

New Study: Offshore Tax Dodging Blows \$40 Billion Hole ...

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The U.S. PIRG Education fund has published a new study that looks at losses to U.S. states from offshore tax dodging. (These losses are calculated separately from U.S. federal tax losses.). The press release follows:

New Study: Offshore Tax Dodging Blows \$40 Billion Hole in State Budgets

~~Read the Report here~~
Washington, February 5th — With states across the country facing dire fiscal crunches and lawmakers in Washington gearing up for more budget showdowns, U.S. PIRG Education Fund released a new study revealing that state budgets were hit collectively with \$40 billion in lost revenue from offshore tax dodging last year. Many of America's wealthiest individuals and largest corporations use tax loopholes to shift profits made in America to offshore tax havens, where they pay little to no taxes. U.S. PIRG Education Fund was joined at the event by Congressman Lloyd Doggett, the Main Street Alliance, the American Sustainable Business Council, and a small business owner.

"Offshore tax abuses undermine public confidence in our tax system. They add to both the deficit and the tax burden imposed on small businesses and individuals that play by the rules," said Congressman Lloyd Doggett (TX-35), a senior member of the House Ways and Means Committee. "In quantifying the enormous cost to our economy of tax haven abuse, U.S. PIRG has, once again, offered valuable work. More state and federal action is required to ensure that the cost of necessary security and other public services is shared fairly."

"Tax dodging is not a victimless offense. When corporations skirt taxes, the public is stuck with the tab. And since offshore tax dodgers avoid both state and federal taxes, they hurt everyday taxpayers twice," according to Dan Smith, Tax and Budget Advocate for U.S. PIRG Education Fund and report co-author. "States should be using that money to benefit the public."

All told, state taxpayers across the country lost nearly \$40 billion last year from offshore tax loophole abuse. To put that amount in context, \$40 billion roughly equals the total amount spent by all state and local governments on firefighters in 2008. It's also enough money to cover the educational costs for 3.7 million children for one full

year.

At the national level, offshore tax loopholes cost federal taxpayers \$150 billion each year, which would be more than enough to cover the scheduled spending cuts that are set to take effect in just a few weeks.

"Our economic progress is undermined when companies are rewarded for financial manipulation rather than innovation and productive investment," said Bryan McGannon, Deputy Director of Policy at the American Sustainable Business Council.

"When corporations use offshore tax havens to avoid paying their taxes, they're robbing states of the resources they need to lay the foundations for local, independent businesses to grow and thrive," said Sam Blair, Network Director for the Main Street Alliance. "They're also leaving small businesses at a direct competitive disadvantage."

Tax havens are used by both wealthy individuals and corporations. The study found that states lost \$28 billion from the corporate abuse of tax havens and \$12 billion from individuals.

As of 2008, at least 83 of the top 100 publicly traded corporations in the U.S. used tax havens, according to the Government Accountability Office. At the end of 2011, 290 of the top Fortune 500 companies reported that they collectively held a staggering \$1.6 trillion offshore, a Citizens for Tax Justice report found. By using offshore tax havens, corporations and wealthy individuals shift the tax burden to ordinary Americans, forcing us to make up the difference through cutting public services, growing our already big deficit, or raising taxes on everyday citizens.

"Some budget decisions are tough, but closing the offshore tax loopholes that let large companies shift their tax burden to the rest of us is a no-brainer," Smith added.

Here are some increasingly notorious ways that some of America's largest corporations drastically shrink their tax bill:

- Google used accounting techniques nicknamed the "double Irish" and the "Dutch sandwich," which involved two Irish subsidiaries and one in Bermuda, to help shrink its tax bill by \$3.1 billion from 2008 to 2010.

- Wells Fargo paid no federal income taxes in 2008, 2009, and 2010, despite being profitable all three years, largely due to its use of 58 offshore tax haven subsidiaries.

- Microsoft avoided \$4.5 billion in federal income taxes over three years by using sophisticated accounting tricks to artificially shift its income to tax-friendly Puerto Rico. The company pays its Puerto Rican subsidiary 47% of the revenue generated from its American sales, despite the fact that those products were developed and sold in the U.S.

You can download the report, "The Hidden Cost of Offshore Tax Havens: State Budgets Under Pressure from Tax Loophole Abuse," here:

www.uspirgedfund.org/reports/usf/hidden-cost-offshore-tax-havens

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U.S. PIRG Education Fund, a 501(c)(3) organization, works to protect consumers and promote good government. We investigate problems, craft solutions, educate the public, and offer Americans meaningful opportunities for civic participation.

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TJN notes that the study makes a series of powerful recommendations, including these:

1. **States can “decouple” their tax system from the federal tax system.**

Because states typically use the same definitions of income as those in the federal tax code, they automatically lose money when tax haven users don't report income to the federal government. Decoupling would help prevent those automatic losses. Rather than allow income that has been shifted out of sight from federal tax authorities to diminish the tax baseline, states can close loopholes that restore this hidden income.

2. **States can require worldwide combined reporting for multinational corporations.** Combined reporting is the practice of treating the parent and subsidiary companies of a multinational corporation as one corporation for the purpose of calculating taxes. Adding up all profits earned worldwide by a company, and then taxing a share of those combined profits according to the company's level of activity in each country, would eliminate the tax benefits of shifting profits to tax havens such as Bermuda or Ireland.

3. **States should urge their federal representatives to reject a “territorial” tax system,** which would further erode state revenue. Such a system would allow companies to bring all of the profits they have parked offshore in tax havens back into the United States without paying U.S. taxes.

4. **States can require increased disclosure of financial information** about corporations' business presence in other countries and how they price their transfers with their own foreign subsidiaries; as well as to explain why large disparities exist between the profits corporations report to shareholders and tax authorities. These measures would provide more information for state authorities to search for red flags, decide when to audit, and crack down on abuse.

5. **States could withhold taxes as part of federal FATCA withholding.** The Foreign Account Tax Compliance Act (FATCA) prescribes a 30 percent federal withholding tax on companies that transfer funds to foreign financial institutions that do not comply with U.S. disclosure and reporting requirements. States that collect income taxes could withhold state taxes on these funds at the same time.

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