Picking Up the Tab 2016

Small Businesses Bear the Burden for Offshore Tax Havens

MASSPIRG
Education Fund

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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 federal and state income tax liability by billions of dollars. While 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 – they avoid paying their fair share for these benefits.

Small business owners are hit twice by the effects of tax dodging by large multinational corporations. First, small businesses are placed at a competitive disadvantage because they rarely have subsidiaries in tax havens and the armies of tax lawyers and accountants necessary to exploit the loopholes that come with such subsidiaries. Meanwhile, nearly 73% of Fortune 500 companies operate subsidiaries in tax haven countries.[1] Small businesses are forced to compete with multinational corporations based on the cleverness of their tax gimmicks rather than on their innovation or quality of product.

Second, as a result these small businesses—which pay their taxes without the loopholes—end up picking up the tab for offshore tax avoidance in the form of higher taxes, cuts to public programs, or increases to the federal debt.

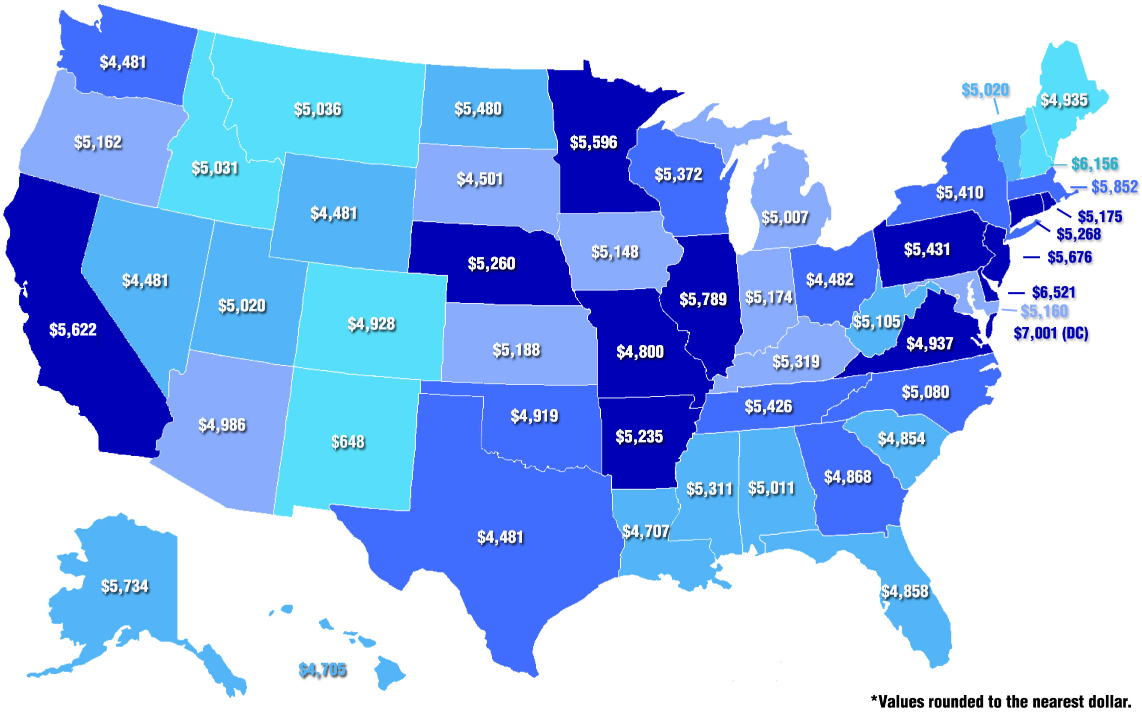
The United States loses approximately $147 billion in federal and state revenue each year due to corporations using tax havens to dodge taxes. This report calculates the extent that tax responsibilities would be shifted to small businesses in each state if that business sector picked up the tab – divided equally among the small businesses.

- The federal government loses $128.5[2] billion in corporate tax revenue due to tax haven abuse. Every small business would need to pay an additional $4,481 in federal taxes to account for the revenue lost.

