



Picking Up the Tab 2014

Average Citizens and Small Businesses
Pay the Price for Offshore Tax Havens

TexPIRG
Standing Up
To Powerful Interests

Picking Up the Tab 2014

Average Citizens and Small Businesses
Pay the Price for Offshore Tax Havens

TexPIRG

Tom Van Heeke, Benjamin Davis,
Phineas Baxandall, Ph.D., and Dan Smith,
U.S. PIRG

April 2014

Acknowledgments

The authors are grateful to Citizens for Tax Justice for sharing the findings of their analysis of 2013 Securities and Exchange Commission 10-K filings. Further, the authors would like to thank the following individuals who contributed information or perspectives to previous versions of this report: Matthew Gardner, Executive Director of the Institute on Taxation and Economic Policy; Scott Klinger, Director of Revenue and Spending Policies for the Center for Effective Government; Heather Lowe, Legal Counsel and Director of Government Affairs for Global Financial Integrity; Richard Phillips, Research Analyst at Citizens for Tax Justice; and Rebecca Wilkins, Senior Counsel for Federal Tax Policy at Citizens for Tax Justice. Thanks also to Abigail Caplovitz Field, and Nicole Tichon, Director of the Financial Accountability and Corporate Transparency (FACT) Coalition, who contributed to previous versions of this report as researchers or authors.

The authors bear any responsibility for factual errors. The recommendations are those of TexPIRG. The views expressed in this report are those of the authors and do not necessarily reflect the views of our funders or those who provided review.

© 2014 TexPIRG. Some Rights Reserved. This work is licensed under a Creative Commons Attribution Non-Commercial No Derivatives 3.0 Unported License. To view the terms of this license, visit creativecommons.org/licenses/by-nc-nd/3.0.

When consumers are cheated or the voices of ordinary citizens are drowned out by special interest lobbyists, TexPIRG speaks up and takes action. We uncover threats to public health and well-being and fight to end them, using the time-tested tools of investigative research, media exposés, grassroots organizing, advocacy and litigation. TexPIRG's mission is to deliver persistent, result-oriented public interest activism that protects consumers, encourages a fair, sustainable economy, and fosters responsive, democratic government. For more information, please visit our website at www.texpirg.org.

Design: Harriet Eckstein Graphic Design

Cover images: *Handshake* photo, by bigstockphoto.com contributor Ljupco Smokovski; *Beach* photo, photographer unknown, Shutterstock; composite photo design by To The Point Publications, www.tothepointpublications.com.

Table of Contents

Executive Summary	1
Corporations and Wealthy Individuals Use Offshore Tax Havens to Avoid Taxes	4
Offshore Tax Havens Cost American Taxpayers Billions	7
Closing Offshore Tax Loopholes Would Increase Fairness and Recapture Lost Revenue	11
Methodology	15
Appendix A: Impact of Offshore Tax Haven Abuse on Individual Tax Filers	18
Appendix B: Impact of Offshore Tax Haven Abuse on Small Businesses	19
Notes	20

Executive Summary

Every year, corporations and wealthy individuals use complicated gimmicks to shift U.S. earnings to subsidiaries in offshore tax havens—countries with minimal or no taxes—in order to reduce their state and federal income tax liability by billions of dollars. Tax haven abusers benefit from America’s markets, public infrastructure, educated workforce, security and rule of law—all supported in one way or another by tax dollars—but they avoid paying for these benefits. Instead, ordinary taxpayers end up picking up the tab, either in the form of higher taxes, cuts to public spending priorities, or increases to the federal debt.

The United States loses approximately \$184 billion in federal and state revenue each year due to corporations and individuals using tax havens to dodge taxes. On average, every filer who fills out a 1040 individual income tax form would need to pay an additional \$1,259 in taxes to make up for the revenue lost.

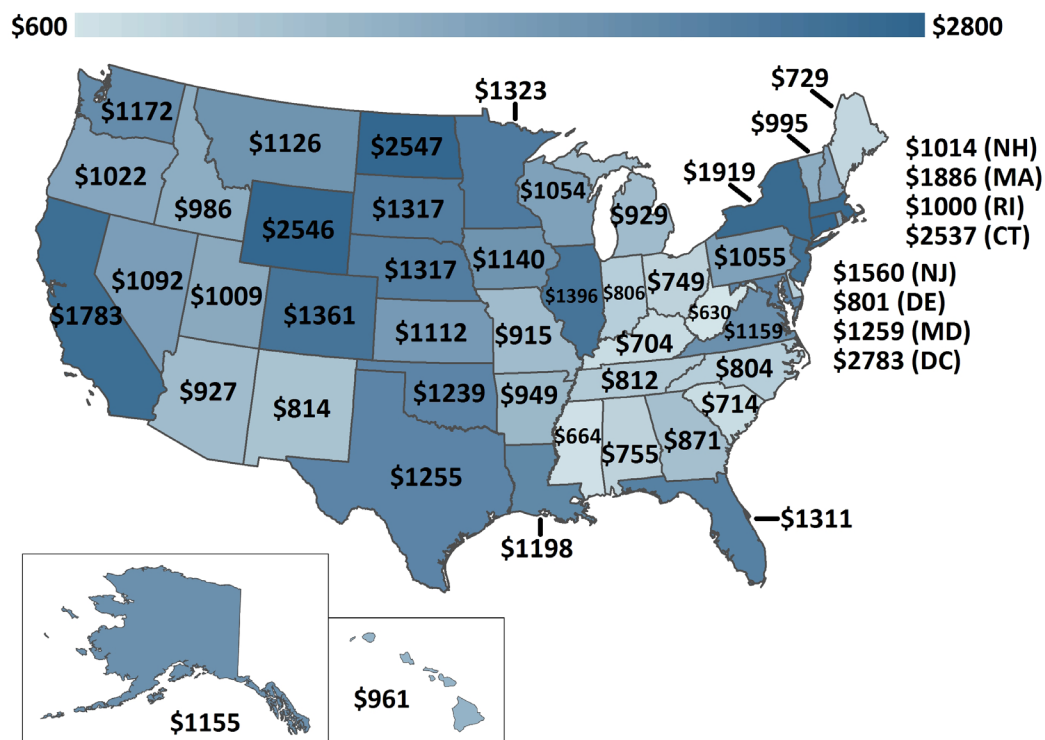
- Tax haven abuse costs the federal government \$150 billion in lost tax revenue, or \$1,027 per filer.

- Tax haven abuse costs state governments a combined \$34 billion in lost tax revenue, or an additional \$231 per filer.
- The burden on tax filers varies across the 50 states based on the differing average contributions to the Treasury made by filers in each state (see Figure ES-1).

The taxes avoided by multinational corporations make up the majority—\$110 billion—of the government revenue lost to offshore tax havens. Every small business would need to pay an average of \$3,923 in additional taxes if they were to pick up the full tab for income lost to corporations exploiting tax havens.

- Corporate tax haven abuse costs the federal government \$90 billion in lost tax revenue. Every small business would need to pay an additional \$3,206 in federal taxes to account for the revenue lost.
- Corporate tax haven abuse costs state governments \$20 billion in lost tax

Figure ES-1. Picking Up the Tab: The Average Amount Individual Tax Filers in Each State Would Need to Pay to Make Up for State and Federal Revenue Lost to Offshore Tax Havens



revenue. Every small business would need to pay an additional \$717 in state taxes to account for the revenue lost.

