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70% of Fortune 500 Companies Use Offshore Tax Havens

Study Finds 46 New York Companies Shield Over $375 Billion from State Taxes

In 2013, 70% of Fortune 500 companies used tax havens. More of these companies were based in New York than in any other state, depriving New York of considerable tax revenue.

The practice of "booking profits" in foreign countries where there are few or no taxes is examined in a new study released yesterday by U.S. Public Interest Research Group (USPIRG) and Citizens for Tax Justice (CTJ), "Offshore Shell Games 2014: The Use of Offshore Tax Havens by Fortune 500 Companies." For New York's Fortune 500 companies, over $375 billion in profits are counted outside of the United States. Of that amount, $228 billion came from just five companies: Pfizer, IBM, Citigroup, PepsiCo and JP Morgan-Chase.

"Much of this profit is made in the United States, and only by accounting gimmicks is it made to look as if it was earned in these tax havens," said Fred Floss, executive director of the Fiscal Policy Institute. By setting up dummy subsidiaries, New York firms borrow money from themselves, raising domestic interest costs and lowering taxes owed in New York, while increasing profits overseas. These firms also shift ownership of patents and trademarks to these subsidiaries and then have the subsidiary charge the parent company for their use again lowering taxes. "More is at issue than simply losing tax revenue," Floss continued. "According to study by the Congressional Research Service, New York State and the federal government have invested a large amount in the research and development behind these patents and are not getting a return on their investment. This can lead to cuts in future government research and development as tax revenues dry up. In the end this can slow the economy."[1]

The report points out a large amount of these profits are actually located in the United States and in United States' banks. The New York companies are able to get the stability of keeping their profits in New York without having to pay for the government services they use. Instead they shift the burden to individual taxpayers and small businesses. An earlier report by USPIRG

[1] John F. Sargent Jr., Federal Research and Development Funding: FY 2013. Congressional Research Service December 5, 2013

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shows New York ranks second behind the District of Columbia in lost federal and state tax revenue at $1,919 for the average taxpayer; $434 of that amount represents lost state taxes. (See: "Picking up the TAB 2014: Average citizens and small businesses pay the price of off shore tax havens.")

"Clearly all New Yorkers lose by allowing the largest corporations in the state not to pay their fair share of taxes," said Ron Deutsch, executive director of New Yorkers for Fiscal Fairness. "It means there is less money to help those who need it the most and puts pressure on local governments to raise property taxes on those who can least afford it."

Key findings of the report include:

- As of 2013, at least 356 Fortune 500 companies operate subsidiaries in tax haven jurisdictions. All told, these companies maintain at least 7,736 tax haven subsidiaries. The 30 companies with the most money booked offshore for tax purposes collectively operate 1,297 tax haven subsidiaries.
- Approximately 30 percent of the companies with tax haven subsidiaries had subsidiaries in just two offshore locations: Bermuda and/or the Cayman Islands. The profits that American multinationals collectively claim to earn in these island nations totals 1,643 percent and 1,600 percent, respectively, of each country's entire yearly economic output.
- The 30 companies with the most money booked offshore for tax purposes collectively hold nearly $1.2 trillion overseas. That is 62 percent of the nearly $2 *trillion* that Fortune 500 companies together report holding offshore.
- Only 55 companies disclose the amount they would expect to pay in U.S. taxes if they did not report profits offshore for tax purposes. All told, these 55 companies would collectively owe $147.5 billion in additional federal taxes.

The report concludes that to end tax haven abuse, Congress should end incentives for companies to shift profits offshore, close the most egregious offshore loopholes, strengthen tax enforcement, and increase transparency.

One ill-advised approach to this problem being pushed by these Fortune 500 companies is to allow them to repatriate their foreign profits during a tax holiday. Since many of these profits are already in the United States, the only thing this will achieve is to lower already low corporate tax rates on these large companies at the expense of everyone else and with no positive economic impact.

The report is available at http://bit.ly/1pfXDoL.

The Fiscal Policy Institute (www.fiscalpolicy.org) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers.

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