- Corporate tax haven abuse costs state governments an estimated $18.5 billion in lost tax revenue. Small businesses across the country would have to pay on average an additional $647 to make up for the lost state taxes.

- Because state corporate tax rates vary considerably, small businesses in some states would have to pay as much as $2,520 to make up for state tax revenue lost to tax haven abuse.

Figure ES-1. Picking Up the Tab: The Average Amount Small Business Owners in Each State Would Need to Pay to Make Up For State and Federal Revenue Lost To Offshore Tax Havens



*Values rounded to the nearest dollar.

Most 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. At least 367 companies, making up 73 percent of the Fortune 500, maintained subsidiaries in tax haven jurisdictions as of 2015.[3]

PepsiCo maintains 135 subsidiaries in offshore tax havens. The soft drink maker reports holding $40.2 billion offshore for tax purposes.

Apple in 2016 booked $214.9 billion offshore - more than any other company. It would owe $65.4 billion in U.S. taxes if these profits were not officially held offshore. A 2013 Senate investigation found that Apple has structured two Irish subsidiaries to be tax residents of neither the United States—where they are managed and controlled—nor Ireland, where they are incorporated. This arrangement ensures that they pay no tax to *any* government on the lion's share of their offshore profits.

Citigroup, bailed out by taxpayers in the wake of the financial crisis of 2008, kept $45.2 billion in offshore jurisdictions. If that money had not been booked offshore, Citigroup would have owed an additional $12.7 billion in taxes.[4]

Pfizer, the world's largest drug maker, operates 181 subsidiaries in tax havens and officially holds $193.6 billion in profits offshore for tax purposes, the second highest among Fortune 500 companies. [5]

Companies have a large variety of accounting tricks and legal dodges that are used to avoid paying their fair share of taxes. To restore fairness to the tax system, decision makers should end incentives for companies to book their income to offshore tax havens, close the most egregious loopholes, and increase transparency.

- Reduce the incentive for corporations to license intellectual property to shell companies in tax haven countries before paying inflated – and tax-deductible – fees to use them in the United States.

- Restrict companies from being able to invert, or incorporate a smaller foreign entity and artificially re-designate their headquarters abroad, solely to lower their tax bill.

- End the ability of multinational corporations to indefinitely defer paying taxes on the profits they attribute to their foreign entities.

- 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.

- Stop companies from deducting interest expenses from their U.S. tax liability when that interest is paid to a foreign affiliate, a practice known as a form of "earnings stripping" that makes U.S. income appear to disappear.

- End the "check-the-box" rule, which currently allows multinational companies to make inconsistent claims about their corporate status.

Small Business Owners Share Why This Matters

Gil Owens is the owner of Carolina Wine Supply, which offers wine making and brewing equipment to small and large-scale wineries, breweries, and distilleries along the east coast. Gil opened Carolina Wine Supply with his wife in 2004. They have one additional employee and are based out of Yadkinville, North Carolina. He shared, "We're a distribution company that supports an entire beverage industry in multiple states. I don't mind paying taxes. I know that they go to support the many communities that I serve." Gil explained the frustrations of watching corporations exploit tax loopholes, "It's wrong and it puts small businesses at a huge competitive disadvantage. I don't have an army of tax lawyers like these huge corporations. I have one accountant and he's a small business guy just like me. He's not trying to help me dodge my taxes; he's just trying to make sure I'm doing the right thing and paying what I need to."