Some of America's biggest companies use tax havens to avoid tax obligations in the United States, including many that have taken advantage of government bailouts or rely on government contracts. In 2012, 82 of the 100 largest publicly traded U.S. corporations booked revenues to offshore tax haven countries.

- **Pfizer**, the world's largest drug maker, paid no U.S. income taxes between 2010 and 2012 despite earning

\$43 billion worldwide. In fact, the corporation received more than \$2 billion in federal tax *refunds*. In 2013, Pfizer operated 128 subsidiaries in tax haven countries and had \$69 billion offshore and out of the reach of the Internal Revenue Service (IRS).

- **Microsoft** maintains five tax haven subsidiaries and stashed \$76.4 billion overseas in 2013. If Microsoft had not booked these profits offshore, they would have owed an additional \$24.4 billion in taxes.
- **Citigroup**, bailed out by taxpayers in the wake of the financial crisis of 2008, maintained 21 subsidiaries in

tax haven countries in 2013, and kept \$43.8 billion in offshore jurisdictions. If that money had not been booked offshore, Citigroup would have owed an additional \$11.7 billion in taxes.

To restore fairness to the tax system, decision makers should prevent corporations and wealthy individuals from booking their income to offshore tax havens by eliminating the incentives and mechanisms used to shift money overseas.

- End the ability of multinational corporations to indefinitely defer paying taxes on the profits they attribute to their foreign entities.
- Eliminate the “look through” rule, which allows U.S. multinational corporations to defer tax liabilities on income generated by one of its foreign subsidiaries from sources of income such as royalties, interest or dividends.
- Eliminate the active financing exception, which exempts income generated through banking and financial services from being taxed immediately when it is earned.
- Reject a “territorial” tax system, which would allow companies to temporarily shift profits to tax haven countries, pay minimal tax under those countries’ laws, and then bring the profits back to the United States tax-free.
- Put an end to the “check-the-box” rule, which currently allows multinational companies to make

inconsistent claims about their corporate status. To maximize their tax advantage, corporations can tell one country that they are one type of entity while telling another country that the same entity is something else entirely.

- Stop companies from deducting interest expenses from their U.S. tax liability when that interest is paid to a foreign affiliate.
- Reduce the incentive for corporations to license intellectual property (for example, patents and trademarks) to shell companies in tax haven countries before paying inflated—and tax-deductible—fees to use them in the United States.

Decision makers should also strengthen enforcement and increase transparency by:

- Requiring multinational corporations to report their profits on a country-by-country basis.
- Equipping the Department of Treasury with the enforcement power it needs to stop tax haven countries and their financial institutions from impeding tax collection in the United States.
- Strongly implementing the Foreign Account Tax Compliance Act (FAT-CA) which was passed by Congress in 2010 but has since been stalled by multinational companies in a protracted stakeholder process.

Corporations and Wealthy Individuals Use Offshore Tax Havens to Avoid Taxes

Tax havens are countries or jurisdictions with very low or nonexistent taxes—often small island nations like Bermuda, the Cayman Islands and Seychelles—to which firms and wealthy individuals transfer their earnings to avoid paying taxes in the United States.¹ Income held overseas by foreign subsidiaries of U.S.-based companies is not taxed until the money is declared as returned to the United States, used for stock repurchases, paid in dividends to shareholders, or invested back in the U.S. Even then, many companies and individuals still find ways to dodge their tax obligations, either by taking advantage of tax holidays or using complicated accounting schemes and intermediate countries.² The amount of corporate money from the United States booked in offshore tax havens is vast—up to \$1.9 trillion according to a 2013 survey.³ Even more enormous sums of money are hidden from governments by individuals. No readily available estimate of offshored U.S. personal wealth exists, but as of 2010 at least \$21 trillion of personal wealth from around the globe was stashed in tax haven jurisdictions according to the Tax Justice Network.⁴

With their armies of tax lawyers and ac-

counting specialists, companies have many strategies for shifting profits offshore. Corporations may transfer their patents or trademarks to subsidiaries located in tax havens and spend their domestically earned income to pay tax-deductible royalties to the subsidiary to use the patents or trademarks in America. Other companies engage in “earnings stripping,” in which companies in the United States borrow money from subsidiaries in a tax haven and then deduct their interest payments from their taxable income.

The majority of America’s largest publicly held corporations avoid paying taxes through the use of offshore havens. As of 2012, 82 of the 100 largest publicly traded U.S. corporations operated subsidiaries in tax haven countries as of 2012.⁶

According to Citizens for Tax Justice many major corporations use tax havens to avoid their U.S. tax responsibilities:⁷

- **Citigroup**, maintained 21 subsidiaries in tax haven countries in 2013, and kept \$43.8 billion in offshore jurisdictions. If that money had been repatriated, Citigroup would have owed an additional \$11.7 billion in taxes.

Corporate Profits Held “Offshore” Often Remain in the United States

Ironically, much of the money corporations and wealthy individuals stash offshore may actually be deposited in U.S. banks, using special accounts called “international banking facilities.” The banks can lend this money overseas and earn profits on it. The money continues to be considered held offshore and not returned to the United States even though the cash may be in these special accounts of U.S. banks with the benefits of the laws and the stability of the U.S. banking system. A study of large U.S. multinational corporations by the Senate Permanent Subcommittee on Investigations found that nearly half of the profits considered “offshore” for tax purposes were actually in bank accounts or investments in the United States, allowing these corporations to benefit from the stability of the U.S. financial system without paying the taxes that support it.⁵

- **Pfizer**, the world’s largest drug maker, paid no U.S. income taxes between 2010 and 2012 because the company reported losses in the U.S. in those years, despite making 40 percent of its sales in the U.S. and earning \$43 billion worldwide. In fact, the corporation received more than \$2 billion in federal tax *refunds*.⁸ Pfizer pulls this off by using accounting gimmicks to book its taxable profits offshore. The company licenses patents for its drugs to its subsidiaries in low or zero-tax countries before using its U.S.-based operation to pay high—tax deductible—licensing fees to those subsidiaries to use the patent. In 2013, Pfizer operated 128 subsidiaries in tax haven countries and declared \$69 billion offshore and out of the reach of the Internal Revenue Service.
- **Caterpillar**, a manufacturer of construction equipment and engines, deferred or avoided \$2.4 billion in U.S. taxes between 2000 and 2012 by shifting \$8 billion in profits to a Swiss subsidiary, which was awarded a special corporate tax rate of just four to six percent in negotiations between Caterpillar and the Swiss government.⁹ In 2013, Caterpillar operated a total of 67 subsidiaries in foreign countries and kept \$17 billion offshore.
- **Google** uses tax tricks with nicknames such as the “Double Irish” and the “Dutch Sandwich” to shift its profits through subsidiaries in countries including Ireland and Bermuda and the Netherlands. These techniques helped reduce the company’s tax bill by \$3.1 billion between 2008 and 2010 to achieve an effective tax rate of just 2.4 percent on its overseas profits.¹⁰ In 2013, Google declared \$38.9 billion as sitting offshore.
- **General Electric** maintained 18 tax haven subsidiaries in 2013 and parked \$110 billion offshore. With the help of offshore subsidiaries, General Electric paid a federal effective tax rate of -11.1 percent between 2008 and 2012

despite being profitable all of those years. GE's tax rate was negative during that period because the company received net tax payments from the government.¹¹

- **Microsoft** maintains five tax haven subsidiaries and reported a total of \$76.4 billion overseas in its 2013 10-K filing with the Securities and Exchange Commission. If this money had not been shifted offshore, Microsoft would have owed an additional \$24.4 billion in taxes.
- **Bank of America** operated 257 subsidiaries in tax havens in 2013 and kept \$17 billion offshore. If the money had not been shifted offshore, Bank of America would have owed an additional \$4.3 billion in taxes.

