



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 18, 2015

The Honorable Sander M. Levin  
Ranking Member  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20215

Dear Representative Levin:

I am writing to provide you an update on the status of Treasury's administrative actions regarding corporate inversions. We share the concerns about these transactions that many in Congress have articulated and agree that the United States must take additional action to deter inversions and to make them more difficult and costly.

As you know, a corporate inversion is a type of transaction in which a U.S.-based company changes its tax residence to reduce or avoid paying U.S. taxes. More specifically, a U.S.-based company engages in an inversion when it acquires a much smaller foreign company and then locates the merged company, for tax purposes, outside the United States, typically in a low-tax country. The principal purpose of such a transaction is not to grow the underlying business, maximize synergies, or pursue other commercial benefits. Rather, the primary purpose of the inversion is to reduce taxes, often substantially.

Cross-border mergers that are done for non-tax business reasons generally strengthen the U.S. economy. It is very different, however, when mergers are designed primarily for tax avoidance reasons. By relocating their tax residences overseas, inverted companies erode the U.S. income tax base and place a greater financial burden on other businesses and American families. In many cases, inverted companies still take advantage of the many benefits of being based in the United States—such as our rule of law, our skilled workforce, our infrastructure, and our world-class research and development capabilities.

As you know, only legislation can decisively stop inversions. The Administration has been working with Congress for several years in an effort to reform our business tax system, make it simpler and more pro-growth, and remove the incentives that encourage companies to engage in inversions. In the interim, it is Treasury's obligation to protect the tax base, and we have repeatedly stated that we will use all of our existing administrative tools to address this problem.

Last fall, Treasury took an important step and announced new guidance that will make it more difficult for companies to undertake an inversion and reduce the economic benefits of doing so. We made it clear then that administrative action could only slow the pace of these transactions, not stop them entirely or permanently. Shortly thereafter, the pace of inversions indeed declined, and some planned deals were abandoned. We also made clear last fall that we were not done, and Treasury has spent the ensuing time period reviewing a broad range of options for further action.

Later this week, we intend to issue additional targeted guidance to deter and reduce further the economic benefits of corporate inversions. As before, we will continue to review our existing authorities to identify additional ways to address this serious problem. It is important to emphasize, however, that Treasury cannot stop inversions without new statutory authority. Unless and until Congress acts, creative accountants and lawyers will continue to find new ways for companies to move their tax residences overseas and avoid paying taxes here at home.

Thank you for your attention to this important issue. We look forward to working with Congress in a bipartisan manner to protect the U.S. tax base, to address the issue of corporate inversions, and to reform our broken business tax system.

Sincerely,

A handwritten signature in black ink, appearing to read "Jacob J. Lew", with a stylized, cursive script.

Jacob J. Lew

Identical letter sent to:

The Honorable Orrin G. Hatch  
The Honorable Ron Wyden  
The Honorable Kevin Brady