Introduction

Tax havens are countries or jurisdictions with very low or nonexistent taxes to which multinational firms transfer their reported earnings using a variety of accounting gimmicks to avoid paying taxes in the United States. Wealthy individuals also use tax havens to avoid paying taxes by setting up offshore shell corporations or trusts, as seen recently with the Panama Papers leak.[6] Several dozen tax haven countries are small island nations, such as Bermuda, the British Virgin Islands, and the Cayman Islands but Panama, Costa Rica, Liberia, and Hong Kong have tax haven characteristics as well.[7] Most tax haven countries fail to effectively exchange financial information with other countries causing a lack of information and transparency. These countries also often have no requirement for substantial business activity before allowing a corporation to operate within its borders.[8]

Earlier this year U.S.-based pharmaceutical giant Pfizer cancelled its planned $160 billion merger with Ireland-based Allergan. The deal was structured to allow Pfizer—which has been headquartered in the U.S. since its inception in 1849—to use what's known as a "corporate inversion" to become a tax domicile of Ireland, a known tax haven, and avoid paying U.S. taxes on nearly $200 billion of its profits currently booked offshore. An inversion is achieved when a company reincorporates itself as a "foreign" company in order to evade its U.S. tax bill.

Pfizer's decision to abandon their inversion deal came on the heels of the Department of Treasury's announcement of new regulations, which attempted to curtail specific kinds of inversions and earnings stripping methods. The rules succeeded in stopping the Pfizer/Allergan deal but will fall short in stopping other inversions. In fact, FMC Technologies, a Houston-based supplier of equipment to oil and gas, food processing, and transportation businesses, announced in late May it was still planning to move forward with its inversion.[9] Stronger legislation from Congress is needed to fully end the abuse of offshore tax havens.

With decision makers at the state and federal level grappling with how to bridge budget gaps and plan for America's future, closing tax haven loopholes is the best way to reduce the deficit, while making the tax system fairer and avoid raising tax rates. The $147 billion in annual revenue lost from the corporate abuse of offshore tax havens could be used to forestall increased national debt, allow lower tax rates, fund public health initiatives, or reduce cuts to important public programs, such as education funding and food safety inspections.

It makes sense for profits earned in America to be subject to U.S. taxation. Multinational corporations generally depend on access to America's largest-in-the-world consumer market, a well-educated workforce trained by our school systems, public investments into research and innovation, our strong private property rights enforced by America's court system, and American roads and rail to bring products to market. Multinational companies that depend on America's economic and social infrastructure should support that structure rather than

Americans For Tax Fairness Executive Director Frank Clemente speaks to protestors outside of Pfizer's headquarters.

claiming these profits are earned in tax haven countries like the Cayman Islands in order to dodge taxes.

When corporations avoid billions of dollars in U.S. taxes through tax haven schemes, other Americans must shoulder the burden. Small business owners, along with ordinary Americans, pick up the tab either by paying higher taxes, suffering from cuts to public programs, or facing a larger national debt. Without access to offshore subsidiaries, small businesses and medium-sized domestic businesses are put at a competitive disadvantage and forced to compete on an uneven playing field.

It's no wonder that the small business community shows strong support for closing corporate tax loopholes. An independent, scientific poll found that 90 percent of small business owners believe big corporations use loopholes to avoid taxes that small businesses have to pay, and 92 percent agree it's a problem when "U.S. multinational corporations use accounting loopholes to shift their U.S. profits to their offshore subsidiaries to avoid taxes."[10]

This report focuses on the impact of offshore tax haven abuse on small businesses and offers some solutions to solve these problems. The study is our sixth annual report illustrating how much more small business owners would need to pay each year to make up for what has grown to be an estimated $147 billion in federal and state tax revenue lost due to the corporate abuse of tax havens.

Corporations Use Offshore Tax Havens to Avoid Taxes

Worldwide, approximately $2.5 trillion is held offshore by U.S. companies.[11] Much of these profits get booked as earned in tax havens—countries or jurisdictions with very low or nonexistent taxes—in 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.[12] Income held overseas by foreign subsidiaries of U.S.-based companies is not taxed by the U.S. 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.[13]

Even though companies are not required to disclose how much of their profits are booked to tax havens, there is ample evidence of the widespread use of tax havens by American multinationals. An analysis of the IRS data found that in 2012, American multinational companies reported 59 percent of their foreign earnings in just ten small tax havens countries.[14] That same year, the amount of profit U.S. multinational corporations reported earning in two tax havens—Bermuda and Luxembourg—equaled 1,884 percent and 121 percent of those countries' *entire economic output*, respectively.[15] That's not possible, of course, but it reveals the accounting and legal fictions in the booking of profits to tax havens.