Ironically, many firms that go to great lengths to avoid paying federal taxes also derive a large portion of their business from contracts with the federal government. In 2007, the Government Accountability Office calculated that 63 of the 100 largest publicly traded U.S. federal contractors had subsidiaries in tax haven countries or countries with sweeping financial secrecy laws.¹²

Big federal contractors are not the only users of tax havens who have relied upon the American government while paying little or nothing to support it. For example, though Bank of America and Citigroup were kept afloat by taxpayer-funded bailouts during the 2008 financial collapse, following the crisis both of these companies enjoyed years where they paid nothing in federal income taxes despite being profitable.¹³

Offshore Tax Havens Cost American Taxpayers Billions

Offshore tax haven abuse impacts both federal and state budgets. States calculate taxes based largely on federally-defined income for the sake of simplicity and to reduce the cost of enforcement and compliance.¹⁴ This means that when corporations or individuals do not report income to the federal government, that income typically also goes unreported to states that levy a corporate or personal income tax, too.

By booking income to tax haven countries, corporations and wealthy individuals unfairly deprive the United States of approximately \$184 billion, composed of \$150 billion in federal tax revenue and \$34 billion in state tax revenue.¹⁵ With governments at both the federal and state level still struggling to overcome the economic recession, tax dodging can have an especially large impact on budgets.

Ordinary taxpayers end up paying the price. Every dollar of revenue lost to offshore tax havens must be accounted for through cuts to public priorities, higher taxes or additional borrowing. Given that most states are subject to balanced budget requirements, the impacts of state revenue losses are necessarily more immediate

because states cannot take on more debt to cover the shortfall.¹⁶ Everyday Americans will either pay more in state taxes or endure cutbacks to state spending on services and infrastructure. On average, every filer around the country who fills out a 1040 individual income tax form would need to pay an additional \$1,259 to make up for the total federal and state revenue lost to offshore tax havens in 2013. This additional burden would vary across the 50 states based on differing average contributions to the Federal Treasury from each state (see Figure 1 and Appendix A). Based on their share of federal tax contributions, filers in the District of Columbia would need to pay the most, paying, on average, an additional \$2,783 to make up for the federal and state revenue lost to tax havens (see Figure 1 and Table 1).

The taxes avoided by multinational corporations make up the majority—\$110 billion—of the total federal and state government revenue lost to offshore havens. On average, every small business would need to pay an additional \$3,923 on its taxes if they were to bear the full cost of compensating for federal and state corporate tax revenue lost to tax havens. The combined

Figure 1. Picking Up the Tab: The Average Amount Individual Tax Filers in Each State Would Need to Pay to Make Up For State and Federal Revenue Lost To Offshore Tax Havens¹⁷

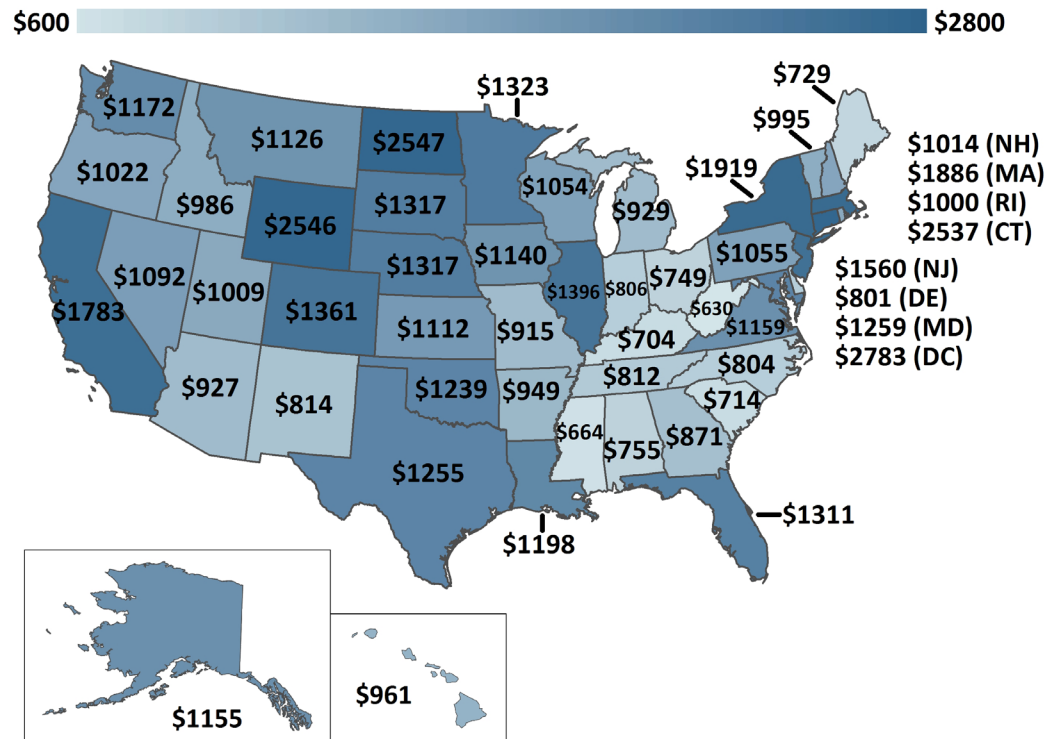


Table 1. Additional Federal and State Tax Burden per Individual Filer, Top 10 States

State	Additional Combined Federal and State Tax Burden per Individual Filer	Additional Federal Tax Burden per Individual Filer	Additional State Tax Burden per Individual Filer
District of Columbia	\$2,783	\$2,042	\$740
North Dakota	\$2,547	\$2,101	\$446
Wyoming	\$2,546	\$2,546	\$0*
Connecticut	\$2,537	\$2,001	\$536
New York	\$1,919	\$1,484	\$435
Massachusetts	\$1,886	\$1,473	\$413
California	\$1,783	\$1,283	\$500
New Jersey	\$1,560	\$1,165	\$395
Illinois	\$1,396	\$1,085	\$312
Colorado	\$1,361	\$1,163	\$198

*The state of Wyoming does not levy a personal income tax.

burden on small businesses would also vary depending on the business' home state (see Appendix B). Small businesses in the District of Columbia would need to pay the most in combined additional federal and state taxes, paying, on average, an additional \$8,625 (see Table 2).

Disaggregating these numbers into federal and state-level figures reveals how much businesses and individual filers would need to pay to account for lost federal revenue and lost state revenue specifically. At the federal level, to fully account for the approximately \$150 billion in federal tax revenue lost to offshore tax havens in 2013, American tax filers would need to pay, on average, an additional \$1,027 in federal income taxes.

