

# Seminar on fighting tax evasion

Political debate on taxation and tax evasion  
in the US

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# Cutting taxes on the rich

The top U.S. tax bracket - the amount charged the very rich

1981 (Reagan) cut from 87% to 50%.

1986 cut to 28%,

1990 (Bush) & 1993 (Clinton) top individual rate raised to 39.6%

2001 Bush tax cut dropped top rate to 33%.

# US Corporate tax evasion

Between 1989 and 1995, **nearly a third of large corporations** operating in the United States, both U.S. corporations and multi-nationals, **with assets of at least \$250 million or sales of at least \$50 million paid no U.S. income tax.**

In 1995, **six in ten paid less than a \$ 1 million.**

In 1999, Microsoft, owned by the richest man in the world, reported \$12.3 billion U.S income and **paid zero federal taxes.**

# US corporate tax rates

In 1986, the corporate tax rate was reduced from 50 % to **35 %**

In 1988, a representative group of large companies paid **26.5%** of their profits in taxes

In 1998, 250 of the America's largest and most profitable corporations paid only **20.1%**

# We pay them!!!

1996-2000 Enron U.S. profits were \$1.8 billion, but its net tax was less than zero: **it got back \$381 million** from the US tax authority!

Goodyear profits were \$442 million; **it got back \$23 million.**

Colgate-Palmolive earned \$1.6 billion, **it got back \$21 million.**

If big corporations paid tax of 35% of their U.S. profits, as the law requires, corporate income taxes in 2002 would have been **\$308 billion** instead of an estimated **\$136 billion.**

# They win; we lose

- Companies pay less and ordinary citizens pay more.
- During the 1950s, U.S. corporations paid **28%** of federal revenues.
- Now, corporations pay just **11%**.

# How they do it

- Tax structuring – to invent deductions
- Transfer pricing – to create higher costs and lower sales prices
- Bermuda inversions – to move corporate paper registration offshore

# Bermuda inversion

- U.S. company creates new parent corporation in tax haven like Bermuda.
- The company and foreign subsidiaries become subsidiaries of new parent.
- Entire corporation benefits from cheaper taxes and looser regulations than those in the US.
- As non-U.S. companies, they have more opportunities to avoid taxes by making **deductible interest, management fees, or royalty payments** to the new sheltered "foreign" parent.

# “Bermuda” companies avoid millions in taxes

- In past few years, two dozen publicly traded companies have reincorporated in Bermuda or announced they would do so.
- Stanley Works indicated in 2002 that though it paid only **\$7 million U.S. tax** on foreign income in 2001, the move would save at least **\$25 million in U.S. taxes.**
- \$36-billion Tyco reported **65% of its revenues** came from the U.S., but only **29% of its “income”** did. This trickery **erased 71% from U.S. tax statement** and virtually wiped out federal tax bill.

# Legislation proposed to end offshore tax advantages

- To ban the government from signing contracts with expatriate American companies.
- To narrow or eliminate the gap between the effective tax rates of these tax cheats and their onshore competitors.
- Bush Republicans block legislation against Bermuda inversions.

# America's leaders led offshore tax cheaters

- President Bush was on the board of **Harken Energy** when it set up an offshore tax evasion scheme.
- Vice-President Cheney ran **Halliburton** when it increased its offshore subsidiaries from **9** to at least **44**.

# Senator John Kerry

- “Tyco leaves Exeter, New Hampshire -- moves its address, but leaves the workers, the buildings and the products in Exeter.... But by just taking the address to Bermuda, they take **\$400 million** off the tax rolls, leaving everybody else to make up the difference.”
- “In the last fifteen years, we've moved from a nation of **\$200 billion** of offshore assets to **\$5 trillion** of offshore assets.”
- “There are enough **brass-plate companies** down in Georgetown, the Cayman Islands, different places, to make anybody in America sick when they look at their own tax bill.”

# Congressman Dick Gebhardt

- “If it’s good enough for Tyco and Stanley Tool, why isn’t it good enough for all of you? Why shouldn’t you set up a mailbox in Bermuda or somewhere and avoid your federal income tax?”
- The offshore system: “It's one of the things that we need to have **serious discussions** about **at the international level** through the appropriate international institutions so we can bring it to an end.”

# Howard Dean

- “Big corporations should not get tax cuts because they move their headquarters to Bermuda.”
- As governor of Vermont, Dean promoted a state “tax haven” for insurance companies.
- "We consider our competition to be Bermuda or the Cayman Islands.... Our goal is to overtake Bermuda as the world's largest captive domicile."
- Over 550 Vermont tax shelter insurance “captives” process over \$7.3 billion in “phantom” insurance profits.
- The other 49 states where the companies really operate lose \$1 to \$3 billion in taxes.

# Congressman Dennis Kucinich

- “If corporations shift profits offshore to avoid paying taxes, they should not be permitted to operate in the United States.”
- “The decrease in corporate tax responsibility is an indication of the rise of corporate power.”

# Senator John Edwards

- Close the Bermuda Loophole. American companies should not be allowed to set up virtual headquarters in foreign countries that are hardly more than mailboxes so they avoid U.S. taxes.
- Stop transfer pricing. “...remove tax benefits gained from transactions that have no genuine business purpose other than tax avoidance or evasion.”
- Require corporations to publicly disclose the profits they are reporting to the tax authority and fully explain why these profits differ from profits reported on balance sheets.

# Senator Joe Lieberman

- Close “the irresponsible loophole that allows American companies to move offshore and dodge their responsibilities as taxpayers.”

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