

# Obama proposes token measures to close foreign tax loopholes

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The Obama administration on Monday unveiled a proposal to limit certain tax loopholes for US corporations operating in foreign countries. Couched in national chauvinist language, the proposal amounts to an attempt to divert growing hostility to social inequality and pro-business policy in a protectionist direction, while posing little danger to corporate wealth.

“For years, we’ve talked about ending tax breaks for companies that ship American jobs overseas, and giving tax breaks for companies that create jobs here in America,” Obama said on Monday. “That’s what we will finally do.”

Obama said that the plans he announced, together with unspecified future initiatives, would raise an additional \$210 billion over 10 years “to decrease the budget deficit and give tax breaks to companies creating jobs in the United States.”

The plan includes \$75 billion in subsidies for companies that “invest in innovation in the US.” Discounting this figure, the total impact of the taxes proposed by the administration amount to \$132 billion over 10 years, or \$13.2 billion in additional funds per year.

Despite these modest sums, however, the measure fueled a tremendous uproar among business groups, who denounced the proposal on the simple grounds that it would cut into the profitability of US firms. Even this minimal tax increase proposed by Obama may well face opposition and defeat in Congress. Only last week, 12 Senate Democrats crossed the aisle to block passage of a bill that would have allowed bankruptcy courts to renegotiate mortgages to help beleaguered borrowers.

A Treasury statement released in conjunction with Obama’s remarks noted that US multinational

corporations paid only about \$16 billion in US taxes in 2004 on \$700 billion in foreign earnings. This means that the US effectively taxed these companies at a rate of 2.3 percent, although this figure does not include taxes paid by companies to the countries in which they operate. If these companies were taxed at the top US corporate tax rate of 35 percent, they would have paid an additional \$229 billion per year in taxes.

The proposal includes two separate components. The first is an overtly protectionist measure, which the Treasury report titles “Replacing Tax Advantages for Creating Jobs Overseas With Incentives to Create Them at Home.” It would tighten certain loopholes in the international tax system, ensuring that “companies cannot receive deductions on their US tax returns supporting their offshore investments until they pay taxes on their offshore profits.”

There was some speculation that Obama would entirely repeal the law that allows companies to defer paying taxes on profits until they are returned to US-based accounts, but the proposal includes no such step.

The program would additionally tighten loopholes in the system by which taxes paid to foreign governments are credited to US-based companies. The Treasury estimates that these programs would raise \$103.1 billion over the next 10 years.

The second measure addresses offshore tax havens. The Treasury report claims that 84 percent of US transnational corporations have subsidiary companies in tax havens such as the Cayman Islands. Companies transfer funds to these locations in order to avoid paying taxes. The Treasury says that the proposal to limit this practice would raise tax revenues by \$95.2 billion over the next 10 years.

Additionally, the administration says that it will restrict the transfer of individual wealth to offshore tax

havens, raising some \$8 billion in new tax revenues over 10 years. This trifling figure, amounting to less than a fifth of the net worth of the wealthiest American, serves as a pretense to drive trade-war actions against foreign banks.

The administration said that that it would require foreign banks to turn over the financial filings of depositors it believes to be US citizens. “If these financial institutions do not cooperate with us, we will assume that they are sheltering money in tax havens and act accordingly,” Obama said on Monday.

Obama presented his proposal with not a small amount of populist posturing, seeking to portray the measures as a component of his administration’s purported defense of everyday people. After a hypocritical denunciation of tax-evaders, Obama said, “We’re putting a middle-class tax cut in the pockets of 95 percent of working families, and we’re providing a \$2,500 annual tax credit to put the dream of a college degree or advanced training within the reach of more students.”

In reality, the stimulus programs to which he is referring amount to a pittance when measured against the depth of the crisis and the suffering of the vast majority of Americans. Obama’s “middle-class” tax cut, amounting to some \$300 billion, pales in comparison to the trillions of dollars that have been doled out to the Wall Street banks under both his and the Bush administrations. The US government has shelled out \$4 trillion in total ‘stabilization efforts’ for the banking system, according to a Congressional Oversight Panel report. The net yearly amount potentially saved by the new tax policies represents only about one-fortieth of the projected budget deficit for 2009.

Obama began his remarks Monday by noting that “nobody likes paying taxes.” It would have been truer had he had added, “But the rich, unlike everybody else, don’t have to.” In proposing these new tax measures, the Obama administration is attempting to tap in to popular hostility to this basic reality. The White House’s proposals, in fact, demonstrate a fundamental political reality: the government is incapable of taking any meaningful measures in opposition to big business and the accumulation of riches by a handful of wealthy individuals.

All of the loopholes, deductions and exemptions

designed to insulate the rich from taxation must be abolished, and the level of taxation on personal fortunes and corporate profits must be dramatically increased. Meanwhile, the taxation of working class households must be alleviated. The financial records of all banks and corporations must be opened and examined, and the tremendous riches that have been accumulated in the hands of the wealthiest layers have to be recovered to be used to meet pressing social needs.



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