However, as noted above, tax filers in different states pay differing shares of the federal government's total tax haul, depending on the average income and tax liability of its residents. Thus, the actual additional burden on individual filers would vary somewhat across the country (see Appendix A). In 2013, taxpayers in Wyoming would bear the highest per-capita burden

to account for the federal impacts of offshore tax haven abuse, paying, on average, an additional \$2,546 in federal income taxes. Looking at total payments by state, taxpayers in California would bear the largest absolute burden—\$21.7 billion—to account for lost federal revenue.

State governments lost a total of \$34 billion in income tax revenue in 2013—\$20 billion from corporations and \$14 billion from individuals—and everyday Americans would have to pay an average of an additional \$231 on their state income taxes to account for these losses. However, due to varying state tax rates, the actual additional state-by-state burden would vary greatly. Residents of the District of Columbia would pay the most, paying, on average, an additional \$740 (see Appendix A).

Without the aid of armies of tax lawyers and accountants that large corporations employ to help them dodge their tax obligations, America's small businesses pay what they owe and, consequently, must help pick up the tab when major companies abuse offshore tax havens.¹⁸ If America's small businesses were to fully account

Table 2. Additional Federal and State Corporate Tax Burden per Small Business, Top 10 States

State	Additional Combined Federal and State Corporate Tax Burden per Small Business	Additional Federal Corporate Tax Burden per Small Business	Additional State Corporate Tax Burden per Small Business
District of Columbia	\$8,625	\$6,326	\$2,298
North Dakota	\$8,276	\$6,638	\$1,638
Connecticut	\$8,094	\$6,394	\$1,700
Wyoming	\$7,506	\$7,506	\$0*
Massachusetts	\$6,269	\$4,734	\$1,535
New York	\$5,146	\$4,115	\$1,031
New Jersey	\$4,982	\$3,762	\$1,220
California	\$4,827	\$3,663	\$1,165
Illinois	\$4,588	\$3,413	\$1,175
Minnesota	\$4,219	\$3,111	\$1,108

*The state of Wyoming does not levy a corporate income tax.

for the federal corporate tax revenue lost to tax havens in 2013—approximately \$90 billion—each small business would pay, on average, an additional \$3,206 in federal corporate income tax. At the state level, each small business would pay an average of an additional \$717 in state business taxes (see Appendix B).

As with individuals, the states and their small businesses are responsible for varying shares of the federal government's total corporate tax revenue in accordance with the number of small businesses in the state and their income, and pay vary-

ing amounts of state tax in line with differing state corporate tax rates. Thus, the actual additional federal and state burdens on small businesses would vary across the country (see Appendix B). Small businesses in Wyoming would bear the highest burden to account for the federal impacts of offshore tax haven abuse, paying, on average, an additional \$7,506 in federal corporate income taxes. Small businesses in the District of Columbia would pay the most in additional state-level taxes, paying, on average, an extra \$2,298.

Tax Repatriation Holidays Are Not a Solution

Tax repatriation holidays allow companies to bring profits booked offshore back to the United States at a greatly reduced—and supposedly temporary—tax rate. Such holidays are attractive to companies using tax havens because it is usually challenging to return offshored profits to the United States without paying taxes, which companies must do if they want to distribute earnings to their shareholders.

Multinational corporations and their lobbyists seek to portray tax holidays as a win-win-win for companies, everyday Americans and government budgets. They claim that repatriation brings money back to the United States so it can be invested in ways that create new jobs, and potentially provides an immediate, albeit small, bump in tax revenue for the government.

However, experience suggests that companies repatriating profits do not necessarily use those funds to make productive investments in the U.S. economy. A 2004 tax holiday that allowed corporations to return foreign profits to the United States at a nominal rate of 5.25 percent, versus the statutory corporate income tax rate of 35 percent, led to the repatriation of \$362 billion in corporate money. Unfortunately, the repatriating companies used much of that money to fund stock buybacks rather than investment that spurred new job creation.¹⁹ The United States Senate's Permanent Subcommittee on Investigations—a part of the Committee on Homeland Security and Governmental Affairs—also found that the 15 firms that repatriated the most money that year—approximately \$150 billion collectively—actually shed nearly 21,000 jobs, while increasing executive pay and slightly decreasing investment in research and development.²⁰ Estimates suggest that enacting another similar tax holiday would cost the United States nearly \$80 billion in lost tax revenue over the next 10 years.²¹

Closing Offshore Tax Loopholes Would Increase Fairness and Recapture Lost Revenue

Decision makers should take strong action to prevent corporations and wealthy individuals from booking their income to offshore tax havens. In doing so, the United States can restore fairness to the tax system and recoup billions of dollars in both federal and state tax revenue—money that could be used to support squeezed state and federal spending priorities, to fund tax relief for working families and small businesses, or to pay down the national debt.

To end offshore tax haven abuse, the United States should eliminate the incentives and mechanisms that exist to shift money overseas.

- **End the ability of multinational corporations to defer paying taxes indefinitely on the profits they book to their foreign entities.** The foundation of offshore tax haven abuse is the legal provision that allows corporations to defer paying taxes on profits stashed overseas until they are repatriated to the United States. This feature of American tax law incentivizes the establishment of foreign subsidiaries for the purpose of housing corporate money

out of reach of the Internal Revenue Service (IRS). The United States Senate's Joint Committee on Taxation estimates that no longer permitting such deferral would raise nearly \$600 billion over 10 years.²² Double taxation would not be a concern because companies can already deduct any taxes paid to foreign governments from their tax liability in the United States.

- **Reject a “territorial” tax system.** Unlike in a “worldwide” tax system in which corporate income from around the globe is accounted for in calculating taxes, under a territorial tax system, countries only levy taxes based on the income that corporations declare within their borders. Under current law, the United States employs features of both systems, allowing corporations to defer taxes on their foreign income as long as it remains declared overseas and imposing a levy once the money is repatriated. Territorial taxation would permanently exempt income booked overseas from American taxation, effectively establishing a permanent tax holiday for corporate profits booked

offshore. Thus, a territorial tax system would exacerbate existing perverse incentives for corporations to shift profits abroad to dodge their U.S. tax obligations, while also encouraging companies to move their operations wholesale to other countries to exploit these incentives.

