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Apple defends tax setup amid reports

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For years, Apple and other multinational firms have faced inquiries from government authorities about tactics they employed to lower their tax bills.

Now, new published reports show just how some of these global corporations tapped elite tax specialists to devise clever strategies, including island havens and secretive shell companies, to avoid paying billions of dollars into government coffers.

The disclosures contained in the so-called Paradise Papers - documents and corporate records primarily from Bermuda-based law firm Appleby - immediately added fuel to the debate over the GOP's tax proposal released last week, which includes slashing the corporate tax rate to 20 percent from 35 percent.

"We are all bearing witness to the consequences of Congress' failure to address offshore tax haven abuse," said Gawain Kripke, policy director for Oxfam America. "Yet congressional leaders are charging forward with a tax bill which has as its primary feature a massive windfall for offshore tax dodgers."

The international antipoverty organization called for an immediate pause on the Republican tax bill and an investigation into the activities revealed by the Paradise Papers.

Apple, in response to reports based on the documents, on Monday defended its tax payments, saying the maker of iPhones is the largest taxpayer in the world and that the company "pays every dollar it owes in every country around the world."

While critics have decried the Republican tax bill as a corporate handout, others argue that a tax overhaul is needed precisely because of the current system. They say the 35 percent tax rate leaves U.S. companies at a disadvantage against foreign rivals and motivates corporations to set up complex tax structures to reduce their tax burden, as well as to stash international profits abroad.

American businesses have long complained that the U.S. corporate tax rate is the highest among advanced economies, but the reality is that many American multinationals pay a much smaller percentage. The tax code is rife with many exemptions and special provisions, and tax lawyers and advisors have come up with creative methods to exploit loopholes in the system.

The result is that more than $100 billion in corporate tax revenue is lost annually by the U.S. government, according to analysts' estimates. And while the American statutory corporate tax rate is among the highest, total U.S. corporate taxes collected, as a percentage of the economy, is about average for developed countries.

The House GOP tax plan would allow multinational companies to bring home an estimated $2.6 trillion parked in offshore entities at a rate of 12 percent or lower. Even so, tax policy experts doubt that the tax proposal would discourage U.S. firms from going abroad or their penchant for devising tax shelters.

"I don't think the tax overhaul is going to really address the flaws in our international tax rules," said Eric Toder, co-director of the Urban-Brookings Tax Policy Center at the Urban Institute. "With a 20 percent (corporate tax) rate, I suppose that decreases the incentive to stash money overseas. On the other hand, you still want to get the rate down to zero if you can."

Few companies have been seen as aggressive - and successful - in pushing down corporate taxes as Apple, making it a target of government investigations in the U.S. and Europe. One particular focus in recent years was how Apple had booked its massive earnings, much of it intellectual property generated in the U.S., to offshore tax shelters in Ireland.

A Senate subcommittee in May 2013 claimed Apple had used various methods to avoid paying federal taxes on $44 billion of earnings between 2009 and 2012. Apple's chief, Tim Cook, said at the Senate hearing then that the maker of iPhones pays "every single dollar" of taxes that it owes.

But not long after that Senate testimony, Apple sought a new strategy and, with the help of the legal- and tax-advisory firm Appleby, eventually found a new tax haven on a tiny island in the English Channel called Jersey, according to published reports based on the Paradise Papers.

These leaked records, originally obtained by a German newspaper, have been shared with the International Consortium of Investigative Journalists, which is made up of media organizations such as the New York Times, the Guardian in Britain and CBC in Canada. The Los Angeles Times is not a media partner.

In its statement Monday, Apple contended that there were a number of inaccuracies in the reports by the consortium.

"The changes Apple made to its corporate structure in 2015 were specially designed to preserve its tax payments to the United States, not to reduce its taxes anywhere else," the company said. No operations or investments were moved from Ireland, said Apple, which noted that its effective tax rate on foreign earnings is 21 percent.

In addition to details of Apple's tax-restructuring strategy, the Paradise Papers included information about the use of shell companies and other tax-reducing strategies by corporations such as Nike, Uber, Facebook and Allergan, as well as individuals.

Last year, the Obama administration sought to crack down on companies moving headquarters overseas, so-called corporate inversions, to avoid paying U.S. taxes. Officials also sought to curb another tax-avoidance practice in which multinational firms make loans or shift finances between affiliates to strip out earnings in higher-tax countries or take advantage of tax breaks such as interest deductions.

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