

U.S. and European Tax Authorities Look at U.S. Corporate Profits Overseas

By Nathan Shi, J.D. Candidate 2019 | October 31, 2017

Republicans in Congress have released an outline of their plan to rewrite the tax code. A recent episode of NPR's [Planet Money](#) explains that a centerpiece of the Republican plan is to drastically reduce corporate taxation, lowering the rate to twenty percent. Currently, the corporate tax rate in the U.S. is [thirty-five percent](#), one of the highest in the world. But, there are various exceptions in the tax code that allow many Corporations to be taxed at about a little over twenty percent; a comparable rate to the rest of the world.

One of the most prominent exceptions allows companies to avoid taxation on profit earned outside of the U.S. so long as it remains outside of the U.S. Many U.S. companies take advantage of this through foreign subsidiaries that manage their international profits. In fact, seventy-three percent of [Fortune 500 companies](#) operate one or more subsidiaries in tax haven countries such as [Luxembourg](#) or the [Cayman Islands](#), where corporate income tax rates are much lower. This amounts to [trillions](#) in U.S. corporations' profits sitting untaxed overseas.

A recent [case](#) brought a glimmer of hope for those in Congress wanting to see money from overseas flow back into the U.S. economy. The IRS sued Amazon for roughly \$1.5 billion, but ultimately, [Amazon prevailed](#). In hopes of seeing money move to the U.S., President Trump called for tax reform including a one-time [tax cut](#). Trump's plan would slash the corporate tax rate to twenty percent and eliminate many existing exceptions. He believes that money saved could be used to hire more American workers. But, the President may face competition for subsidiaries' money from where it is already piling up: [Europe](#).

European countries themselves have been [cracking down](#) on this issue as well. This has resulted in a [race to the bottom](#), with governments lowering taxes to try to lure corporations to their countries. Although [European rulings](#) may result in the U.S. missing out on huge sources of revenue, it could potentially aid the President's efforts. The more difficult it becomes for companies to keep profits abroad, the more likely they may be to return that money to the U.S. Ultimately, Congress and the President's ambitions have many challenges ahead of them. But, if their plan works, the U.S. may see trillions of dollars return to its shores.