INTERNATIONAL TAX REFORM

By: Travis Gohman
Key Terms

- Deferral
  - Time delay
- Repatriate
  - Send revenue back up
- Dividend
  - Payment form
- Undistributed foreign earnings
  - Non-repatriated cash
Relevance

Current Problem

• Highest corporate tax rate
  • Abuse of system
  • Less tax revenue
  • U.S. economy suffers

Audience

• U.S. policy-makers
• U.S. corporations with international operations
• International tax planners
Goals of Reform

1. Reduce incentive to shift profits overseas
2. Increase competitiveness of domestic US corporations
3. Increase US tax revenue
RESEARCH QUESTION

How will the repeal of the deferral system of international taxation financially affect the U.S. government in terms of tax revenue?
Existing Research

• General consensus: lower corporate tax rate to 25%
• Current proposals
  • Baucus
    • Minimum tax going forward: 15% or 20%
    • 20% one-time tax
    • All credits & deductions allowed
  • Camp
    • Exclude 95% of dividends (1.25% future tax)
    • 8.75% one-time tax
    • Eliminate credits & deductions
Research Process

- Sampled Fortune 500 companies
  - Initial sample
  - Revised sample
- Examined 10-k’s
  - Income tax footnote
- Projected sample total to population
- Analyzed the effects of the Baucus and Camp proposals
  - One-time
  - Future rates
## Sample Data

<table>
<thead>
<tr>
<th></th>
<th>Top 25</th>
<th>Lower 475</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 undistributed earnings of sample</td>
<td>$499.9 billion</td>
<td>$73.8 billion</td>
</tr>
<tr>
<td>Current year additions</td>
<td>65.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Sample average</td>
<td>19.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Population Projection</td>
<td></td>
<td>1,902</td>
</tr>
<tr>
<td>CY Projection</td>
<td></td>
<td>182.5</td>
</tr>
</tbody>
</table>
Proposal Differences

- Recall:
  - Baucus: 15-20%, 20%, credits/deductions
  - Camp: 1.25%, 8.75%, no credits/deductions

- Tax reconciliation:

  \[
  \begin{array}{l|c|c|c}
  \text{Amount} & 15\% & 20\% & 25\% \\
  \hline
  \text{Pretax} & 214,706.59 & 228,125.75 & 243,334.13 \\
  \text{Tax @ 35\%} & 75,147.31 & 79,844.01 & 85,166.95 \\
  \text{Foreign tax} & 32,205.99 & 45,625.15 & 60,833.53 \\
  \text{Benefit} & 42,941.32 & 34,218.86 & 24,333.41 \\
  \end{array}
  \]
## Analysis of Proposals

<table>
<thead>
<tr>
<th></th>
<th>Baucus</th>
<th>Camp</th>
</tr>
</thead>
<tbody>
<tr>
<td>20% 1-time</td>
<td>380,413.64</td>
<td>166,430.97</td>
</tr>
<tr>
<td>15% FTR</td>
<td>(67,131.82)</td>
<td></td>
</tr>
<tr>
<td>20% FTR</td>
<td>23,775.85</td>
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</tr>
<tr>
<td>25% FTR</td>
<td>126,804.55</td>
<td></td>
</tr>
<tr>
<td>15% Plan</td>
<td>27,375.09</td>
<td>2,281.26</td>
</tr>
<tr>
<td>15%</td>
<td>(15,566.23)</td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td>(6,843.77)</td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td>3,041.68</td>
<td></td>
</tr>
<tr>
<td>20% Plan</td>
<td>36,500.12</td>
<td></td>
</tr>
<tr>
<td>15%</td>
<td>(6,441.20)</td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td>2,281.26</td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td>12,166.71</td>
<td></td>
</tr>
</tbody>
</table>
Key Findings

- Proposals succeed in generating significant tax revenue
- Camp proposal is the safer bet
- Baucus proposal:
  - Effective for corps with higher int’l tax rates
Limitations & Further Research

- Bigger sample size
- Research entire fortune 500 population
- Assumed same foreign tax rates for all corps
- Proposal rates not final

- Assume different U.S. rates
- Analyze company-by-company rates
- Future of tax credits and deductions
- Financial vs. competitive
THANK YOU!

Questions?