

STOP CORPORATE INVERSIONS ACT OF 2015

Inversions – corporate deals that allow U.S. companies to move their tax domicile overseas to avoid U.S. taxes – will cost American taxpayers nearly \$34 billion over the next 10 years.

Congress enacted Section 7874 of the Internal Revenue Code in 2004 as a way to discourage U.S. companies from acquiring smaller foreign companies and moving their tax home to a foreign jurisdiction as part of the overall transaction, but companies have found ways to evade the rules.

Under current law, a corporate inversion will not be respected for U.S. tax purposes if at least 80% of the new combined corporation (incorporated outside the United States) is owned by historic shareholders of the U.S. corporation (or, in the case of a partnership, interest owners of the partnership). Alternatively, if at least 60% (but less than 80%) of the combined foreign corporation is owned by historic shareholders of the U.S. corporation, the inversion itself will be respected but the expatriated entity will be subject to certain adverse tax consequences (*i.e.*, inversion gain). However, these anti-inversion rules do not apply if the expanded affiliated group (“affiliated group”) that includes the combined corporation has substantial business activities in the foreign country where it is incorporated.

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Since the provision was enacted in 2004, there have been more than 40 corporate inversions. In an effort to curb such tax-motivated corporate inversions, the Administration has proposed amending Section 7874 to provide for stricter requirements. The Stop Corporate Inversions Act of 2015 broadly follows the Administration’s proposal:

- The bill would treat a combined foreign corporation as a domestic corporation under two circumstances – (1) if the historic shareholders of the U.S. corporation own more than 50 percent of the combined foreign corporation, or (2) if the affiliated group that includes the combined foreign corporation is managed and controlled in the United States and engages in significant domestic business activities in the United States.
- The bill would repeal the 60-80 percent ownership test as well as the inversion gain applicable under such circumstances.
- The bill would maintain the foreign substantial business exception under Section 7874 by exempting the affiliated group if it has substantial business activities in the foreign country where the new combined corporation is incorporated.

The bill would apply to inversions completed after May 8, 2014.

The Stop Corporate Inversions Act of 2014 is supported by: AFL-CIO, Alliance for a Just Society, Alliance for Retired Americans, AFGE, AFSCME, Americans for Democratic Action, Americans for Tax Fairness, Bend the Arc Jewish Action, Campaign for America's Future, Center for Effective Government, Citizens for Tax Justice, Coalition on Human Needs, ColorOfChange.org, Daily Kos, Department for Professional Employees, AFL-CIO, Economic Policy Institute, FACT Coalition, Fair Share, Islamic Society of North America, Main Street Alliance, National Employment Law Project, National People's Action, National Priorities Project, Network, A National Catholic Social Justice Lobby, New Rules for Global Finance, Oxfam America, Public Citizen, SEIU, UAW, United for a Fair Economy, USAction, and Working America.

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& the offices of Senator Dick Durbin and Senator Jack Reed