Half of US foreign profits booked in tax havens: paper

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About half of all the foreign profits of US multinationals are booked in tax havens with Ireland topping the charts as the favorite, according to a new economic study on Monday.

And the benefits for the increase in profits have gone to shareholders, the paper showed.

US companies are by far the biggest users of tax havens, where they face effective tax rates of just seven percent, according to the study by economists Thomas Wright and Gabriel Zucman.

"Ireland solidifies its position as the #1 tax haven," Zucman said on Twitter. "US firms book more profits in Ireland than in China, Japan, Germany, France & Mexico combined. Irish tax rate: 5.7%."

The research was made possible by the US tax cut in December 2017 that contained a mandatory repatriation of profits, which allowed researchers to calculate the final tax bill for the companies.

Because the 2017 law "allows these firms to repatriate their foreign earnings at a low rate...we now know that US multinationals have really had a high after-tax profitability on their foreign operations over the last decades."

This is phenomenon referred to as the "exorbitant tax privilege," and as a result "it has redistributed income to the benefit of their shareholders (some of which are foreigners)."

No other developed economy—except tax havens—has as high a share of foreign profits booked in tax havens as the United States, most prominently in Ireland (18 percent), Switzerland, and Bermuda plus Caribbean tax havens (eight percent – nine percent each).

The report shows non-oil multinationals "have seen their tax rates on foreign earnings fall from about 35 percent in the first half of the 1990s (close to the statutory US federal corporate tax rate) to about 20 percent in recent years."

The tax reform dropped the top US corporate rate to 21 percent from 35 percent, taxing only profits earned on US territory.

Businesses have to make a one-time payment of eight percent or 15.5 percent, on repatriated foreign profits, depending on whether the assets are cash or investments.

US corporations, notably in the tech and pharmaceutical sectors, have for years accumulated profits offshore to avoid the comparatively high nominal US tax rates.

The stockpile of cash hit about $2.5 trillion at the time the tax bill was passed, according to the congressional Joint Committee on Taxation.