With their armies of tax lawyers and accounting 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 forms of "earnings stripping," such as when companies in the United States borrow money from subsidiaries in a tax haven and then deduct their interest payments from their taxable income.

Caterpillar is a prime example of a U.S. company that takes advantage of the benefits of running an American-based business, while avoiding its fair share of taxes by shifting taxable profits overseas. Caterpillar's headquarters are in Peoria, Illinois, the company employs over 50,000 U.S. employees, and most of its senior executives live in the U.S.[16] The company's leadership and strategic function are also centered in the U.S. Nearly 40% of the company's revenue is earned in the United States.[17] Caterpillar wraps itself in the American way-of-life and claims that it is the "genuine American Spirit" that turned Caterpillar into a company that changed the world.[18]

Starting in the late 1990s, Caterpillar contracted with PricewaterhouseCoopers, at an ultimate cost of over $55 million, to develop a "Swiss tax strategy" for the purpose of avoiding U.S. corporate taxation on its highly profitable replacement parts business. Implemented over five years, the plan proved to be remarkably successful by allowing the deferral of $2.4 billion in taxes.[19] This was accomplished without making substantive changes to how the company's parts business actually functioned.[20]

The majority of America's largest publicly held corporations avoid paying taxes through the use of offshore havens. According to a recent study by U.S. PIRG Education Fund and Citizens for Tax Justice, at least 367 companies—making up 73 percent of the Fortune 500—maintained subsidiaries in tax haven jurisdictions as of 2015.[21]

Companies that consistently rank high both for the number of tax haven subsidiaries they maintain and how much of their profits they book offshore for tax purposes include:

- **Citigroup** kept $45.2 billion in offshore jurisdictions in 2015. If that money had been repatriated, Citigroup would have owed an additional $12.7 billion in taxes.

- **Pfizer**, the world's largest drug maker, paid nothing overall in U.S. income taxes between 2010 and 2015 because the company reported losses in the U.S. in those years while earning $78 billion worldwide. Pfizer has 181 subsidiaries in 11 countries.[22] In 2015, Pfizer has as much as $193.6 billion offshore.[23]

- **General Electric** maintained 20 tax haven subsidiaries in 2015 and parked $104 billion offshore in 2015.[24] With the help of offshore subsidiaries, General Electric paid a federal effective tax rate of -1.6% over the past ten years. GE's tax rate was negative during that period because the company received net tax payments from the government.[25]

- **Microsoft** reported a total of $124 billion overseas in its 2015 10-K filing with the Securities and Exchange Commission. If this money had not been shifted offshore, Microsoft would have owed an additional $39.3 billion in taxes.[26]

- **Bank of America** declared operating 22 tax haven subsidiaries in 2015, a peculiar drop from its declared 257 subsidiaries in 2014. The $18 billion booked offshore would have been worth an additional $5 billion in federal taxes.[27]

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.[28]

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, Bank of America and Citigroup were kept afloat by taxpayer-funded bailouts during the 2008 financial collapse. Yet following the crisis, both of these companies enjoyed years of paying nothing in federal income taxes despite being profitable.[29]

Tax-Abusing Corporations Benefit from the U.S Banking System Without Supporting It

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. Corporations are allowed to use tax-deferred off-shore earnings in the U.S. without treating them as "repatriated" and thus subject to U.S. taxation. Tax-avoiding corporations effectively take advantage of the safety and soundness of the U.S. banking system, U.S. investments, and the U.S. dollar without paying their fair share to support the U.S economy.[30]

Offshore Tax Havens Cost American Small Business Owners 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.[31] 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 deprive the United States of approximately $128.5 billion in federal tax revenue and $18.5 billion in state tax revenue.[32] At both the federal and state level, tax dodging can have an especially large impact on budgets. 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.[33] Americans will either pay more in state taxes or endure cutbacks to state spending on services and infrastructure.

