UPDATES & TIDBITS

Authors
Andrew P. Mitchel
Sheryl Shah

Tags
Corporate Tax Rate
Expatriation
Offshore Accounts
Swiss Banks
Transfer Pricing

LOWERING THE CORPORATE TAX RATE

As Democrats and Republicans attempt to revamp the U.S. tax system, retired Emerson Electric Co. executive Walter Galvin warns that, although Congress should reduce the current corporate income tax rate for the U.S. to remain competitive, it should not reduce the rate by too much. Mr. Galvin advises that the top corporate tax rate should be lowered from the current rate of 35% to 25%. However, any rate lower than 25%, he advises, will simply result in other countries lowering tax rates even further so that the U.S. rate still comes out on top.

Along with other factors, tax savings have become a predominant factor for corporate planning. Many argue that the current U.S. tax system leaves U.S. companies at a disadvantage when competing in the global market. American companies are unable to match foreign tax positions, which has led to an increase in inversions and corporate acquisitions that result in the shifting of corporate domiciliary from the U.S. to other countries. Lowering the top corporate tax rate would allow U.S.-domiciled companies to remain competitive and promote corporate decision making that is not largely based on tax planning.

Congress is considering the optimal way to revamp the tax system without affecting revenue. There have been proposals to cut back tax credits and deductions to compensate for the lower rates. In addition, the adoption of an innovation box is being considered for companies conducting research and development in the U.S.

On the whole, these proposals aim to encourage companies to remain within the U.S.

U.S. EXPATRIATION LEVELING OFF

Expatriation during the second quarter of 2015 was at its lowest since 2012, based on the published list of names of those who renounced their U.S. citizenship and long term residency.

Expatriation has been on the increase because U.S. citizens and long term residents have decided they do not want to be taxed on their worldwide income and continue filing the cumbersome U.S. tax returns.

Only 460 individuals were included on the expatriate list this quarter. This low number comes on the heels of a record high number of 1,335 for the prior quarter. This means that, despite an indication that the numbers are dropping, the total number expatriating during 2015 may still exceed the previous year.

TRANSFER PRICING IS HERE TO STAY

Dismissing rumors that the I.R.S.'s Transfer Pricing Operations ("T.P.O.") unit is set to be unwound, Acting Director David Varley affirmed that the T.P.O. is here to stay. Furthermore, he claims that the unit will have an even stronger presence in cases going forward. In fact, the Advance Pricing and Mutual Agreement unit has posted job openings for new members.

The Acting Director recommits to the goals of the unit and aims to increase efficiencies and case selection by staying focused. Whether the country-by-country reports will be used to conduct risk assessment is uncertain at the moment.

THREE MORE BANKS AGREE TO DISCLOSE ACTIVITIES TO D.O.J.

Three more Swiss banks have agreed to pay fines and disclose dealings with U.S. clients that helped such clients to evade U.S. taxes. To date, more than 100 Swiss firms have entered into agreements with the U.S. to relieve liabilities, and the ultimate penalties have depended on how successfully the banks have persuaded clients to voluntarily disclose offshore accounts.

"Three more Swiss banks have agreed to pay fines and disclose dealings with U.S. clients that helped such clients to evade U.S. taxes."

PKB Privatbank AG, Falcon Private Bank AG, and Credito Privato Commerciale S.A. will avoid prosecution by collectively paying the U.S. more than $8.4 million and making a complete disclosure of their cross-border activities. These activities include transferring assets and opening accounts for clients that had left other banks, holding accounts in the names of offshore corporations or trusts, and holding mail for clients to reduce paper trails and conceal the clients' identities.