July 15, 2014

The Honorable Dave Camp
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Camp:

A corporate inversion is a transaction in which a U.S.-based multinational group restructures so that the U.S. parent of the group is replaced by a foreign corporation, typically located in a low-tax country. Such transactions allow firms to reduce their level of worldwide taxation, but in the aggregate, they function to hollow out the U.S. corporate income tax base.

The President has called for undertaking business tax reform as a way to improve the investment climate in the United States and to support the creation and retention of high-quality American jobs. Short of undertaking a comprehensive reform of the business tax system, there are concrete steps that Congress can take now that would address this urgent issue.

In recent months, there have been reports of a number of corporate inversion transactions designed to change the tax domicile of a U.S.-based multinational firm with minimal change in its business operations. These transactions involve the purchase of a foreign corporation (generally in a country with a much lower corporate tax rate and generous rules for shifting income between countries), the transfer of tax domicile to the foreign firm’s country of incorporation, and the shifting of tax liability for the combined firm to the new foreign tax domicile.

Recently announced transactions cover a wide range of industries including pharmaceuticals, retail, consumer, and manufacturing. The firms involved in these transactions still expect to benefit from their business location in the United States, with our protection of intellectual property rights, our support of research and development, our investment climate, and our infrastructure, all funded by various levels of government. But these firms are attempting to avoid paying taxes here, notwithstanding the benefits they gain from being located in the United States.
The best way to address this situation is through business tax reform that lowers the corporate tax rate, broadens the tax base, closes loopholes, and simplifies the tax system. But, even as we work to do that, we should prevent companies from effectively renouncing their citizenship to get out of paying taxes. That is why President Obama included in his Fiscal Year 2015 Budget a proposal to ensure that companies could not change their corporate tax domicile without a change in control of the company itself. Senators Ron Wyden and Carl Levin and Congressmen Sander Levin and Chris Van Hollen have supported this idea in Congress and have put companies on notice that any transaction that takes place after early May 2014 will not have the desired effect of lowering future U.S. tax liabilities. Congress should enact legislation immediately — and make it retroactive to May 2014 — to shut down this abuse of our tax system.

What we need as a nation is a new sense of economic patriotism, where we all rise or fall together. We know that the American economy grows best when the middle class participates fully and when the economy grows from the middle out. We should not be providing support for corporations that seek to shift their profits overseas to avoid paying their fair share of taxes. I hope that you will support these legislative initiatives to reverse the trend toward corporate inversions.

Sincerely,

Jacob J. Lew

Identical letter sent to:
The Honorable Sander Levin
The Honorable Ron Wyden
The Honorable Orrin Hatch