On average, each small business would need to pay an additional $5,186 on its taxes if they collectively were to bear the full cost of compensating for *combined federal and state corporate tax revenue* lost to tax havens. The combined burden on small businesses would vary depending

Table 1. Additional Federal and State Corporate Tax Burden per Small Business, Top 10 States

	Combined Additional Federal and State Corporate Tax Obligation per Small Business	Additional State Corporate Tax Obligation per Small Business
District of Columbia	$7,001.05	$2,520.07
Delaware	$6,520.98	$2,040.00
New Hampshire	$6,156.24	$1,675.27
Massachusetts	$5,845.99	$1,365.01
California	$5,622.34	$1,141.37
Illinois	$5,789.31	$1,308.34
New Jersey	$5,675.61	$1,194.64
Minnesota	$5,595.72	$1,114.74
Tennessee	$5,425.64	$944.66
New York	$5,409.63	$928.65

on the business' home state based on differing corporate tax rates in each state (See Figure 1 and Appendix A). After the District of Columbia, Delaware small businesses would need to pay the most in combined additional federal and state taxes, paying on average an additional $6,521 (see Table 2).

Without the aid of armies of tax lawyers and accountants to craft convoluted tax strategies to shift profits and cut down tax bills, America's small businesses pay what they owe and must also help pick up the tab when major companies abuse offshore tax havens.[34] If America's small businesses were to fully account for just the *federal corporate tax revenue* lost to tax havens in 2015– approximately $128.5 billion – each small business would on average pay an additional $4,481 federal corporate income tax (See Table 1).

Focusing just on state revenues lost to offshore tax haven abuse, which amounts to approximately $18.5 billion, each small business would pay an average additional $647 in state business taxes to make up for the taxes multinational corporations are avoiding (see Table 1). Small businesses in the District of Columbia would pay the most in additional state-level taxes, paying on average, an extra $2,520.

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 difficult to return offshore 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. While allowing companies to bring back their profits at a reduced rate might produce temporary revenue, the long-term negative effects of a tax holiday ultimately undermine the ability to invest in public priorities. Repatriation holidays incentivize companies to continue shifting their profits offshore, thus resulting in a long-term net revenue loss.

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.[35] The United States Senate's Permanent Subcommittee on Investigations (a part of the Committee on Homeland Security and Governmental Affairs) found that the 15 firms which repatriated the most money that year—approximately $150 billion collectively—actually shed nearly 21,000 jobs. These firms were also simultaneously increasing executive pay and slightly decreasing investment in research and development.[36] The Joint Committee on Taxation, Congress's nonpartisan tax scorekeeper, estimates that enacting another similar tax holiday would cost the United States nearly $96 billion in lost tax revenue over the next 10 years.[37]

Closing Offshore Tax Loopholes Would Level the Playing Field for Small Business and Recapture Lost Revenue

Decision makers should take strong action to prevent corporations 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, fund tax relief for working families and small businesses, or 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.

Reduce the Incentive for Corporations to License Intellectual Property Offshore
A common tax-dodging gimmick is to license patents, trademarks, or other forms of intellectual property to a shell corporation or other subsidiary located in a tax haven jurisdiction. Corporations then pay heavily inflated and tax-deductible fees to use them in the United States. 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.

Stop Corporate Inversions
By buying out a foreign company and using it as a tax haven, companies that "invert" don't relocate abroad in any real sense. Oftentimes, inversions are coupled with earnings stripping, described above. Recent changes by the Obama Administration have been helpful but Congressional action is still needed.

End Tax Deferral
The foundation of offshore tax haven abuse is the ability for 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. The United States Senate's Joint Committee on Taxation estimates that no longer permitting such deferral would raise nearly $900 billion over 10 years.[38]

Reject a Territorial Tax System
Under a territorial tax system, countries only levy taxes based on the income that corporations decide to declare within their borders. The United States allows corporations to defer taxes on their foreign income as long as it remains declared overseas and imposes 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.

