Our corporate tax system should be reformed to benefit U.S. domestic companies. Instead, it continues to place our businesses at a competitive disadvantage in global markets. Large Multinational Enterprises (MNEs) continue to develop complex, powerful strategies for avoiding domestic taxes, domestic corporations struggle to compete. Congress passed the Tax Cuts and Jobs Act (TCJA) with some reforms of international taxation rules. But the new tax laws are too complicated and limited in scope. Income-shifting to offshore tax havens and other complicated loopholes remain legal strategies under the new tax code. The TCJA fails to significantly reduce tax avoidance by MNEs.

A better tax reform plan is needed. Sales Factor Apportionment (SFA) is a method already used by many states to tax income of multi-state domestic corporations. A federal SFA would virtually 1.) eliminate unfair tax disadvantages that harm domestic companies and prevent growth of new businesses; 2.) achieve an actual territorially-based tax; and 3.) encourage investment in American products, employment and exports. It would also ensure that all businesses pay their fair share of taxes.

**CONCLUSION**

While companies can now easily move business operations and assets out of the U.S., few would be willing to give up sales to the world’s largest market. Sales Factor Apportionment is more straightforward and more effective than the TCJA.
“(Mr. Zucman said in an interview) ‘There are still large incentives and big possibilities for firms to shift profits to low-tax places,’... the research points toward a system that bases corporate income taxes on the location of sales.”

Erman, Michael, Bergin, Tom, How U.S. tax reform rewards companies that shift profit to tax havens. Reuters, June 18, 2018

“(Sales Factor Apportionment) is a far simpler and more effective way to counter income stripping because it avoids a destructive race to the bottom and is the most competitive tax system at any reasonable rate.”


“... advanced countries are underestimating economic growth and under-collecting corporate tax revenues, because they are missing the profits that have been shifted on paper by multinational corporations.”

Tankersley, Jim. Tax Havens Blunt Impact of Corporate Tax Cut, Economists Say. NY Times, June 10, 2018

“Because the GILTI provision (of TCJA) was layered on top of older tax laws, it operates like ‘a truck built on a car chassis,’ said Michael Graetz, a Columbia Law School professor and former Treasury”

Rubin, Richard. Proposed rules meant to prevent corporate disadvantages while also avoiding the opening up of new tax-reduction strategies, WSJ June 4, 2018

WHAT THEY ARE SAYING