

Tricks corporations
use to avoid paying
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The income tax rate for the corporate in US is 35 percent but surprisingly Google with a total of 5.5 billion dollars revenues paid a rate tax of 2.4 percent. These surprising figures are due to some trick on which the corporate are using in avoiding the taxes payments. Corporations are using several methods as income shifting and subsidiary that changes the expected tax payment to the IRS. The methods include the use of subsidiaries, transfer pricing, virtual income, income shifting and tax havens. Corporations set up the subsidiaries by moving their profits from their headquarters to other low income taxes regions in rationalizing their corporations. In setting up the subsidiaries the corporations are widely creating a trademark investment company in the region that doesn't tax the assets like trademarks. In transfer pricing the corporations are adopting some combination of reporting rules in obstructing the loopholes of the subsidiary. Subsidiaries are created in international tax shelters like Ireland and the Cayman Islands. Transfer pricing allows the profits generation from the tax shelter whereas providing the expenses allocation to higher tax countries.

The strategy introduced by Google called "Double Irish" a scheme of transfer pricing fails to effectively ensure the tax payment of all the corporations. The payment process in the two Google headquarters Netherland and Bermuda lacks the balance and credibility. There is exemption of certain royalties to some corporations in some regions due to tax laws differences of IRS and some nations. Corporations have leveraged the rule of the states, which requires corporations to pay taxes with nexus and according to the physical facilities (Drea, 2010). They have converted

the rule to be no existing tax of this nature with the introduction of New Rules. Income shifting completes the scheme of the no transfer pricing subsidiary. Corporation's licenses or transfers its intellectual assets to a tax shelter subsidiary on which the country law is applied in taxing the foreign profits. Tax havens such as those in Ireland and Bermuda have recorded a high profits level on which most of these profits were from the multinational sale from the higher taxed nations

Commentaries about Google overseas tax

Many corporate in United States have been over the past evading the corporate tax payment under their requirements. The corporates are widely using various measures and tricks in avoiding the tax payment which includes the shifting of the company's assets to overseas on which the overseas tax rate applies. The overseas taxes are generally lower than the home taxes thus much profit is gained in the corporate. The author has discussed the reasons behind the evading which includes the international tax law loopholes. Many corporations are taking this advantage and moving their businesses to overseas which are low rate tax countries than the USA. The critics expressed by some individual's were merely based on self interest and multinational corporate benefits.

The US administration under President Obama is determined to eradicate the loopholes through the international tax reforms. Through several proposals, better strategies will be placed in blocking the loopholes. Google is among the coporations that have shifted its business entity by license provisions in many countries in avoiding the overseas profit taxes. The changing of the deferral rules in the proposal ensures that companies have fully paid their <https://assignbuster.com/tricks-corporations-use-to-avoid-paying-taxes-economics-essay/>

offshore profit taxes before receiving any deductions. In their judgments, the reforms will enable job creation in US as many overseas profits are taken back home for the growth and development of the country. Thorough discussion and extensive consultation is required in ensuring an execution of effective decisions in the reforms.

US Firms Ask For Off-Shore Profits “ Tax Holiday”

Corporate leaders in America have developed an ingenious ways of avoiding the tax payment. Their meeting with President Obama was to discuss the way forward on corporate tax reliefs if they send back the money held at domiciles like Bermuda. A substantial amount of 1 trillion dollars sitting idle in the Bermuda Island would be of great use to the states economy if the corporations were allowed to bring their money back home at a lower taxable standard of less than 35% rate. The multinationals have increasingly brought cash of-shore that is tax free. The corporations have employed several strategies with the use of nicknames as their identities that is the well known “ Killer B”. Increase in corporate sophistication across United States has led to a routine repatriation of hundreds billions of dollars in overseas earnings and payment of insignificantly small US taxes on these repatriations. There is also a vast devotion of resources in the movement of income to tax havens as well as bringing back the incurred profits to the US at the low rated tax cost.

