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Dear IRS: Like Apple And Google, I'm Offshore For Taxes

We have all thought of it, especially since the inversion craze that has many American companies hooking up with Irish ones to whittle down their U.S. taxes. Besides, long before the inversion craze there was plenty of offshoring, transfer pricing and more. You have Apple, Google and most every other company stashing money offshore, why not us? With Dutch Sandwiches and other devices keeping U.S. tax bills in the pennies, how about individuals?

Why not have the [new frontier in tax planning be personal inversions](#)? Even the New York Times is suggesting we might tell the IRS, [just send the tax bill to my personal Irish subsidiary!](#) It reminds me of "[Offshore Shell Games](#)," which reported that 70% of Fortune 500 companies use offshore tax havens. The report was by the U.S. PIRG Education Fund and Citizens For Tax Justice.

It estimated that \$2 trillion sits offshore and untaxed by the U.S. even though emanating from U.S. companies. The offshore cash is concentrated, with 30 top companies owning 62%, \$1.2 trillion. And as long as they keep it squirreled away offshore, it's a tax-protected hoard. Meanwhile, individuals may be paying up to 39.6% in federal tax and struggling with FBARs and other global reporting issues. They better be sure they declare their worldwide income on their taxes. For individuals, they may even be attributed offshore income that isn't distributed to them.

Makes you want to be a company, doesn't it? Especially if you could be one of the Fortune 500. According to the report, offshore tax loopholes used by U.S. corporations cost America \$90 billion every year. *Every year.* And while a common corporate mantra is "everyone does it," the report shows that a small subset is most aggressive. The report says:

- At least 362 Fortune 500 companies operate over 7,500 subsidiaries in tax haven jurisdictions. The 30 companies with the most money offshore have 1,357 tax haven subsidiaries.

- About 64% of the companies have their shelter subsidiaries in Bermuda or the Cayman Islands. The “profits” the companies claim they earn there? 1,643% of Bermuda’s and 1,600% of Caymans’ entire yearly economic output! Think the U.S. is getting a raw deal?
- The 30 companies with the most money offshore holds almost \$1.2 trillion overseas, a whopping 62% of what all Fortune 500 companies have.
- 55 companies disclose the U.S. taxes they *would pay* without the offshore gambit: \$147.5 billion in taxes—the entire budgets of California, Virginia, and Indiana combined.
- The average tax rate these 55 companies currently pay in other countries? 6.7%



Apple has \$111.3 billion offshore—more than any other company. (Photo credit: Wikipedia)

Companies highlighted in the study include:

- Apple has \$111.3 billion offshore—more than any other company.
- Nike pays 2.2% overseas, on the \$6.7 billion it books offshore.
- Pfizer has 128 subsidiaries in tax havens, \$69 billion in profits offshore, third highest among the Fortune 500. Pfizer tried for Astra Zeneca to get its offshore profits in the U.S. tax-free.
- Citigroup had 427 tax haven subsidiaries in 2008 but only 21 by

2013. Yet Citigroup doubled its offshore cash in those years.
Citigroup 8.3% tax offshore.

Congress needs to fix this, the report concludes. Yet for individuals, the last seven years of IRS crackdowns show that Americans must pay U.S. tax on their worldwide income. Period. More than a few big U.S. companies with far-flung operations go to extreme lengths to situate income offshore. Why not deposit it where it's taxed at a fraction of the U.S. 35% corporate tax rate? There are lots of ways of doing it, including via the location and handling of intellectual property. U.S. law seems to invite putting IP somewhere where the revenue will be taxed at a low rate.

Can individuals do that? Nope. Indeed, by comparison, some individual Americans who pay tax at up to 39.6% on their worldwide income might feel they're getting a raw deal.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.