Prevent Corporations from Manipulating Interest Payments

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 for the parent company. The interest income may then be taxed at low levels or not at all depending on local tax rates in the country where the foreign subsidiary is based. Proposed new rules from the Obama Administration need to be adopted but more can be done to curtail this practice.

End the "Check the Box" Rule

The "check the box" 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.[39]

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. According to an April 2015 poll from the independent and nonpartisan Pew Research Center, Americans' top complaint about the tax system is not the amount that they pay in taxes, but rather, 64 percent say they are bothered a lot by the feeling that some corporations do not pay their fair share of taxes. 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.[40]

The small business community also shows 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. 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."[41] 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.[42] 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.[43]

Small Business Owners Share Why This Matters

The following is a letter written by Maurice Rahming, owner of O'Neill Electric in Portland, Oregon, and member of Main Street Alliance, an organization that works to provide small businesses a voice on the most pressing public policy issues across the nation.

At O'Neill Electric, we are proud of our growth over the last 18 years and now employ 65 of the most talented electrical professionals in the state. We have a responsibility to our employees, and they depend on us for their livelihood. We don't just feel responsible for the livelihood of those 65 employees, though. Each of our employees has a family of their own to support, and we feel responsible for them as well. I work hard to ensure we're investing in our employees and our community, and that's one reason I am a member of the Main Street Alliance.

Large corporations that operate in Oregon don't share the same responsibility that we do. They focus on their bottom line and will leave their employees and our community out to dry if cost becomes an issue. When they manipulate the tax code to drastically reduce their tax bill, they leave small business owners like me to pick up the tab. Worse yet, they leave our infrastructure and public school systems underfunded and in a state of disrepair.

It is extremely difficult to compete against larger corporations. Their ability to dodge their tax responsibility is a huge reason for that. For every dollar large corporations pay in taxes, I pay eight. We certainly can't call that a level playing field.

Large corporations can hire high-priced lawyers, lobbyists and accountants to create tax loopholes that reduce their tax bill to zero. Use of these loopholes, as well as paying the lowest wages and providing limited benefits, allows these corporations to undercut small businesses and threaten our very existence.

These large corporations also get huge tax breaks — often based on promises they make to create new jobs-- but those jobs don't always last. As soon as profit margins thin out, they are quick to lay off workers or even leave the state entirely.

We know that these large corporations get millions in tax breaks. We know they're making promises that they aren't sticking to, and it is time we hold them accountable to pay what they owe.

Holding corporations accountable to pay their fair share and closing the loopholes they use to dodge their tax responsibility will help our communities by restoring our infrastructure and funding the education programs that fuel my business's growth.

My business would not achieve success without the hard work and knowledge of my employees. Career and technical education programs in high school are vital in Oregon's economy and provide a very important pipeline into our industry. Unfortunately, these programs are being slashed due to budget shortfalls.

These shortfalls should be addressed by demanding that corporations pay their fair share and invest in our community, rather than extract our wealth and hold their revenues overseas, which only benefits their shareholders.

The following is a letter from Reshonda Young, owner of Popcorn Haven in Waterloo, IA and Main Street Alliance Executive Committee member.

Popcorn Heaven has been open for business since 2014 and I currently employ 10 people. I am in the process of expanding the businesses into different states and markets and hope to continue our rapid growth. I sit on the Executive Committee for the Main Street Alliance.

Corporate tax dodging is a triple whammy for small business owners like me. First of all, along with all other taxpaying citizens, we have to fill the gaps when corporations avoid paying their fair share. That means paying more ourselves, suffering inferior services, watching the national debt climb—or some unfortunate combination of those options.

Inadequate public revenue from big companies spells trouble for small business. For example, kids emerge from underfunded schools unprepared for work, and business districts deteriorate from lack of infrastructure repair and maintenance.

