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Durbin, Reed, and Brown introduce bills to stop corporate inversions & put money back into the pockets of the working class families

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WASHINGTON – U.S. Senators Dick Durbin (D-IL), Jack Reed (D-RI), and Sherrod Brown (D-OH) today introduced two pieces of legislation that aim to stop business practices known as inversions – corporate deals that allow U.S. companies to shift their corporate citizenship from the United States to a low-tax foreign jurisdiction, even while keeping their executives and headquarters in the United States. This is accomplished by merging with a foreign company that can be as little as 1/5 of the size of the U.S. corporation and results in large and permanent tax breaks. Unlike other tax loopholes that can be closed on a year to year basis, a tax inversion is a permanent change in a corporation's structure.

- The *Stop Corporate Inversions Act* would close the tax loophole that allows U.S. companies to acquire smaller foreign companies and move their tax home to a foreign jurisdiction as part of the overall transaction to avoid paying U.S. taxes.
- The *Pay What You Owe Before You Go Act* would require corporations who want to shift their headquarters overseas for tax purposes to pay their full U.S. tax bill on all deferred overseas profits before reincorporating in a new country.

"When corporations choose to invert and don't pay their fair share of taxes, they leave the rest of us high-and-dry. It's known as corporate inversion but some call it corporate desertion," said Durbin. **"Families and small businesses in Illinois and across the country don't have teams of tax lawyers to shift their tax residency overseas, move their profits and debts on or off their books, or any other tax avoidance schemes. It is time for Congress to permanently close these loopholes in the law."**

"Closing the inversion loophole will protect American taxpayers and businesses that pay their fair share. Our bill would help put a stop to the corporate shell game that allows some companies to shift their address abroad for tax purposes while remaining in the U.S. and increasing the tax burden on middle-class families and Main Street businesses," said Reed. **"Large multinational corporations are exploiting the current system and this is a pragmatic, sensible solution to put a stop to inversions and corporate tax dodging."**

"Ohio families don't leave a restaurant without settling their tabs – multinational corporations shouldn't get to play by a different set of rules," said Brown. **"Inversions cheat U.S taxpayers out of money we could be investing in infrastructure and job creation. It's time to put an end to these scams and fix our broken tax system."**

Along with Sens. Durbin, Reed, and Brown, U.S. Senators Tammy Baldwin (D-WI), Chris Van Hollen (D-MD), Al Franken (D-MN), Tammy Duckworth (D-IL), Mazie Hirono (D-HI), Sheldon Whitehouse (D-RI), Jeff Merkley (D-OR), Elizabeth Warren (D-MA), and Dianne Feinstein (D-CA) are cosponsors of this legislation.

Today, U.S. Representative Sander Levin (D-MI-09) introduced the House companion version of the *Stop Corporate Inversions Act*.

Stop Corporate Inversions Act of 2017

Congress enacted Section 7874 of the Internal Revenue Code in 2004 to discourage U.S. companies from acquiring smaller foreign companies and moving their tax home to a foreign jurisdiction as part of the overall transaction.

Since the provision was enacted in 2004, more than 35 U.S. corporations have inverted, many by acquiring a smaller foreign company to avoid Section 7874. The *Stop Corporate Inversions Act of 2017* would close this loophole and, based on a score of similar legislation introduced in 2015, raise nearly $34 billion over ten years:

- The bill would treat a combined foreign corporation as a domestic corporation under two circumstances – (1) if the shareholders of the former U.S. corporation own more than 50 percent of the new combined foreign corporation, or (2) if the affiliated group that includes the combined foreign corporation is managed and controlled in the United States and engages in significant domestic business activities in the United States.
- The bill would repeal the 60 and 80 percent ownership tests as well as the inversion gain applicable under such circumstances.
- The bill would maintain the foreign substantial business exception under Section 7874 by exempting the affiliated group if it has substantial business activities in the foreign country where the new combined corporation is incorporated.

This legislation is endorsed by: Americans for Tax Fairness, Institute on Taxation and Economic Policy, Public Citizen, AFSCME, the FACT Coalition, US PIRG, and Global Financial Integrity.

Pay What You Owe Before You Go Act

The *Pay What You Owe Before You Go Act* would address inversions by requiring companies to pay their full U.S. tax bill on all deferred overseas profits before reincorporating in a new country. The legislation levies a 35 percent exit tax with credits for foreign taxes paid against the overseas profits of corporations seeking to invert as defined by Section 7874 of the Internal Revenue Code.

At the same time, once a corporation has successfully inverted, they load their remaining U.S. subsidiary up with excessive debt that is “owed” to the foreign headquarters so they can deduct interest payments on this debt, further allowing the company to avoid paying U.S. taxes.