Durbin, Reed, Doggett Introduce Bill To Stop Tax-Dodging Corporate Inversion Schemes

May 5 2021 4:50 PM

WASHINGTON – U.S. Senators Dick Durbin (D-IL) and Jack Reed (D-RI), along with U.S. Representative Lloyd Doggett (D-TX-35) today announced the introduction of a bill 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 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 one-fifth 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.

"Inversion loopholes allow American companies to dodge their fair share of taxes. These companies reap the rewards of America, but deliberately scheme their way out of paying taxes. It's about time we close this loophole to ensure American families and businesses aren't left behind," Durbin said.

"Congress must close the inversion loophole to protect American taxpayers and businesses that pay their fair share and ensure we can meet our national defense, infrastructure, and workforce needs. This legislation would end the corporate shell game that allows some companies to shift their address abroad in order to reduce their taxes while remaining in the U.S. and increasing the tax burden to American taxpayers," said Reed.

“To fuel fixes for our crumbling infrastructure, we can remedy foundational cracks in our tax code that let corporations dodge their fair share,” said Doggett. “As we’re moving to fund a historic investment in our Nation’s infrastructure by closing the tax loopholes that let large, profitable corporations avoid contributing to the bridges, highways and other public resources critical to our economy, it’s imperative that we shut down this unjust off-ramp which would give big American businesses an escape route to avoid paying their share of taxes by renouncing their American citizenship.”

Along with Durbin and Reed, U.S. Senators Mazie Hirono (D-HI), Richard Blumenthal (D-CT), Tammy Duckworth (D-IL), Sherrod Brown (D-OH), Sheldon Whitehouse (D-RI), Elizabeth Warren (D-MA), Dianne Feinstein (D-CA), Patrick Leahy (D-VT), Chris Van Hollen (D-MD), and Bernie Sanders (I-VT) are cosponsors of the Stop Corporate Inversions Act.

Along with Doggett, U.S. Representatives Steven Cohen (D-TN), Jim Cooper (D-TN), Jesus “Chuy” Garcia (D-IL), Marcy Kaptur (D-OH), Ro Khanna (D-CA), Jim McGovern (D-MA), Eleanor Holmes Norton (D-DC), and Jan Schakowsky (D-IL) are cosponsors of the House companion version of the bill.

Stop Corporate Inversions Act of 2021

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 2021 would close this loophole, leveling the playing field between large multinational corporations that seek to avoid taxes and responsible domestic businesses that pay their fair share:

- 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: Oxfam America, Public Citizen, Americans for Tax Fairness, and The FACT Coalition.