House said.

Fiscal conservatives and anti-tax groups decried the plan, saying it will exacerbate the problem it is meant to solve.

"Obama's proposal will shove jobs and capital out of America and into foreign countries," said the group Americans for Tax Reform, pointing out that American companies already pay a higher corporate tax rate of 40 percent domestically than in many other countries, and that forcing them to pay this rate on profits they make internationally will drive even more operations out of the country.

"In a global economy, companies don't have to take this lying down. It's a relatively simple matter for a U.S. company with an Irish subsidiary to become an Irish company with a U.S. subsidiary. The Obama plan will force thousands of companies to make this job-killing decision," the anti-tax group said.

Dan Mitchell of the Cato Institute, alibertarian think tank, said there is a misconception of tax havens as "yacht-besotted enclaves of shadowy international dilettantes, dripping with jewelry and laughing about the latest tax loophole their accountants have found."

Tax havens, he said, are "a safe refuge for people seeking to dodge confiscatory tax rates."

"Better to get some revenue with modest tax rates, lawmakers have concluded, than impose high tax rates and lose out," Mr. Mitchell said, adding that lax rules for foreign companies operating in the United States have attracted about \$12 trillion in investment in recent years.

Mr. Obama's tax rules come on the heels of a bankruptcy deal with Chrysler last week that the

automaker's creditors felt conceded too much to unions at the expense of creditors and bondholders.

The president's vow to raise taxes on those making more than \$250,000 a year automatically put him on unsteady footing with the business community. There is also concern among business and entrepreneurs about plans to spend trillions on expanding health care and plans to impose caps on carbon dioxide emissions.

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