Last, but far from least, tax-dodging multinationals get yet another unneeded financial edge on Main Street entrepreneurs who dutifully pay their taxes every year. No bag of corporate mass-produced popcorn can match my shop's Heavenly Crunch, but we should all be playing by the same rules. Public policy—including tax policy—should even up the odds between the big and small economic players, not make them longer.

Too many large businesses don't share my commitment to their employees or their country. When they hire teams of high priced lawyers and accountants to take advantage of tax loopholes they don't just dodge their responsibility, they pass it on to small business owners like me. Businesses like mine can't afford to manipulate the tax system, and to be honest, I wouldn't do it if I could. Taxes are a shared responsibility that funds programs and infrastructure that all of our businesses depend on. We must work to level the playing field between large and small businesses and one way to do that is to ensure we are all playing by the same set of rules.

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 government around the world where the profits are actually earned.

In addition, the Department of the Treasury and the Internal Revenue Service should be equipped with the additional enforcement powers as well adequate funding to enable it to stop tax haven countries and their financial institutions from impeding U.S. tax collection.

Methodology

This report calculates the cost of corporate tax haven abuse for small businesses, in terms of both additional federal and state tax burden. It looks hypothetically at how much more an average small business in each state would need to pay if the full burden of offshore tax dodging was picked up by other corporate taxes and shouldered evenly among small business.

To do this, we first needed to identify: 1) how many small businesses were in operation in the United States in 2013 by state; and 2) the total federal tax revenue from corporations lost to offshore havens; and 3) the gross collection of federal tax revenue by state.

1. Consistent with previous editions of this report, we defined a small business as one with fewer than 100 employees.[44] 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 in June 2016. 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 in June 2016, 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 2013 data, the most recent data available, and identified 28,676,775 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 2015.

2. Corporate federal revenue lost to offshore tax havens totals $128.5 billion, per Kimberly A. Clausing *Profit Sharing and U.S. Corporate Tax Policy Reform*, May, 2016. Because Clausing relied upon 2012 data for her findings, she noted that the historic growth rate for total revenue lost was 5%, see page 17. As such, this report scales the 2012 number of $111 billion by 5% annually to obtain a 2015 estimate.

3. Last year's Internal Revenue Service's annual Data Book, a publication containing data on the previous year's tax collections, reported the gross collection of federal tax revenue by state in the United

States. We consulted Table 5 in the *IRS Data Book 2015*, available at https://www.irs.gov/pub/irs-soi/15databk.pdf, to find that in 2015 the United States collected $389,888,722,000 in federal corporate tax revenue. Federal corporate refunds, also found in the *IRS Data Book 2015*, were subtracted from the total amount.

Additional Federal Tax Burden

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

Nationwide: To illustrate the average additional federal tax burden of corporate tax havens per small business nationwide, we divided $128.5 billion – the total amount of federal corporate tax revenue lost to corporate offshore tax havens each year – by the total number of small businesses.

By state*:* To illustrate the average additional corporate tax burden for small businesses on a state-by-state basis, we found the 2015 state corporate tax revenues (not seasonally adjusted) using United States Census Bureau annual data. To calculate the percent of possible federal corporate revenues lost to offshore tax havens, we divided total state corporate revenue actually collected by potential total state corporate revenues. We found that 27% of possible federal corporate revenues were lost to offshore tax havens. We then calculated a proportionate increase for individual state corporate revenues.

Additional State Tax Burden

To calculate the additional state tax burden small businesses would have to pay due to tax haven abuse, we divided the lost state corporate revenues due to off shore sheltering by the number of small businesses in each state.