- **Put an end to the “check the box” rule.** The “check the box” rule allows U.S. companies to “check the box” on their tax forms when describing their various entities for tax purposes. When used by U.S.-based multinationals, the rule allows American corporations to strip profits out of high tax countries by checking the relevant box on their IRS tax form to transform a subsidiary into a “disregarded entity”—irrelevant for tax purposes. The Department of Treasury estimates that this one rule alone costs the federal government almost \$10 billion in lost annual revenue.²³
- **Eliminate the “look-through” rule.** Using the controlled foreign corporation (CFC) “look-through” rule, a U.S. multinational corporation can defer tax liabilities on income generated by one of its foreign subsidiaries from sources of income such as royalties, interest or dividends, provided the income is paid by another related foreign subsidiary and can be traced to its active income. This rule incentivizes multinational corporations to create transactions purely to take advantage of this legal provision and creates large amounts of income treated, for tax purposes, as earned in low- or zero-tax countries that may host no meaningful company presence.²⁴
- **Eliminate the active financing exception.** Certain types of income, such as profits generated by financial services, are especially easy to move around the world on paper for tax purposes. For that reason, our corporate tax code requires such “passive” income to be taxed immediately, regardless of where the company claims it was earned. The active financing exception exempts income generated by financial and banking services from this requirement, benefitting Wall Street banks and the financing units of companies like General Electric. GE used the active financing exception to avoid paying any taxes, on average, between 2008 and 2012.²⁵ When Congress passed comprehensive tax reform in 1986, they removed the active financing exception only to reinstate it as a “temporary” measure after fierce lobbying effort in 1997. Since then, the exception has been extended every few years as part of so-called “tax extenders.”²⁶
- **Prevent corporations from deducting interest expenses paid to their own offshore affiliates.** One “earnings stripping” mechanism is for U.S.-based parent companies to borrow money from their foreign subsidiaries and pay them interest, a tax-deductible expense. The interest income, in turn, may be taxed at low levels or not at all depending on local tax rates in the country where the foreign subsidiary is based.
- **Reduce the incentive for corporations to license intellectual property to shell companies or other subsidiaries in tax haven countries.** A common gimmick used by large corporations to dodge their tax liability is to license patents or trademarks or other forms of intellectual property to a shell corporation or other subsidiary located in a tax haven jurisdiction, and then pay heavily inflated—and tax-deductible—fees to

use them in the United States. This can dramatically reduce a company's taxable income in the United States and, in effect, transfer the money to a subsidiary facing few tax obligations in a country like Bermuda or the Cayman Islands. Imposing stricter transfer pricing rules with regard to intellectual property, as well as taxes on excess income generated by transferring property offshore, could reduce the incentive for corporations to license intellectual property to related entities at inflated prices.

Offshore tax haven abuse is made easier by inadequate transparency in multinational corporate finance and lackluster enforcement of existing laws. Decision makers should strengthen the ability of the United States to crack down on offshore tax haven abuse by:

- Requiring multinational corporations to report their profits, sales, employees, and those of their related subsidiaries on a country-by-country basis so it is clear to governments around the world where the money is actually earned.

Americans and Small Businesses Want to Stop Offshore Tax Haven Abuse

Unsurprisingly, public opinion surveys find that average Americans show little tolerance for corporate abuse of tax havens. A January 2013 Hart Research Poll found that 73 percent of Americans agree that we should “close loopholes allowing corporations and the wealthy to avoid U.S. taxes by shifting income overseas.” The same poll found that 83 percent of Americans agreed that we should “increase [the] tax on U.S. corporations’ overseas profits to ensure it is as much as [the] tax on their U.S. profits.” This was the most popular policy of the 12 choices that were included in the poll.²⁷

The small business community shows similarly strong support for measures to close offshore tax loopholes and is similarly frustrated by the gimmicks corporations use to game the system. Businesses should thrive based on the quality of their products and the strengths of their business model, but tax haven abuse turns this on its head. Ordinary small businesses suffer when they must compete on an uneven playing field against corporations that avoid paying their fair share in taxes by employing high-priced lawyers, accountants and lobbyists. According to a 2012 survey, 90 percent of small business owners believe big corporations use loopholes to avoid taxes that small businesses have to pay, and 92 percent think that it is a problem when “U.S. multinational corporations use accounting loopholes to shift their U.S. profits to their offshore subsidiaries to avoid taxes.”²⁸ A 2013 poll found that, when asked what Congress’ top budget priority should be, one-third of small businesses chose “closing tax loopholes for large corporations”—twice as many as chose the second most popular priority.²⁹ In particular, 64 percent of small business owners support ending the ability of corporations to defer paying U.S. taxes indefinitely on income booked overseas, and an overwhelming 85 percent are opposed to instituting a territorial tax system.³⁰

- Equipping the Department of Treasury and the IRS with the enforcement power it needs to stop tax haven countries and their financial institutions from impeding U.S. tax collection.
- Implementing in full the Foreign Account Tax Compliance Act (FATCA), passed by Congress in 2010. The law's implementation has been slowed by multinational companies in a protracted stakeholder process.

Methodology

This report calculates the cost of corporate tax haven abuse for individuals and small businesses, in terms of both additional federal and state tax burden.

To do this, we first needed to identify: 1) how many taxpayers filed individual income tax returns in the United States in 2013; 2) how many small businesses were in operation in the United States in 2013; and 3) the federal tax revenue—both from corporations and individuals—lost to off-shore havens.

- 1) The Internal Revenue Service's (IRS) annual Data Book, a publication containing data on the previous year's tax collections, reports the number of individual tax filers in the United States. We consulted Table 3 in the *IRS Data Book 2013*, available at www.irs.gov/uac/SOI-Tax-Stats-IRS-Data-Book, to find that in 2013, 145,996,474 individual income tax returns were filed nationwide. (We pulled data from the column titled "Individual Income Tax.") This figure is the number of filings of all variations of the 1040 individual income tax form.

This table also reported the number of tax filers by state.

- 2) Consistent with previous editions of this report, we defined a small business as one with fewer than 100 employees.³¹ This is both an intuitive definition and the one used by The Main Street Alliance and American Sustainable Business Council, both advocates for small business, when identifying samples for polling and surveys.

The United States Census Bureau stores data on the number of small businesses. Consistent with previous editions of this report, we consulted its Statistics of U.S. Businesses division, downloading a dataset entitled "U.S. & States, NAICS Sectors, Small Employment Sizes," available at www.census.gov/econ/susb/, accessed on 10 March 2014. This dataset contains information on the number of businesses in each state by employment size, allowing us to identify the number of businesses in each state with 1-99 employees. We also consulted *Nonemployer*

Statistics, available at www.census.gov/econ/nonemployer/ and accessed on 10 March 2014, to identify the number of nonemployer establishments—businesses with no paid employees but subject to federal income tax—by state. By adding these numbers together, we arrived at a figure for the total number of small businesses with fewer than 100 employees in the United States as a whole, and in each state. Note that for our small business calculations we use 2011 data, the most recent data available, and identified 28,076,590 small businesses in the United States. Note also that for the purposes of this report, we assumed that all small businesses identified had taxable income in 2013.

- 3) The federal revenue lost to offshore tax havens totals \$150 billion, per United States Senate, Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, *Offshore Tax Evasion: The Effort to Collect Unpaid Taxes on Billions in Hidden Offshore Accounts*, 26 February 2014. The portion of corporate federal revenue lost to offshore tax havens totals \$90 billion, per Kimberly A. Clausing, “The Revenue Effects of Multinational Firm Income Shifting,” *Tax Notes*, 28 March 2011. We deduced that the portion of federal tax revenue lost to individuals’ use of offshore tax havens totals \$60 billion from the previous two sources.

Additional Federal Tax Burden

To calculate the additional federal tax burden for individuals and small businesses, we did the following:

Nationwide: To illustrate the average additional federal tax burden of all offshore tax havens (individual and corporate) per tax filer nationwide, we divided \$150 billion—the total amount of federal tax revenue lost to offshore tax havens each year—by the number of tax filers as identified above.

To illustrate the average additional federal *corporate* tax burden for small businesses, assuming that small businesses were to bear the full cost of corporate tax haven use, we divided \$90 billion—the total amount of federal *corporate* income tax revenue—by the number of small businesses as identified above.

