



August 23, 2011

Relocating Business for Tax Reasons

The IRS employs a worldwide tax system, meaning that regardless of where your business earns money, it has to be reported to the IRS. Thus, big American corporations that earn billions of dollars overseas pay taxes twice, at home and abroad. But the reverse is not true. Foreign companies operating in the US are not taxed twice on their foreign earnings. This makes American companies less competitive in the market.

For this reason many such US companies have relocated their operations to other countries where taxes are lower such as Panama, the Cayman Islands, Hong Kong, Ireland, Bermuda and Switzerland. One recent example is Greenfields Petroleum Corporation that used to be based in Delaware but has now moved to the Cayman Islands.

Greenfields Petroleum follows in the heels of bigger companies like Ingersoll-Rand, Transocean and Stanley Works (now known as Stanley Black and Decker).

Critics of companies that repatriate argue that the act is unpatriotic and blame so-called tax havens for attracting American companies. In support of double taxation, the government does allow a tax credit for American companies that pay taxes to foreign countries.

On the other hand, proponents of repatriation say that such a move is only logical from the business point of view to make American companies more competitive in the global market.

So in light of the contrasting views, the government has imposed a policy known as 'Deferral' where payment of the extra taxes can be postponed. However, the deferral is

subject to a new limiting rule starting this year. The new rule states that US companies cannot receive deductions on their US tax returns supporting their offshore investments until they pay taxes on their offshore profits.

This new rule to limit deferral is being imposed to prevent repatriation and loss of American jobs. But it does not really help the economy or the American people. If deferral is limited more companies like Greenfield would likely move their charters overseas thus reducing the number of jobs for Americans. It would also blunt the competitiveness of subsidiaries of American firms overseas thus reducing their profits. And when profits reduce, so does taxation income.

Hence, the way forward is not to blame the American companies that expatriate, but to revamp the tax laws themselves.