The corporations urged that development of an off-shore earnings tax break would create a home stimulus as indicated by Joel a former tax economist in the Reagan’s era. Generally, the investment of these corporations is not constrained by the depreciation of cash. Bloomberg sited the case of the <https://assignbuster.com/tricks-corporations-use-to-avoid-paying-taxes-economics-essay/>

Internet enormous Google which is a US corporate. The corporate earnings provide a multi-nationals boosting in the country by moving out the income through transfer pricing. The transfer pricing system enables the allocation of costs by the corporates to subsidiaries in the high-tax nations. They as well enable the profits allocation to tax- unbiased off-shore regions like Bermuda. In the last three years Google, cut its taxes by 3.1 billion dollars by allocating a large amount of attributed income to overseas eventually to Bermuda. Indeed a meeting to follow up the latest discussion is scheduled between the corporate heads and the current Treasury Secretary to US, Timothy Geithner (Bernews, 2011).

Commentaries about Google overseas tax

According to the author, many American corporate executives are today engaging in an extensive discussion over the proposed international tax law reforms. Many corporations are evading taxes through employment of several strategies in hiding their true identity. The executives suggest that the proposed reforms have negative effect to the country's economy due to the high profits transfer tax rates. Development of the cash off-shore which is tax free has led to corporate expanding business in the tax free overseas regions thus unequal distribution of resources in US. The vast devotion of resources is required in the movement of income to tax havens as well as bringing back the incurred profits to the US at the low rated tax cost. This requires a comprehensive analysis of policies and strategies that outlines the company's requirement.

Various measures such as the transfer pricing system should be put in to place in costs allocating by the corporate to subsidiaries in the high-tax <https://assignbuster.com/tricks-corporations-use-to-avoid-paying-taxes-economics-essay/>

countries. According to Joel, home stimulus might be the possible solution as this will draw the investor's attention to home economical affairs. According to Google, their taxes have been cut in the past three years due to the overseas subsidiaries effects which avoid the high taxation on the corporate profits. The shifting of the profits to the low tax rated countries has led to unequal distribution of resources which could help in the US development and growth.

U. S. mulls making more firms pay corporate tax: group

In this Washington Reuters, the current US government considers a plan in forcing more business in payment of the corporate income tax. The business entities with 50 million dollars and above in gross receipts would end up paying the corporate income tax under the proposal. The corporate income tax was used instead of the current rate of individual income tax being currently paid. This proposal is likely to most affect the partnerships like hedge and law firms. The government treasury department is currently working on proposal of tax reforms that would comprise of corporate taxation rate of any business pass through entity with a 50 million dollars gross receipt or more. This is as according to Friday letter by the executive director Lyman addressing NAPTP members. Pass through entities were those entities that passes through their tax liability and income to individuals instead of the company level taxation. Currently, the tax of the top corporate rate has a similar rate with the top tax rate of individuals that stands for the 35%. Many corporate still holds a certain income which is taxed at lower rates of capital gains.

Dixon observes that companies have partnered with others in investment in avoiding the tax payment thus the individual owners end up paying the tax. The US government is developing a plan of reducing the top 35% rate of tax while reducing the credits, deductions and other expenses. The proposal sources and the White House have promised an early emergence of details this month. There has been a strong objection from the lawmakers on the corporate taxes only reforms as exclusion of the corporate rates also excludes a wide variety of businesses that undertakes the payment of tax using the individual tax code. Thus there is no decisions made so far and the discussion is still on (Dixon, 2010). Treating businesses income uniformly is highly advocated in addressing this issue and many business is expected to object the plan if the proposal leads to corporate tax payment. Many suggestions are received among them from the Treasury Secretary who suggests the change in the way business types are taxed.

Commentaries about Google overseas tax

The overseas tax imposed to a wide range of corporate are not clearly articulated as many of them finds it's easier in evading the taxes. Many have developed their fashionable and tricky methods of avoiding the corporate taxes from the states Treasury. Use of corporate income tax instead of the current rate of individual income tax compromises the whole issue. Lack of consistency in the international tax law has contributed to the tax evasion by many corporations across the country.

US government together with the states treasurer has developed a proposal of the tax reforms comprising the corporate taxation rate of any business

pass through entity. The Pass through entities is the entities that pass <https://assignbuster.com/tricks-corporations-use-to-avoid-paying-taxes-economics-essay/>

through their tax liability and income to individuals instead of the company level taxation. More are gained by the multinational companies using the current taxation rate but negatively affects the individual tax rates. The proposal has the positive consequences as a lot of money is gained from the use of the reforms. Reforms of the tax code are among the reforms advocated by the government. The code should provide equality and fairness to both the local and international business entity in ensuring equal distribution of resources.