By state: To illustrate the average additional tax burden per tax filer on a state-by-state basis, we apportioned the \$150 billion to the states and then divided by the number of tax filers in each state. We apportioned the \$150 billion in proportion to each state’s share of individual income tax payments and SECA tax payments. Specifically, we divided the individual income and SECA tax payments for each state by the individual income and SECA tax payments for the United States as a whole, resulting in a percentage share of net total tax revenue collected from each state. We then divided \$150 billion in those percentages. For example, since Arizona’s share of net total individual income and SECA tax payments was 1.4 percent in 2013, we assumed that the state would have to account for 1.4 percent of the total federal tax revenue lost to offshore tax havens (\$2.1 billion, or 1.4 percent of \$150 billion). (Note: state-by-state percentages may not sum to 100 percent because our analysis does not consider federal tax revenue from Puerto Rico, overseas U.S. territories, and payments from Americans living abroad.) To define what each taxpayer in a state would need to pay to account for these losses, we divided the state’s share of the \$150 billion by the number of tax filers

in the state as reported by the IRS.

To illustrate the average additional corporate tax burden for small businesses on a state-by-state basis, we apportioned the \$90 billion of lost federal corporate tax revenue to the states in the same manner as the \$150 billion above. At that point, we divided each state's share of the \$90 billion by the number of small businesses in each state, as determined in point number two above.

Additional State Tax Burden

To calculate the additional state tax burden individuals and small businesses would have to pay due to tax haven abuse, we first had to calculate how much state tax revenue is lost due to corporate profit shifting.

To do so, we reproduced the methodology used in a previous report: Jordan Schneider and Elizabeth Ridlington, Frontier Group, and Phineas Baxandall and Dan Smith, U.S. PIRG Education Fund, *The Hidden Cost of Offshore Tax Havens: State Budgets Under Pressure from Tax Loophole Abuse*, January 2013. Please consult that report's Methodology chapter for full details on its assumptions and calculations.

Note that to calculate state revenue losses for 2013, we applied updated state tax rates and updated IRS collection data to this previously used methodology and made one other revision: in our calculations for this report, the federal effective tax rate was set at 30.5 percent. This is the 2008 median effective tax rate for the 13 companies—out of America's 100 largest—that did not have subsidiaries in offshore tax havens in 2007. We did not use the statutory 35 percent rate because

doing so would not have taken into account the degree to which, even without the use of offshore tax havens, other federal tax loopholes and incentives lower corporations' effective tax rates. These 13 companies are: Amerisource Bergen Corporation; AT&T Inc.; CVS Caremark; Home Depot; Humana; Lockheed Martin Corporation; Lowe's; Macy's; Medco Health Solutions; Northrop Grumman Corporation; United Parcel Service, Inc.; Verizon Communications, Inc.; and Wal-Mart Stores, per United States Government Accountability Office (GAO), *International Taxation: Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions*, December 2008. For these companies' effective tax rates, see Robert S. McIntyre et al., Citizens for Tax Justice, *Corporate Taxpayers & Corporate Tax Dodgers 2008-10*, November 2011. Note that the GAO report listed four additional companies (Enterprise GP Holdings, Fannie Mae, Freddie Mac and Johnson Controls) that did have subsidiaries in offshore havens, but Citizens for Tax Justice did not list their effective tax rate so we did not consider them here.

Once we had established the amount of state tax revenue lost for each state, we could calculate how much each small business and individual would need to pay in state taxes to account for these losses. For individuals, we divided the total revenue losses in each state by the number of individual tax filers, assuming that the number of state tax filers was equal to the number of federal tax filers reported by the IRS. For small businesses, we divided each state's *corporate* tax revenue losses by the number of small businesses in each state, as determined in point number two above, to calculate how much additional *corporate* income tax businesses would need to pay.

Appendix A: Impact of Offshore Tax Haven Abuse on Individual Tax Filers

State	Total Federal and State Revenue Lost to Offshore Tax Havens (billions)	Combined Additional Federal & State Tax Burden per Individual Filer	Total Federal Revenue Lost to Offshore Tax Havens (billions)	Additional Federal Tax Burden per Individual Filer	Total State Revenue Lost to Offshore Tax Havens (billions)	Additional State Tax Burden per Individual Filer
United States	\$183.8	\$1,259	\$150.0	\$1,027	\$33.8	\$231
Alabama	\$1.5	\$755	\$1.3	\$631	\$0.3	\$125
Alaska	\$0.4	\$1,155	\$0.3	\$960	\$0.1	\$196
Arizona	\$2.6	\$927	\$2.1	\$759	\$0.5	\$168
Arkansas	\$1.2	\$949	\$0.9	\$759	\$0.2	\$190
California	\$30.2	\$1,783	\$21.7	\$1,283	\$8.5	\$500
Colorado	\$3.3	\$1,361	\$2.8	\$1,163	\$0.5	\$198
Connecticut	\$4.4	\$2,537	\$3.5	\$2,001	\$0.9	\$536
Delaware	\$0.3	\$801	\$0.3	\$701	\$0.0*	\$100
District of Columbia	\$0.9	\$2,783	\$0.7	\$2,042	\$0.2	\$740
Florida	\$12.1	\$1,311	\$10.8	\$1,176	\$1.2	\$135
Georgia	\$3.8	\$871	\$3.1	\$712	\$0.7	\$158
Hawaii	\$0.6	\$961	\$0.5	\$713	\$0.2	\$247
Idaho	\$0.7	\$986	\$0.5	\$772	\$0.1	\$214
Illinois	\$8.5	\$1,396	\$6.6	\$1,085	\$1.9	\$312
Indiana	\$2.4	\$806	\$2.0	\$657	\$0.5	\$148
Iowa	\$1.6	\$1,140	\$1.3	\$940	\$0.3	\$200
Kansas	\$1.5	\$1,112	\$1.3	\$989	\$0.2	\$123
Kentucky	\$1.3	\$704	\$1.1	\$576	\$0.2	\$128
Louisiana	\$2.4	\$1,198	\$1.9	\$963	\$0.5	\$235
Maine	\$0.5	\$729	\$0.4	\$634	\$0.1	\$95
Maryland	\$3.6	\$1,259	\$2.8	\$991	\$0.8	\$268
Massachusetts	\$6.2	\$1,886	\$4.8	\$1,473	\$1.3	\$413
Michigan	\$4.3	\$929	\$3.6	\$778	\$0.7	\$151
Minnesota	\$3.5	\$1,323	\$2.6	\$987	\$0.9	\$336
Mississippi	\$0.8	\$664	\$0.7	\$561	\$0.1	\$103
Missouri	\$2.5	\$915	\$2.0	\$750	\$0.5	\$166
Montana	\$0.5	\$1,126	\$0.4	\$918	\$0.1	\$208
Nebraska	\$1.2	\$1,317	\$0.9	\$1,032	\$0.3	\$286
Nevada	\$1.4	\$1,092	\$1.4	\$1,092	N/A	N/A
New Hampshire	\$0.7	\$1,014	\$0.6	\$858	\$0.1	\$157
New Jersey	\$6.7	\$1,560	\$5.0	\$1,165	\$1.7	\$395
New Mexico	\$0.7	\$814	\$0.6	\$656	\$0.1	\$158
New York	\$18.0	\$1,919	\$13.9	\$1,484	\$4.1	\$435
North Carolina	\$3.4	\$804	\$2.7	\$633	\$0.7	\$171
North Dakota	\$0.9	\$2,547	\$0.7	\$2,101	\$0.2	\$446
Ohio	\$4.1	\$749	\$3.8	\$683	\$0.4	\$65
Oklahoma	\$2.0	\$1,239	\$1.7	\$1,024	\$0.3	\$215
Oregon	\$1.8	\$1,022	\$1.4	\$797	\$0.4	\$225
Pennsylvania	\$6.5	\$1,055	\$5.1	\$832	\$1.4	\$223
Rhode Island	\$0.5	\$1,000	\$0.4	\$774	\$0.1	\$226
South Carolina	\$1.5	\$714	\$1.2	\$592	\$0.3	\$122
South Dakota	\$0.5	\$1,317	\$0.5	\$1,310	\$0.0*	\$6
Tennessee	\$2.3	\$812	\$2.1	\$715	\$0.3	\$98
Texas	\$14.4	\$1,255	\$14.1	\$1,230	\$0.3	\$24
Utah	\$1.2	\$1,009	\$1.0	\$852	\$0.2	\$157
Vermont	\$0.3	\$995	\$0.2	\$749	\$0.1	\$245
Virginia	\$4.4	\$1,159	\$3.6	\$951	\$0.8	\$208
Washington	\$3.8	\$1,172	\$3.8	\$1,172	N/A	N/A
West Virginia	\$0.5	\$630	\$0.4	\$503	\$0.1	\$127
Wisconsin	\$2.9	\$1,054	\$2.3	\$814	\$0.7	\$239
Wyoming	\$0.8	\$2,546	\$0.8	\$2,546	N/A	N/A

