

## An international tax wish list for the new president

During the campaign, President Barack Obama pledged to end tax breaks for corporations that “send American jobs overseas.” Yet, how he will do that remains unclear. Executives of multinational companies in Massachusetts and elsewhere are waiting anxiously to see what Obama will propose — and how those proposals might affect corporate bottom lines.



### INSIDER VIEW

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There are some things Obama can do that would improve the tax environment for U.S.-based multinationals and simultaneously boost the ailing economy. The internationalization of the world economy, with its ever-increasing cross-border flows of goods, services, capital and people, poses unprecedented challenges to U.S. tax policy.

Here are my top international tax priorities for the Obama administration:

- Lower corporate tax rates. The U.S. corporate tax rate is the second highest in the world, behind Japan. Reducing the U.S. federal rate — 35 percent — would advance, not stifle, the competitiveness of American workers and investors and could keep more jobs here in the U.S.

Many other countries are already heeding this call. According to data from the Organisation for Economic Co-Operation and Development, nine of the 30 member countries had lower corporate tax rates in 2008 than they had in 2007. Among them: Canada, Germany, New Zealand, Spain, the U.K. and Italy. Germany cut its corporate rate by 8.7 percentage points, dropping from 38.9 percent to 30.18 percent.

- Maintain and expand deferral. Deferral allows companies to defer paying U.S. taxes

on income earned overseas until they return those profits to the United States. Some mistakenly believe that the deferral of U.S. tax on foreign earnings results in the export of jobs. Quite frankly, I don't see how ending deferral will bring jobs back to America.

Obviously, a jurisdiction with a low tax rate is more attractive than one with a higher rate. But tax codes are just one among many factors, including workforce productivity, access to customers and suppliers, export restrictions, political and economic stability, and corporate law flexibility. In short, companies locate where they are going to make money.

In some instances, U.S. companies can be hit with taxes even when income remains in the overseas business. Take, for example, an American-based company with subsidiaries in Germany and in England. Let's say the German subsidiary borrows money from the U.K. subsidiary, with a requirement to pay interest on the money owed. The U.S. government views that interest as passive income — and requires the U.S. parent company to pay taxes on it.

A temporary provision, known as the Look-Through Rule, halted this form of taxation. In essence, the rule allows companies with foreign subsidiaries to lend money (and otherwise easily move funds) within their offshore businesses — without penalties here in the United States. The rule has been extended through 2009.

I would like to see this rule made permanent. Companies should be able to move money within their own operations to more effectively manage their businesses, without tax implications, especially in these economic times.

- Liberalize investment rules for CFCs. U.S. tax law says that if a foreign subsidiary of a U.S. multinational wants to invest in the U.S., the U.S. will tax that investment.

To my knowledge, no other country in the world has such a law. Controlled foreign corporations, or CFCs, should be able to freely invest in (or lend to) their U.S. parent, without being subject to U.S. taxes.

The IRS recently relaxed the rules that allow foreign subsidiaries to make short-term loans to the U.S. without taxation. But the current liquidity crisis calls out for even more flexibility.

A foreign subsidiary of a U.S.-based company should be able to invest cash in another U.S.-based subsidiary without tax implications. Liberalizing and extending the rules should help to ease the current economic crisis.

- Reinstating the U.S. Repatriation Tax Holiday. The American Jobs Creation Act of 2004 included a one-time tax holiday provision that allowed U.S. companies to bring back money from their foreign subsidiaries at a substantially reduced tax rate.

Analysts provide differing views on whether the tax holiday did indeed create more jobs. Still, another holiday would provide one more weapon in the battle against the ailing economy.

As policy-wonky as the examples above may sound, international tax issues are more than just the domain of lawyers and accountants. Whether they are aware of them or not, most Americans have a vested interest in these issues, thanks to their investments in 401(k)s and other retirement plans. Because tax is a cost, just like other business costs, tax issues impact corporate bottom lines, which impact stock prices.

Indeed, the tax bills that U.S.-based multinationals must pay affect us all.

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