What the Top U. S. Companies Pay In Taxes

There has been a marginal corporate tax rates over the past years due to the tax avoidance. IRS body regulates the taxation especially in the GEs tax return. The GE consists of two widely used divisions; the “ everything else” and general electric capital. The GE capital maintains the low level of the tax bill and has shown an uncanny capacity to lose large amount of money in the country over the last two years. This reflected a \$6. 5 billion loss in 2009 but on the other hand, a lot was gained from overseas amounting to \$4. 3 billion. GE is capable of tax deferral on the overseas income for an indefinite period. Generally, USA loses the balance due to the gains from the overseas on which these deduction periods provides a tax benefit of the company. Tax benefits are the major reasons of low level of multinationals taxes compared to the rest of the companies. Multinationals puts high costs in the high tax rated countries and profits in low taxed nations.

Low tax nations are widely available and have enabled the wide expansion of many USA companies across the globe. Many of these multinationals have increasingly gained from this practice as they are generally taxed low in the <https://assignbuster.com/tricks-corporations-use-to-avoid-paying-taxes-economics-essay/>

overseas than in their home countries. The taxation of the profits gained from these multinational companies is what enables their developments and more critics from the upcoming international tax reforms. These low tax rated countries are widely available for the investments. The states taxes have led to the U. S. highest tax burden amongst industrialized nations in the world. According to Helman, many corporate are getting more smatter in the valuable assets movements across the low tax countries. They are basically establishing overseas subsidiaries and then relocating to them long lived ownership of highly profitable assets such as the software and patents (Helman, 2010). This is achieved by the process of the transfer pricing processes on which a substantial amount of money is evaded from the U. S. Treasury.

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Tax evasion experienced by many corporations is today becoming a national disaster, which has stimulated the reforms. The GE capital has maintained and regulated the tax bill levels and as a result more measures and strategies are required. Tax deferral on the company is executed to the overseas businesses in a period of time. The development of the reforms by the government has led to changing the rules of the overseas taxes to fully cooperate in the international tax law. The gained tax benefits is necessary as it provides the multinationals with high costs in the highly tax rated nations. This has led to an increasingly expansion of the company's to overseas. The methods used by many corporate in moving their assets to a low taxed country have enabled a faster growth of the company than what could have transpired in US. These allocations of overseas subsidiaries allow

the transfer pricing in which more revenue lose in US. The government is engaging a wide variety of stakeholders in proving necessary reform to the international tax law which seems to have many loopholes. Evaluation of the tax code is required as many tax payment requirements are somehow loose in the international tax law of US. Corporate will then have to pay for the profits taxes.

Obama vows tougher overseas tax policies

The president in United States has promised her country the reforms on the tax policies, which involve the shifting of the U. S jobs to the overseas by the companies. The plan will enable to save 210 billion dollars over the coming decade. In execution of this policy, Obama has planned a strategy of tightening the provision of the tax codes that monitors the taxes payment on the profits made in overseas. This has drawn heated opposition from large corporations with various branches in overseas. Closing the loopholes and bolstering the enforcement will prevent the companies and individuals tax avoidance. The president has indicated that the tax code needs to be reformed in ensuring the tax system that is fair, simple and more efficient for corporations and individuals. The proposal is expected to go through various level of approval from lawmakers, congress and other concerned parties in ensuring that the law has positive returns to the country's economy. The current law of taxes allows the U. S firms to defer tax payments on the overseas earned profits but only if they return the profits to the oversea subsidiaries. This has negative effect on home country as they expand their business in the overseas rather than creating jobs at home.

The change of deferral provision promised by Obama was opposed by the trade groups and companies. They urge that it has an effect on the locally based firms on which many are not required to pay taxes at home on overseas entities. Obama's plan has a strategy of preventing the companies from expenses deductions that supports their overseas operations until they fully pay taxes on their profits. This plan will help in eradicating the practice of some firms in deducting big amounts on their taxes by the foreign taxes inflation. Many have urged that the plan has balanced and will not burden the firms as there is an effective evaluation of the tax rates.