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

Total Federal Corporate Tax Revenue Lost to Offshore Tax Havens	$128,500,000,000
Additional Federal Corporate Tax Obligation per Small Business	$4,481
Total Federal and State Corporate Tax Revenue Lost to Offshore Tax Havens	$147,000,000,000

State	Combined Additional Federal and State Corporate Tax Obligation per Small Business	Total State Corporate Revenue Lost to Offshore Tax Havens (billions)	Additional State Corporate Tax Obligation per Small Business
United States	**$5128.00**	**$18,567,420,293.63**	
Alabama	$5,011.17	$201,761,497.21	$530.19
Alaska	$5,733.83	$86,156,234.73	$1,252.85
Arizona	$4,986.49	$261,268,331.84	$505.51
Arkansas	$5,235.17	$180,195,969.88	$754.19
California	$5,622.34	$3,405,828,724.90	$1,141.37
Colorado	$4,927.65	$254,564,199.15	$446.67
Connecticut	$5,268.20	$260,786,224.16	$787.22
Delaware	$6,520.98	$151,531,548.73	$2,040.00
District of Columbia	$7,001.05	$169,497,338.72	$2,520.07
Florida	$4,857.79	$846,051,714.28	$376.81
Georgia	$4,867.77	$378,326,345.48	$386.79
Hawaii	$4,705.00	$27,319,057.12	$224.02
Idaho	$5,030.89	$82,083,842.79	$549.91
Illinois	$5,789.31	$1,533,014,322.02	$1,308.34
Indiana	$5174.40	$341,661,961.82	$693.42
Iowa	$5,147.54	$175,161,253.19	$666.56
Kansas	$5,187.76	$173,296,347.25	$706.79
Kentucky	$5,318.83	$284,314,969.60	$837.85
Louisiana	$4,706.56	$95,911,069.20	$225.59
Maine	$4,934.63	$63,890,044.23	$453.65
Maryland	$5,159.73	$379,480,378.92	$678.75
Massachusetts	$5,845.99	$842,225,480.85	$1,365.01

State	Combined Additional Federal and State Corporate Tax Obligation per Small Business	Total State Corporate Revenue Lost to Offshore Tax Havens (billions)	Additional State Corporate Tax Obligation per Small Business
Michigan	$5,006.78	$448,291,324.60	$525.80
Minnesota	$5,595.72	$558,348,378.46	$1,114.74
Mississippi	$5,310.56	$202,124,874.06	$829.58
Missouri	$4,799.75	$160,995,984.22	$318.77
Montana	$5,035.64	$63,539,523.58	$554.66
Nebraska	$5,260.32	$130,254,907.88	$779.34
Nevada	$4,480.98	N/A	N/A
New Hamp-shire	$6,156.24	$218,055,980.58	$1,675.27
New Jersey	$5,675.61	$975,328,794.35	$1,194.64
New Mexico	$5,104.37	$94,510,877.24	$623.39
New York	$5,409.63	$1,922,451,453.44	$928.65
North Carolina	$5,079.73	$502,988,804.26	$598.75
North Dakota	$5,480.14	$70,345,749.66	$999.16
Ohio	$4,482.04	N/A	N/A
Oklahoma	$4,919.25	$146,912,389.97	$438.27
Oregon	$5,162.12	$235,089,695.72	$681.14
Pennsylvania	$5,431.42	$949,141,461.38	$950.45
Rhode Island	$5,174.87	$66,676,815.68	$693.89
South Carolina	$4,854.14	$142,677,026.73	$373.16
South Dakota	$4,500.77	N/A	N/A
Tennessee	$5,425.64	$529,741,053.99	$944.66
Texas	$4,480.98	N/A	N/A
Utah	$5,020.27	$139,407,013.22	$539.29
Vermont	$5,037.46	$42,592,984.69	$556.48
Virginia	$4,937.11	$309,248,822.60	$456.13
Washington	$4,480.98	N/A	N/A
West Virginia	$5,104.90	$71,373,867.93	$623.92
Wisconsin	$5,372.20	$390,379,037.49	$891.22
Wyoming	$4,480.98	N/A	N/A

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

*According to our estimates, the states of Alaska, Hawaii, Maine, Mississippi, New Hampshire, North Dakota, Vermont, and West Virginia 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.

Notes

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