



HB 2099 Testimony, 3/25/15

I'm Dr. Daniel Morris, the Research Director for Our Oregon. Our coalition represents organizations and individuals who care about a range of issues, from preserving funding for our schools and critical services to protecting the environment. I'm here today to testify in support of cracking down on offshore tax havens, which cost Oregon millions of dollars in revenue each year. This is revenue that could be invested in education, infrastructure and services.

As Oregon's economy has grown, more and more personal income taxes have been collected, but corporate income taxes have stayed flat (Exhibit A). One reason corporate taxes are low today is that many large U.S.-based multinational corporations use accounting tricks to make profits made in America appear to be generated in offshore tax havens—countries with minimal or no taxes. This has a special impact on Oregon because our corporate taxes are based on reported profits – if money is off-shored, it's not counted towards taxable income, and the state collects less revenue.

Bloomberg News reported that Fortune 500 companies have offshored a staggering \$2 trillion in profits in offshore subsidiaries. Hiding these profits from taxation costs states billions of dollars in revenue each year. Exhibit B is a list of the 30 U.S. corporations that have offshored the most profits, according to U.S. PIRG and Citizens for Tax Justice. Though these profits, on paper, are located in foreign countries, in reality much of this money is already deposited with U.S. banks and circulating in the U.S. economy.

There are a number of countries with tax systems that are set up in such a way that corporations can use subsidiaries there to reduce their overall taxes. These tax schemes can very complex. Exhibit C shows a scheme that Pepsi used to reduce its taxes when it bought a controlling interest in a Russian juice company. This scheme was approved by the Grand Duchy of Luxembourg and only came to light when documents were leaked to journalists. This deal involves subsidiaries in eight different countries. I have to imagine it takes smart people working many hours to map out a plan like this, so it must be pretty expensive to set up. I'd be surprised if any small businesses could afford to do this.

In 2013 the legislature passed a law to crack down on offshore tax haven abuse by requiring corporations to count the income of subsidiaries in certain countries when calculating Oregon taxes. This Committee has heard arguments that this legislation will drive business away from Oregon, but I think that's very unlikely. The reality is, tax data show that for all the big corporations doing business in Oregon, their Oregon sales make up only a very small part of their total business, which means Oregon is only going to tax a very small portion of their income (Exhibit D). So while counting income reported in tax havens can make a big difference for state revenue, for these corporations these are very tiny numbers relative to the amount of profits that they are racking up, and it's hard to imagine that these changes around the margins really drive any big corporate decisions.



This Committee has received letters from representatives of several countries claiming that because of certain features of their tax codes they shouldn't be treated as a tax haven. I'm certainly not an expert on the tax laws of all these different countries, so it's hard to know if the things they point to actually make any difference. What we can do is look at effective tax rates, using data published by the U.S. Bureau of Economic Analysis on the reported profits and taxes of foreign affiliates of U.S.-based multinational companies. Those data show that in 2012 there were 12 countries where U.S. companies reported a total of \$618 billion in pre-tax income, and an effective tax rate of 5% or less on that income. (Exhibit E) Five of these countries are not currently on Oregon's tax haven list: Ireland, the Netherlands, Singapore, Sweden and Switzerland. My question is, if these countries aren't tax havens, what are?

Cracking down on offshore tax haven abuse will ensure corporations pay their fair share in taxes so that we can better fund the things that matter to Oregonians. Thank you for your attention to this important issue.