PRESS RELEASE

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HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE

Carl Levin, Chairman

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New Data Show Corporate Offshore Funds Not "Trapped" Abroad:
Nearly Half of So-Called "Offshore" Funds Already in the United States

WASHINGTON –New data released today by Sen. Carl Levin, D-Mich., chairman of the U.S. Senate Permanent Subcommittee on Investigations, show that large multinational U.S. corporations with substantial offshore funds have already placed nearly half of those funds in U.S. bank accounts and U.S. investments without paying any U.S. tax on those foreign earnings.

"Some multinational corporations say they want to bring foreign funds back to America, but can do it only if they get a special tax break," said Levin. "They claim their foreign funds are otherwise 'trapped' abroad, but new data show that is not true. Many U.S. multinationals have already invested a large portion of their foreign funds right here in the United States, taking full advantage of the safety and security of the U.S. financial system to protect their money while paying no U.S. taxes on those funds to support the U.S. system."

Earlier this year, a survey was sent to 27 U.S. multinational corporations and found they held more than half a trillion dollars in tax-deferred foreign earnings at the end of FY2010. The survey also found that 46% of those foreign earnings – almost $250 billion – was maintained in U.S. bank accounts or invested in U.S. assets such as U.S. Treasuries, U.S. stocks other than their own, U.S. bonds, or U.S. mutual funds.

The survey also found that corporations varied widely in the extent to which they placed foreign earnings in U.S. assets. Nine of the 27 companies, or one-third, including Apple, Cisco, Google, and Microsoft, held between 75 and 100% of their tax-deferred foreign earnings in U.S. assets. Eleven corporations invested 25% or less of their tax-deferred foreign earnings in U.S. assets. This survey information is the first to provide data showing the amount of tax-deferred offshore corporate earnings that are maintained in the United States.

When asked why they invested their foreign funds in U.S. assets, several of the surveyed corporations offered explanations centering on the economic strength of the United States compared to the rest of the world. They pointed to the safety and security of the U.S. dollar and other U.S. assets, suppliers who preferred to be paid in U.S. dollars, and the ability of the U.S. currency to maintain its value over time better than other currencies.

"Right now, U.S. multinationals are benefiting from the stability and security that U.S. banks, U.S. investments, and U.S. dollars provide without paying their fair share to sustain our economy," said Levin.

Corporations are able to invest their foreign earnings in U.S. assets without treating them as "repatriated" and subject to taxation, because the federal tax code, specifically Section 956(c)(2), already allows U.S. corporations to use foreign funds to make a wide range of U.S. investments without incurring tax liability. If those U.S. investments then produce income, that additional income may be subject to taxation.

That $250 billion of foreign funds are invested in U.S. assets shows U.S. corporations are already well aware of the tax code provision allowing them to return foreign earnings to the United States on a tax-free basis.

"Not content with that existing tax benefit, a group of multinational corporations is fueling a major lobbying effort to obtain still another repatriation tax break," said Levin. It would allow them to return earnings to the United States, without the same investment restrictions, at a dramatically reduced tax rate, as low as 5.25% instead of the normal rate of up to 35%.

Corporations that use Section 956(c)(2) of the tax code to bring tax-deferred foreign earnings to the United States can already make a wide range of investments on a tax-free basis, but cannot purchase their own corporate stock or invest in their own businesses, such as by building a new plant. Foreign earnings used for those purposes would instead be treated as repatriated and subject to normal corporate tax rates. An earlier report released by Levin showed, however, that corporations were unlikely to use repatriated funds for those purposes. Corporations wishing to make such investments could also use their domestic cash holdings.

The 27 U.S. multinationals surveyed by the Subcommittee reported holding a total of $538 billion in tax-deferred foreign earnings at the end of FY2010. By comparison, in mid-2011, all U.S. corporations held tax-deferred foreign earnings totaling an estimated $1.4 trillion.

Those tax-deferred foreign earnings are in addition to the overall domestic cash holdings of U.S. corporations, which the Federal Reserve has recently estimated at $2 trillion. "U.S. multinationals, as a whole, have record amounts of domestic and offshore cash," said Levin. "American companies who say their funds are 'trapped' abroad ought to be investing their domestic funds to get the economy rolling, instead of pushing for still more tax breaks."

The survey results are presented in an addendum to an earlier report in October 2011. As a result of the survey data, the addendum concludes that U.S. corporations are already returning offshore funds to the United States without paying taxes on those funds, they are already taking advantage of the security and stability of the U.S. financial system without paying U.S. taxes on those offshore funds, and a new repatriation tax break would raise additional tax fairness issues.

The October report focused on a previous repatriation tax break, in 2004, examining the 15 corporations that claimed the largest repatriation tax deductions. The October report found that, despite repatriating $150 billion at the extremely low tax rate of 5.25%, the 15 repatriating corporations did not add jobs or increase research expenditures, and instead increased their spending on stock buybacks and executive pay. The report concluded that a repeat repatriation tax break also would not boost jobs or research expenditures, but would encourage firms to keep more cash overseas in hopes of future tax breaks. The report also found that multinationals had significantly increased their offshore cash holdings since the 2004 tax break.

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