



# What America Could Do with \$150 Billion Lost to Offshore Tax Havens

**M**any corporations and wealthy individuals use offshore tax havens—countries with minimal or no taxes—to avoid paying \$150 billion in U.S. taxes each year.<sup>1</sup>

Companies that do business in the U.S. but use offshore tax havens to avoid taxes—such as Microsoft, Exxon Mobil, and Bank of America—benefit from their access to America’s markets, workforce, infrastructure and security.<sup>2</sup> Shirking the taxes that pay for these benefits violates the basic fairness of the tax system.<sup>3</sup>

By shielding their income from U.S. taxes, corporations and wealthy individuals shift the tax burden to ordinary Americans, who must pick up the tab in the form of cuts to public services, more debt, or higher taxes.

The \$150 billion lost annually to offshore tax havens is a lot of money, especially at a time of difficult budget choices. To put this sum in perspective, consider how it could be used:<sup>4</sup>

## Education

- Provide Pell Grants for 10 million students every year for four years.<sup>5</sup>
- More than double federal spending on Head Start, special education grants to states, federal grants to local school districts, and other education programs.<sup>6</sup>
- Pay for four years of free school breakfasts and lunches to twice the number of low-income students currently receiving them.<sup>7</sup>



- Ten years’ worth of this lost revenue would achieve 37.5 percent of the ten-year, \$4 trillion debt reduction goal favored by bipartisan leaders in Congress.<sup>10</sup> It would cover three-quarters of the deficit reduction needed to stabilize the debt-to-GDP ratio.<sup>11</sup>
- Provide a tax cut of \$1,068 for every person who filed taxes in America.<sup>12</sup>

## Clean Energy

- Ensure the future of America’s renewable energy industry by providing thirty years’ worth of funding for tax incentives for the production of renewable energy—at twice the current rate of funding.<sup>13</sup>

## Jobs and the Economy

- Create new jobs in our communities by providing loan guarantees for an additional half-million small businesses.<sup>8</sup>
- More than cover the \$109 billion in automatic spending cuts that will take effect in 2013 if Congress does not avert the “fiscal cliff.”<sup>9</sup>



- Reduce long-term energy costs by retrofitting one in every four existing housing units in the United States for improved energy efficiency, cutting energy usage by 22 percent per residence.<sup>14</sup>



## Transportation

- Bring transportation into the 21<sup>st</sup> century by funding construction of 15 commuter rail lines, 50 light rail transit lines, and more than 800 bus rapid transit lines.<sup>15</sup>
- Create world-class passenger rail systems on the major travel corridors of both coasts—building a high-speed rail line from San Francisco to Los Angeles and making major improvements to the heavily travelled Amtrak rail system between Boston and Washington, D.C.<sup>16</sup>
- Provide the federal share of funding for every high-speed rail project proposed by state governments in 2009.<sup>17</sup>

## Public Health

- Double the current level of federal funding to improve the health of vulnerable citizens, including pregnant women, infants and children with special health care needs ... and continue that level of funding for 12 years.<sup>18</sup>

- Triple funding for programs to end domestic violence and sexual abuse ... and maintain that funding for more than half a century.<sup>19</sup>
- Triple the amount of federal cancer research funding for the next 10 years.<sup>20</sup>

## Exploration

- Further human space exploration and achieve a manned outpost on the moon before 2030.<sup>21</sup>

## It's Time to End Offshore Tax Havens

Americans deserve a tax code without loopholes that allow special interests to shirk their tax burden at the expense of ordinary taxpayers. The federal government can work towards achieving that goal and recapturing much of the \$150 billion lost to offshore tax havens by implementing reforms such as:<sup>22</sup>

- Eliminating incentives for U.S. companies to transfer intellectual property overseas by tightening transfer pricing rules.
- Preventing corporations from reporting different income figures to different countries.
- Treating the profits of “foreign” corporations that are managed and controlled in the United States the same as domestic corporations.
- Preventing corporations from taking bigger tax credits than they are entitled to by requiring them to report full information on tax credits they receive from foreign governments.
- Preventing U.S. multinational corporations from deferring payment of U.S. tax on the profits they attribute to their foreign entities.
- Ending the “active financing exception” and the “controlled foreign corporation” look-through rule that let companies artificially shift profits offshore.<sup>23</sup>

