Combatting Off-Shore Corporate Tax Havens

Corporations are increasingly sheltering profits from taxation in the US by adopting accounting rules that move those profits to countries or areas with little to no taxation. These places are called "tax havens".

In order to better capture profits that have been intentionally shifted to avoid paying taxes on them in the United States, a growing number of states are enacting corporate tax reform that takes aim at these tax havens. Because most multinational corporations consist of a parent corporation and several subsidiaries owned by the parent, large multinational corporations can avoid taxes by moving profits out of the country in which they are earned to lower tax jurisdictions – particularly tax havens. This costs states billions of dollars in lost revenue annually.

Some corporate profit-shifting would be eliminated by requiring corporations to report the profits of all their subsidiaries based in jurisdictions that are known tax havens in the calculation of their total profits when filing for taxes in the U.S. For example, according to 2020 SEC filings, Colorado's 11 Fortune 500 companies have 22 corporate subsidiaries or affiliates incorporated in Luxembourg, 14 in Barbados, 9 in the Cayman Islands, 6 in Jersey (British territory), 4 in Bermuda, and 2 in the British Virgin Islands.

As of 2020, six states and Washington D.C. require such tax haven reporting. Proposals to enact such reporting in Colorado have passed the House twice, in 2015 and 2016. Multinational corporations filing taxes in Colorado will have to report total all profits from subsidiaries or affiliates incorporated in tax havens, removing the incentive to shift profits generated in the U.S. to foreign subsidiaries.

The states that have enacted this legislation use several mechanisms to determine which jurisdictions housing foreign subsidiaries qualify as "tax havens" and therefore must be included in combined reporting. These mechanisms range from using lists developed by international tax institutes to state Department of Revenues reviewing watchlists and choosing which jurisdictions to add.

When large multinational corporations avoid state taxes, other taxpayers shoulder a higher percentage of the responsibility for paying for vital public services like education, health care and transportation.

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