

# International Business Tax Reform Discussion Draft

Chairman Max Baucus  
U.S. Senate Committee on Finance

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As part of his work towards tax reform, Chairman Max Baucus is releasing a staff discussion draft today on international business tax reform. Many of the major features of our current international tax system were created in the 1960s and address a world that no longer exists. For example, over the past 45 years, income from intellectual property has become much more important in the world economy. During that period, the number of foreign subsidiaries owned by U.S. corporations has grown from fewer than 20,000 to more than 80,000. U.S. investment overseas has grown from \$52 billion to \$4.2 trillion, while investments in tax haven jurisdictions have grown even faster, rising from \$3 billion to \$1.7 trillion.

To address these issues, the staff discussion draft proposes a modern international tax system that is simpler, fairer, promotes U.S. growth and job creation, and is revenue neutral in the long-term. It is built on the principles of making the United States a more competitive place to invest and create jobs, reducing the ability of businesses to shift profits to tax havens, and eliminating the lock-out effect that disincentivizes bringing foreign earnings home to the U.S. The staff discussion draft extensively draws from proposals of other Finance Committee members. Some of the significant proposals in the discussion draft include:

**Tax All Foreign Income of U.S. Companies Immediately or Not at All.** The draft repeals the deferral system for the earnings of foreign subsidiaries of U.S. companies and replaces it with a more competitive system under which all such income is either taxed immediately when earned or exempt from U.S. tax, after which no additional U.S. tax is due.

- Income from selling products and providing services to U.S. customers is taxed annually at full U.S. rates.
- The discussion draft includes two options that apply an annual minimum tax to income from products and services sold into foreign markets.
  - One option applies the minimum tax rate to all such income.
  - A second option taxes such income at a lower minimum tax rate if derived from active business operations and at the full U.S. rate if not.
- Passive and highly-mobile income is taxed annually at full U.S. rates.

**Deemed Repatriation.** Historical earnings of foreign subsidiaries that have not been subject to U.S. tax are subject to a one-time tax at a reduced rate of, for example, 20% payable over eight years.

**Eliminate Opportunities to Avoid U.S. Tax on U.S. Income.**

- Eliminates international aspects of the “check-the-box” rule
- Addresses base erosion arrangements used by foreign multinationals to avoid U.S. tax