*According to our estimates, the states of Delaware and South Dakota lose a small amount of state revenue to offshore tax havens but the value of the loss is not large enough to appear when rounded to one decimal place. "N/A" indicates that a state does not collect this type of tax revenue.

Appendix B: Impact of Offshore Tax Haven Abuse on Small Businesses

State	Total Federal and State Corporate Tax Revenue Lost to Offshore Tax Havens (billions)	Combined Additional Federal & State Corporate Tax Burden per Small Business	Total Federal Corporate Tax Revenue Lost to Offshore Tax Havens (billions)	Additional Federal Corporate Tax Burden per Small Business	Total State Corporate Tax Revenue Lost to Offshore Tax Havens (billions)	Additional State Corporate Tax Burden per Small Business
United States	\$110.1	\$3,923	\$90.0	\$3,206	\$20.1	\$717
Alabama	\$1.0	\$2,434	\$0.8	\$1,982	\$0.2	\$452
Alaska	\$0.3	\$4,079	\$0.2	\$3,044	\$0.1	\$1,035
Arizona	\$1.6	\$3,110	\$1.3	\$2,497	\$0.3	\$613
Arkansas	\$0.7	\$2,834	\$0.6	\$2,308	\$0.1	\$526
California	\$17.2	\$4,827	\$13.0	\$3,663	\$4.1	\$1,165
Colorado	\$2.0	\$3,551	\$1.7	\$3,063	\$0.3	\$488
Connecticut	\$2.7	\$8,094	\$2.1	\$6,394	\$0.6	\$1,700
Delaware	\$0.2	\$2,636	\$0.2	\$2,495	\$0.0*	\$141
District of Columbia	\$0.6	\$8,625	\$0.4	\$6,326	\$0.1	\$2,298
Florida	\$7.7	\$3,671	\$6.5	\$3,083	\$1.2	\$588
Georgia	\$2.2	\$2,372	\$1.9	\$1,962	\$0.4	\$411
Hawaii	\$0.4	\$3,114	\$0.3	\$2,429	\$0.1	\$685
Idaho	\$0.4	\$2,682	\$0.3	\$2,126	\$0.1	\$557
Illinois	\$5.3	\$4,588	\$4.0	\$3,413	\$1.4	\$1,175
Indiana	\$1.5	\$3,134	\$1.2	\$2,439	\$0.3	\$695
Iowa	\$0.9	\$3,594	\$0.8	\$3,065	\$0.1	\$529
Kansas	\$0.8	\$3,510	\$0.8	\$3,264	\$0.1	\$246
Kentucky	\$0.8	\$2,314	\$0.6	\$1,914	\$0.1	\$401
Louisiana	\$1.5	\$3,625	\$1.2	\$2,821	\$0.3	\$804
Maine	\$0.2	\$1,741	\$0.2	\$1,686	\$0.0*	\$56
Maryland	\$2.2	\$4,118	\$1.7	\$3,180	\$0.5	\$938
Massachusetts	\$3.8	\$6,269	\$2.9	\$4,734	\$0.9	\$1,535
Michigan	\$2.6	\$3,068	\$2.2	\$2,537	\$0.5	\$531
Minnesota	\$2.1	\$4,219	\$1.6	\$3,111	\$0.6	\$1,108
Mississippi	\$0.5	\$2,062	\$0.4	\$1,759	\$0.1	\$303
Missouri	\$1.5	\$3,029	\$1.2	\$2,429	\$0.3	\$599
Montana	\$0.3	\$2,896	\$0.3	\$2,340	\$0.1	\$555
Nebraska	\$0.7	\$4,189	\$0.5	\$3,278	\$0.2	\$911
Nevada	\$0.8	\$3,770	\$0.8	\$3,770	N/A	N/A
New Hampshire	\$0.5	\$3,474	\$0.3	\$2,663	\$0.1	\$811
New Jersey	\$4.0	\$4,982	\$3.0	\$3,762	\$1.0	\$1,220
New Mexico	\$0.5	\$2,951	\$0.4	\$2,324	\$0.1	\$627
New York	\$10.5	\$5,146	\$8.4	\$4,115	\$2.1	\$1,031
North Carolina	\$2.0	\$2,474	\$1.6	\$1,991	\$0.4	\$484
North Dakota	\$0.6	\$8,276	\$0.4	\$6,638	\$0.1	\$1,638
Ohio	\$2.3	\$2,451	\$2.3	\$2,451	N/A	N/A
Oklahoma	\$1.2	\$3,605	\$1.0	\$2,981	\$0.2	\$624
Oregon	\$1.1	\$3,125	\$0.8	\$2,461	\$0.2	\$664
Pennsylvania	\$4.2	\$4,217	\$3.1	\$3,092	\$1.1	\$1,125
Rhode Island	\$0.3	\$3,304	\$0.2	\$2,495	\$0.1	\$809
South Carolina	\$0.8	\$2,257	\$0.7	\$1,955	\$0.1	\$302
South Dakota	\$0.3	\$4,054	\$0.3	\$4,021	\$0.0*	\$33
Tennessee	\$1.5	\$2,688	\$1.2	\$2,189	\$0.3	\$499
Texas	\$8.7	\$3,701	\$8.4	\$3,583	\$0.3	\$119
Utah	\$0.7	\$2,802	\$0.6	\$2,390	\$0.1	\$412
Vermont	\$0.2	\$2,434	\$0.1	\$1,866	\$0.0*	\$568
Virginia	\$2.6	\$3,981	\$2.2	\$3,292	\$0.5	\$689
Washington	\$2.3	\$4,166	\$2.3	\$4,166	N/A	N/A
West Virginia	\$0.3	\$2,528	\$0.2	\$2,028	\$0.1	\$500
Wisconsin	\$1.7	\$3,966	\$1.4	\$3,095	\$0.4	\$871
Wyoming	\$0.5	\$7,506	\$0.5	\$7,506	N/A	N/A

*According to our estimates, the states of Delaware, Maine, South Dakota and Vermont lose a small amount of state revenue to offshore tax havens but the value of the loss is not large enough to appear when rounded to one decimal place.