## Sources

- 1 Income shifting by multinational corporations cost the Treasury \$90 billion in 2008, per Kimberly A. Clausing, “The Revenue Effects of Multinational Firm Income Shifting,” *Tax Notes*, 28 March 2011, 1580-1586; Individual income-shifting costs the Treasury in the range of \$40 to \$70 billion annually in lost revenue, per Joseph Guttentag and Reuven Avi-Yonah, “Closing the International Tax Gap,” in Max B. Sawicky, ed., *Bridging the Tax Gap: Addressing the Crisis in Federal Tax Administration*, 2006.
- 2 Companies that employ tax havens: United States Government Accountability Office, *International Taxation: Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions*, December 2008.
- 3 Benjamin Davis, et al., U.S. PIRG Education Fund, *Tax Shell Game: How Much Did Offshore Tax Havens Cost You in 2010?*, April 2011.
- 4 U.S. PIRG is not advocating for the \$150 billion to be spent in these specific ways. These items are meant to illustrate the size of the revenue lost to tax havens. Unless otherwise stated, these facts represent what could be purchased with a single year’s worth of the money lost to offshore tax havens (\$150 billion), even if the spending described occurs across multiple years.
- 5 In 2011-12, 9.4 million students received Pell Grants—a total of \$34,532 million in spending—per U.S. Department of Education, *Federal Pell Grant Program*, 28 March 2012, and College Board Advocacy and Policy Center, *Federal Pell Grant Awards in Current and Constant Dollars over Time*, October 2012.
- 6 \$150 billion would allow the government to more than double federal spending on Head Start, special education grants to states, federal grants to local school districts and other education programs; these programs received \$43.7 billion in federal funding in 2012, per Senator Tom Harkin, Chairman, Senate Appropriations Subcommittee on Labor, Health, and Human Services, and Education, and Related Agencies, *Under Threat: Sequestration’s Impact on NonDefense Jobs and Services*, 25 July 2012.
- 7 In 2010-11, 20.3 million students participated in the National School Lunch Program, and schools are reimbursed \$2.86 for every free lunch served in this program, per USDA Food and Nutrition Service, *National School Lunch Program*, August 2012; 9.8 million students participated in the School Breakfast Program, and schools are reimbursed \$1.48 for every breakfast served in this program, per Food Research and Action Center, *School Breakfast Scorecard: School Year 2010-2011*, January 2012.
- 8 The Small Business Administration guarantees loans from approved lenders to support small businesses, with their basic loan program being the 7(a) loan program. In 2010, \$12.4 billion was approved in loan guarantees to assist 41,705 small businesses, per U.S. Small Business Administration, *FY 2012 Congressional Budget Justification and FY 2010 Annual Performance Report*, April 2012. At that rate, \$150 billion would encourage small business lending by providing loan guarantees for 504,495 small businesses.
- 9 Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act*, 12 September 2011, and Bipartisan Policy Center, *The Sequester Explained* (fact sheet), downloaded from [bipartisanpolicycenter.org](http://bipartisanpolicycenter.org) on 28 November 2012.
- 10 This assumes that the money from offshore tax havens will amount to \$150 billion every year over the course of ten years. Introduced in the Bowles-Simpson report of 2010, \$4 trillion is a widely used estimate of the deficit reduction needed to address debt in the long-term, per Richard Kogan, Center on Budget and Policy Priorities, *\$2 Trillion in Deficit Savings Would Achieve Key Goal: Stabilizing the Debt Over the Next Decade*, 1 November 2012.
- 11 This assumes that the money from offshore tax havens will amount to \$150 billion every year over the course of ten years. Stabilizing the debt-to-GDP ratio would require \$2 trillion, per Richard Kogan, Center on Budget and Policy Priorities, *\$2 Trillion in Deficit Savings Would Achieve Key Goal: Stabilizing the Debt Over the Next Decade*, 1 November 2012.
- 12 In 2009, the IRS received 140.5 million individual tax returns, per Internal Revenue Service, *SOI Tax Stats – Individual Statistical Tables by Size of Adjusted Gross Income*, 10 August 2012. The text refers to a tax return for every “person,” but sometimes multiple people can file a single tax return. \$150 billion would represent a \$1,068 tax refund for every tax return filed in 2009.
