Funding the Future

Companies Dodge $60 Billion in US Taxes

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A new report by Jesse Drucker for Bloomberg has explored just how it can be that $60 billion is lost to the US Exchequer each year from transfer mispricing.

The $60 bn figure is not one I have calculated. As Drucker notes:

$60 billion in annual U.S. tax revenue [is] lost to thousands of companies' income shifting, according to a study published in December in the National Tax Journal by Kimberly A. Clausing, an economics professor at Reed College in Portland, Oregon.

I know Kim: we've had dinner a couple of times in the last year. And that convinces me this is solid academic stuff. It just happens to my view on the UK loss from this abuse, but that's another issue.

I also agree with other quotes Drucker makes:

"Transfer pricing is the corporate equivalent of the secret offshore accounts of individual tax dodgers," said Sen. Carl Levin, a Michigan Democrat and chairman of the Senate's Permanent Subcommittee on Investigations, in a statement to Bloomberg News. Levin has overseen hearings on tax shelters including those sold to wealthy people by KPMG LLP. "Now that progress has been made in addressing offshore tax abuse by individuals, transfer pricing is an issue that deserves scrutiny."

It certainly is. And Reuven Avi-Yonah — another massively respected US academic is right to say:

"If multinationals cannot be prevented from shifting profits to low-tax jurisdictions, then it becomes impossible to maintain the domestic corporate tax base," said Reuven S. Avi- Yonah, director of the international tax program at the University of Michigan Law School in Ann Arbor. If that bleeding can't be stanched, "we might as well abandon the income tax."

That's the significance of this issue. that's why I say this abuse undermines democracy itself.

So what does Drucker add? This:

U.S. companies amassed at least $1 trillion in foreign profits not taxed in the U.S. as of the end of last year, according to data compiled by Bloomberg. That cumulative total, based on filings by 135 companies, increased 70 percent over three years, from $590 billion in 2006.

The scale of corporate tax abuse is increasing, and transfer pricing is at the core of it. And as Drucker chronicles in the case of US pharmaceutical Forest Laboratories Inc, the tale goes throught eh Netherlands and on to Ireland before heading back to Bermuda. As in Casablanca, all the usual culprits are present. And so is the usual distortion:

Overall, Forest's Irish operations, which employ about 5 percent of its 5,200 workers, reported $2.5 billion in sales during fiscal 2009, the most recent year for which figures are available. That equals about 70 percent of the parent company's $3.6 billion in net sales.

Of course that weird ratio may be appropriate. That's for others to decide. Prima facie it allows the question to be asked, as it is time and again, about how it is that Irish workers are miraculously may, many times more productive than those any where else. Which, of course, has nothing at all to do with a 12.5% tax rate. Or favourable tax conduits and blind eyes to payments on licence fees.

I know Drucker spent months on this article: I spoke to him over many months as it developed.

This is the story of modern tax abuse: raiding the state for private gain. denying tax payment on capital whilst transferring the burden to labour.

And it is this that country-by-country reporting could stop. Which is precisely why business hates it so much.