"N/A" indicates that a state does not collect this type of tax revenue.

Notes

1 Jane G. Gravelle, “Tax Havens: International Tax Avoidance and Evasion,” *National Tax Journal* 62(4): 727–753, December 2009.

2 Congress enacted a tax holiday for repatriated profits in 2005, per Robert C. Pozen, “A Sensible Plan to Bring U.S. Corporate Profits Home,” *Brookings.edu*, 13 June 2012. Some companies also use complicated tax avoidance schemes when repatriating profits. These schemes have nicknames like the “Killer B” and the “Deadly D.” The former, now blacklisted by the Internal Revenue Service, involved parent companies trading stock for cash accumulated by foreign subsidiaries. The latter requires the parent company to purchase another U.S. company which promises to pay the parent a large cash sum in the future as part of the deal. The target company promptly converts to a foreign one and can access the parent company’s offshore cash by borrowing from its existing subsidiary. It can then use this cash to pay the parent the sum it promised when it was still a U.S. firm. This payment is tax-free. For more, see Robert W. Wood, “Bringing Overseas Money to the U.S.,” *Forbes*, 2 May 2011, and Jesse Drucker, “Dodging Repatriation Tax Lets U.S. Companies Bring

Home Cash,” *Bloomberg*, 29 December 2010.

3 Audit Analytics, “Foreign Indefinitely Reinvested Earnings: Balances Held by the Russell 3000,” *Audit Analytics*, 1 May 2013.

4 James S. Henry, Tax Justice Network, *The Price of Offshore Revisited: New Estimates for “Missing” Global Private Wealth, Income, Inequality, and Lost Taxes*, July 2012.

5 Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, United States Senate, *Repatriating Offshore Funds: 2004 Windfall for Select Multinationals*, 2012 (pages 57–64); Office of Senator Carl Levin, *New Data Show Corporate Offshore Funds Not “Trapped” Abroad: Nearly Half of So-Called “Offshore” Funds Already in the United States* (press release), 14 December 2011.

6 Dan Smith, U.S. PIRG Education Fund, *Offshore Shell Games: The Use of Offshore Tax Havens by the Top 100 Publicly Traded Companies*, July 2013; Connie Guglielmo, “Apple, Google Among Top U.S. Companies Parking Cash Offshore To Reduce Taxes, Study Says,” *Forbes*, 1 August 2013.

7 Unless otherwise indicated, all data related to specific corporations' tax haven subsidiaries, offshored profits and likely tax liability upon repatriation of funds was collected by Citizens for Tax Justice by analyzing the most recent 10-K filings of U.S.-based corporations, which companies are required to submit to the Securities and Exchange Commission. The authors of this report are grateful to Citizens for Tax Justice for sharing their data and findings via Matt Gardner, Executive Director, Institute for Taxation and Economic Policy, email communication, 31 March 2014.

8 Institute for Policy Studies and Americans for Tax Fairness, *Pfizer: Corporate Tax Dodger*, 2013.

9 Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, United States Senate, *Caterpillar's Offshore Tax Strategy*, 1 April 2014; Office of Senator Carl Levin, *Subcommittee Exposes Caterpillar Offshore Profit Shifting* (press release), 31 March 2014.

10 Jesse Drucker, "Google 2.4% Rate Shows How \$60 Billion Lost to Tax Loopholes," *Bloomberg*, 21 October 2010.

11 Robert S. McIntyre, Citizens for Tax Justice, Matthew Gardner and Richard Phillips, Institute on Taxation and Economic Policy, *The Sorry State of Corporate Taxes: What Fortune 500 Firms Pay (or Don't Pay) in the USA and What They Pay Abroad – 2008 to 2012*, February 2014.

12 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.

13 Robert S. McIntyre and Rebecca J. Wilkins, Citizens for Tax Justice, and Matthew Gardner and Richard Phillips, Institute on Taxation and Economic Policy, *Corporate Taxpayers and Corporate Tax Dodgers, 2008-10*, November 2011.

14 States have a history of decoupling from the federal tax code when it is to their benefit. For example, after the federal government began phasing out the estate tax, 13 states and the District of Columbia decoupled from the federal government's tax code to continue collecting revenue through the estate tax. For more, see Elizabeth C. McNichol, Center on Budget and Policy Priorities, *Many States Are Decoupling from the Federal Estate Tax Cut*, 28 March 2006.

15 For sources and explanations of how the numbers in this section were derived, see the methodology.

16 National Conference of State Legislatures, *NCSL Fiscal Brief: State Balanced Budget Provisions*, October 2010.

17 For sources and explanations of how the numbers in this figure were derived, see the methodology.

18 In this report, a "small business" is defined as one with 0-99 employees.

19 Peter Coy and Jesse Drucker, "Apple, Google May Profit on a Tax Holiday," *Bloomberg Businessweek*, 17 March 2011; Center on Budget and Policy Priorities, *Tax Holiday for Overseas Corporate Profits Would Increase Deficits, Fail to Boost the Economy, and Ultimately Shift More Investment and Jobs Overseas*, 8 April 2011, revised 23 June 2011.

20 See note 5: "Permanent Subcommittee on Investigations of the Committee on Homeland Security and Governmental Affairs, United States Senate."

21 Steven Sloan and Richard Rubin, "Repatriation Tax Holiday Google Backs Raises Cost Concerns," *Bloomberg*, 12 May 2011.

22 Office of Senator Bernie Sanders, *Fact Sheet on the Sanders/Schakowsky Corporate Tax Fairness Act*, n.d. Note that while the fact sheet we cite is undated, it pertains to legislation introduced by Senator Bernie Sanders and Representative Jan Schakowsky

in February 2013, per Office of Senator Bernie Sanders, *Sanders, Schakowsky Propose Tax Fairness Act* (press release), 7 February 2013.

23 Jeff Gerth, Megan Murphy and Vanessa Houlder, “Corporations Couldn’t Wait To ‘Check the Box’ On Huge Tax Break,” *ProPublica* and *Financial Times*, 26 September 2011.

24 Citizens for Tax Justice, *Don’t Renew the Offshore Tax Loophole: Congress Should Kill the “Extenders” that let G.E., Apple, and Google Send Their Profits Offshore*, 2 August 2012.

25 See note 11.

26 See note 24.

27 Guy Molyneux and Geoff Garin, Hart

Research Associates, *Tax Reform and the Federal Budget* (memorandum), 29 January 2013.

28 American Sustainable Business Council, Main Street Alliance, and Small Business Majority, *National Opinion Poll: Small Business Owners’ Views on Taxes and How to Level the Playing Field with Big Business*, 6 February 2012.

29 The Main Street Alliance and American Sustainable Business Council, *Poll Report: Small Business Owners’ Views on Corporate Tax Reform*, April 2013.

30 Ibid.

31 Phineas Baxandall and Dan Smith, U.S. PIRG, *Picking Up the Tab 2013: Average Citizens and Small Businesses Pay the Price for Offshore Tax Havens*, April 2013.