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Senators introduce bill to clamp down on 'inversions' tax loophole

Bill provides 2-year moratorium on tax avoidance through offshore loophole while Congress pursues broad reform

WASHINGTON – A group of 14 senators today introduced legislation to tighten rules on corporate tax avoidance through "inversion," the practice of reincorporating offshore to avoid paying U.S. taxes.

The Stop Corporate Inversions Act of 2014 is designed to prevent the loss of billions of dollars in revenue through a flood of inversions, a loss that would add either to the deficit or to the tax burden of American taxpayers. The bill would effectively impose a two-year moratorium on inversions, the practice of shifting a corporation's tax residence overseas through acquisition of an offshore company to avoid paying U.S. income taxes.

"These transactions are about tax avoidance, plain and simple," said **Sen. Carl Levin**, chairman of the Senate Permanent Subcommittee on Investigations and the bill's lead sponsor. "The Treasury is bleeding red ink, and we can't wait for comprehensive tax reform to stop the bleeding. Our legislation would clamp down on this loophole to prevent corporations from shifting their tax burden onto their competitors and average Americans while Congress is considering comprehensive tax reform."

"Mergers should be driven by economics, not tax avoidance," said **Sen. Sheldon Whitehouse, D-R.I.** "When profitable corporations employ cynical strategies to avoid taxes, honest taxpayers pay the price. That's why I'm pleased to join Senator Levin in introducing this common sense tax fairness bill."

"This bill is a necessary step to crack down on companies that use gimmicks to avoid paying taxes," said **Sen. Dianne Feinstein**, D-Calif. "What we need is a complete overhaul of the corporate tax code. Until that happens, Congress must act to prevent companies from exploiting loopholes that unfairly lower their tax bills."

"This is about leveling the playing field and rooting out flagrant tax abuse in our system that could lead to billions of dollars of lost revenue," said **Sen. Tim Kaine**, D-Va. "In order to fully restore budget certainty, we need to look at abuses in the tax code as much as spending. The fact that companies can change their tax liability to low-tax jurisdictions on paper while maintaining operations and ownership in the U.S. is unacceptable and I'm pleased to join my colleagues to introduce this important fix."

"It's simply unfair that while families in Hawaii and across our country pay their taxes each year, big corporations use loopholes to avoid paying theirs," said **Sen. Brian Schatz,** D-Hawaii. "It's time to close these loopholes and make big corporations pay their fair share like everyone else."

"Our country deserves a tax code that is simple and fair," said **Sen. Mazie Hirono**, D-Hawaii. "The average family in the U.S. pays over 18 percent in federal taxes. However, by using gimmicks and loopholes like inversions, major corporations pay an average of 13 percent. That's not fair to average working families. The Stop Corporate Inversions Act of 2014 will save billions of dollars that can in turn be used for investments in education, infrastructure, and research and development. These are investments that we all benefit from – American families, small businesses, large corporations – and they make our economy stronger and our country better."

"Our current tax code unnecessarily encourages companies to shift their tax address offshore, eroding the U.S. tax base and endangering American jobs. I'm proud to join Senator Levin in this effort to close this loophole and protect Americans workers," said **Sen. Ben Cardin**, D-Md., a member of the Finance Committee. "In the longer term, I look forward to redoubling our efforts on broader tax reform legislation that can fix our corporate tax code and make it more competitive."

Additional cosponsors are Sen. Jay Rockefeller, D-W.Va.; Sen. Barbara Boxer, D-Calif.; Sen. Bill Nelson, D-Fla.; Sen. Tim Johnson, D-S.D; Sen. Angus King, I-Maine; Sen. Debbie Stabenow, D-Mich.; and Sen. Elizabeth Warren, D-Mass.

The bill is broadly similar to a proposal in President Obama's 2015 budget submission. Under current law, U.S. companies can "invert" and avoid paying U.S. income taxes if a merger transfers just 20 percent of its stock to shareholders of an offshore company. The bill introduced today would raise that threshold to 50 percent, so that if the majority of a company's stock remains in the hands of the U.S. company's shareholders, it is treated as a U.S. company for tax purposes. It also would bar companies from shifting tax residence offshore if their management and control and significant business operations remain in the United States.

The two-year moratorium is achieved through a two-year sunset provision designed to provide time for Congress to work on bipartisan comprehensive corporate tax reform.

Companion legislation is being introduced in the House of Representatives by Rep. Sander Levin, D-Mich., the ranking member on the House Ways and Means Committee.

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