However, some has criticized the plan claiming that it is unfair to the foreign investing companies as it sweeps the company's profits (Bohan & Dixon, 2009). A separate proposal will be put into place in overseas tax havens crack down on raising the 95 billion dollars for the internal revenue service's (IRS). This is in the coordination of the crackdown that requires information sharing between the financial institutions.

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The US government is planning and developing the reforms of the international law of tax in ensuring that more is gained from the overseas corporations who have been evading taxes. The development of tax policies by the government is highly welcomed by many. Tightening the provision of the tax codes monitors and identifies the corporate that is invading the tax payment thus serves the best penalties. The reforms main aim is closing the loopholes used by many companies and individuals in evading payment of tax.

Provision of deferrals in the international tax law has some effect on the firms especially the locally based firms on which many are not required to pay taxes at home on overseas entities. The strategy of preventing the corporate deductions from expenses has a supports to their overseas operations until they fully pay taxes on their profits. The large amount of deductions in the corporate leads to foreign taxes inflation and as a result, they are motivated to invest in their home country. The plans adopted by the government are more effective in streamlining the countries taxes and ensuring the fairness in all businesses. The main aim of the reform is to avoid unnecessary loss of the profits from the increasing and growing tricks of tax evading. The stated overseas tax havens crack down the tax evading corporate.

President Obama's Plans To Change International Business Taxation

The US government has revealed the much awaited proposals for the reforms of the international tax in early 2009. "Leveling the Playing Field" the title given to the reforms is developed by the tax incentives for US corporations in overseas investment. It is also adopted in cutting the use of offshore control by the companies and wealthy individuals. However, the proposal has a major effects on many corporate tax policy areas thus law modification around the companies abilities. The president and the Secretary Geithner are today presentation plans to reform the international tax laws and enforcement improvement. The reforms will ensure that the tax code allows the job creation at home and assists in reducing the amount of lost taxes to tax havens.

The initiative is expected to raise a total \$210 over a period of 10 years. The deferral sweeping changes is the most important aspect of the reforms. The current rule of international taxing is much vulnerable and contains many loopholes. This is widely seen by the efforts of many multinational companies that have easily evaded the tax payment. The deductions made by overseas businesses on the US tax are termed as a significant tax advantage. The proposed reforms will change the deferral rules which prevent companies from receiving deductions until they fully make their tax payments on their offshore profits. The provision expects a \$60. 1 in a period of 10 years.

The proposed reforms changes the tax code in preventing US companies from inflation or the foreign tax credit acceleration. The proposed reforms also incorporate the entitled " Getting Tough on Overseas Havens" element that has plans of raising \$95. 2 billion in a period of 10 years. This will be achieved through changing the rules in incomes and various disciplinary actions on the violation by the company. Various proposed measure include the loopholes elimination for the offshore subsidiaries, tax invasion crack down on individual offshore evasion, taxes withholding from the offshore accounts, burden shifting and the enforcement of the IRS new resources. Many American has expressed satisfaction and support on the proposed reforms as it will enhance the country's economical growth and development (USA-INTERNATIONAL-OFFSHORE-COMPANY, 2011).

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The government has created a widespread awareness to people on the late anticipated reforms of the international law of tax. The undergoing <https://assignbuster.com/tricks-corporations-use-to-avoid-paying-taxes-economics-essay/>

discussion has enabled more expressions and contribution on the issues that received mixed reactions. The reformed proposal developed measures of cutting the use of offshore control by the companies and wealthy individuals. Tax code has been influenced and changed to allow the job creation at home and assists in reducing the amount of lost taxes to tax havens. The reform initiative in curbing the tax evaders has some deferral sweeping changes of the corporate. The highly productive country has had most of its companies profits in overseas nations.

Due to the current tax law vulnerability change is expected to block the loopholes and ensure equality to all businesses and individuals. The reform changes the tax code in an effort to prevent inflation or the foreign tax credit acceleration in the country. This is attributed to the economic growth in the country in future as the implementation goes down. Many corporations should be thinking of development in their countries in bolstering the economic growth of the country. The experienced resistance from some individuals and corporations is due to the change of the rule which could end up affecting the local market.