- 13 In 2012, the federal government spent \$1.4 billion in credits for electricity production from renewable resources, per Congressional Budget Office, *Federal Financial Support for the Development and Production of Fuels and Energy Technologies*, March 2012. For wind technologies, these credits are set to expire at the end of 2012, and for other renewable resources, they are set to expire at the end of 2013. The U.S. Energy Information Administration estimates that there will be 3 percent annual growth in renewable energy production between now and 2035, per U.S. Energy Information Administration, *Annual Energy Outlook with Projections to 2035*, June 2012.
- 14 Estimates for the number of housing units are taken from the 2011 census, per U.S. Census Bureau, *State and County Quickfacts*, accessed at [quickfacts.census.gov](http://quickfacts.census.gov) on 20 November 2012. The cost of retrofitting a single housing unit is estimated at \$4,500, per Charlotte Jameson and Rob Sargent, Environment America Research & Policy Center, *Building a Better Future: Moving Towards Zero Pollution with Homes and Businesses*, April 2009, and United States Department of Labor, Bureau of Labor Statistics, CPI Inflation Calculator, accessed at [www.bls.gov/data](http://www.bls.gov/data) on 20 November 2012.
- 15 Cost estimates for commuter, light rail, and bus transit lines per Federal Transportation Administration, *Annual Report on Funding Recommendations, Fiscal Year 2013*, 2012.
- 16 Phase 1 of the California High Speed Rail system (from San Francisco to Anaheim) is estimated to cost \$68 billion, per California High Speed Rail Program, *Building California’s Future: Revised 2012 Business Plan*, April 2012. Amtrak’s revitalization of the Northeast corridor is projected to have capital costs of \$55 billion, adjusted for inflation, per Amtrak, *Amtrak’s Vision for the Northeast Corridor: 2012 Update Report*, July 2012.
- 17 In 2009, 40 different states and the District of Columbia requested \$102 billion for 278 projects through the federal high-speed rail program, per Tony Dutzik, Sienna Kaplan and Phineas Baxandall, U.S. PIRG Education Fund, *The Right Track: Building a Twentieth Century High Speed Rail System for America*, and U.S. Department of Transportation, Federal Railroad Administration, *FRA Receives 278 Pre-Applications for High-Speed Passenger Rail Funding* (press release), 16 July 2009.
- 18 The Title V federal-state block grant is given to states to “improve the health of all mothers and children, including children with special health care needs;” \$5.8 billion was allocated to the 50 states for fiscal year 2013, including \$3.6 billion for children with special health care needs, per Health Resources and Services Administration: Maternal and Child Health, *Federal-State Title V Block Grant Partnership Budget, by Class of Individuals Served FY 2013*, accessed at [mchdata.hrsa.gov](http://mchdata.hrsa.gov) on 20 November 2012.
- 19 The Violence Against Women Act programs, the Family Violence Prevention and Services Act programs, and the Victims of Crime Act programs all rely on federal funding to support programs for “domestic violence shelters, law enforcement, courts, rape crisis centers, children’s services, prevention, community outreach, and other state and local programs that provide services for victims and families;” in 2012, these programs received \$599.8 million in funding, and for FY 2013, they requested \$644.3 million, per National Network to End Domestic Violence, *Funding and Appropriations, 2007-2012*.
- 20 Over the past six years, the National Cancer Institute has received federal funding for cancer research at an average of \$4.9 billion per year, per National Cancer Institute, *Cancer Research Funding*, June 2011.
- 21 This refers to the projected cost of NASA’s Constellation Program, \$145 billion between 2010 and 2020, which would include lunar exploration and a lunar base in the 2020s. See section 6.2.4 of Review of U.S. Human Spaceflight Plans Committee, *Seeking a Human Spaceflight Program Worthy of a Great Nation*, 2009, accessed at [nasa.gov](http://nasa.gov) on 28 November 2012.
- 22 For more details on the policy recommendations, see Phineas Baxandall, Abigail Caplovitz Field and Dan Smith, U.S. PIRG Education Fund, *Picking Up the Tab: Average Citizens and Small Businesses Pay the Price for Offshore Tax Havens*, April 2012.
- 23 For more details, see Statement of Senator Levin at the September 20, 2012 hearing, by The Permanent Subcommittee on Investigations, *Offshore Profit Shifting and the U.S. Tax Code*, 20 September 2012, downloaded from [www.hsgac.senate.gov/subcommittees/investigations/hearings/](http://www.hsgac.senate.gov/subcommittees/investigations/hearings/) on 20 November 2012.