

Using the transfer
pricing and tax
treaties between
countries us
companies cut the...

[Business](#), [Company](#)



Using Transfer Pricing and Tax Treaties between U. S. Companies Cut their Taxes Using Foreign Subsidiaries

In a recent analysis published by the Wall Street Journal that focused on 60 international companies based in the United States, it has been revealed that collectively, these 60 companies had accumulated a total of 166 billion USD, from offshore sales and profits, the past year. The current U. S. tax system allows offshore profits to be exempted from U. S. taxes to encourage the formation of foreign subsidiaries and maximize U. S. companies' earnings from such. However, there is one significant condition to such exemption. U. S. companies' offshore earnings may be exempted from U. S. tax laws but they cannot bring such earnings within the U. S. economy's boundary. They cannot use such to pay for dividends, buy shares, and finance investments of any type inside the U. S. This has been the topic of one of the hottest debates in the U. S. regarding tax codes and fiscal policies. Large-scale American companies want the U. S. to base its system of taxation on other countries that generally tax sales based on where they are generated and not globally. Abbott Laboratories, A U. S. Company, for example, earned some 40 billion USD in overseas earnings, which was a sharp increase from 8. 1 billion. These values exceeded the company's net income for that year which was \$6 billion after paying giving off advanced debt payments. There are also other companies that are in the same situation. But in a nutshell, the roots of their problems lie on their dependence to offshore sales for profit, and the high tax rates in the U. S. These has been identified as two major reasons why technology and healthcare companies have diverted to creating patents, marketing rights, and other intellectual properties, in

countries with significantly lower taxes, increasing their overall profit for every product associated with such intellectual properties sold. Apparently, the more subsidiaries a company opens, provided that these subsidiaries are based in low-tax countries, the higher the mother company's savings on U. S. taxes would be. As in the case of Abbot Laboratories, which has manufacturing plants in over a dozen of offshore locations, excluding the one Puerto Rico was able to cut its losses to U. S. taxes by \$1. 6 Billion, after generating some \$40 Billion of offshore revenues.