

The Virgin Islands Consortium

In D.C., Mapp Lobbies For Territory's 'Share' Of Potential \$4 Trillion Tax Windfall From U.S. Companies Hiding Profits Outside U.S.

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ST. THOMAS -- Governor Kenneth Mapp has lobbied U.S. Department of Treasury Secretary Steve Mnuchin and congressional leaders, seeking what Government House says is the territory's share of the Trump administration's efforts to return to the U.S. what is estimated to be about \$4 trillion in tax dollars, being held by American companies on foreign soil.

Mr. Trump met last week with Mr. Mnuchin as well as Senators Orrin Hatch and Mike Crapo, and Representatives Vern Buchanan and Tom MacArthur on the matter, "to ensure that the U.S. Virgin Islands was not left out of the effort to bring as much as \$4

trillion back to American coffers."

But how the funds would be returned has not been clearly laid out, and what exactly is the territory's share, if any, gets even murkier. Government House did not explain.

The current system — in which profits earned abroad are not taxed until they are brought home — creates perverse incentives, encouraging American companies to park their money in lower-tax havens outside the United States.

According to the New York Times, repairing that system will require policy makers to confront two vexing problems. The first is how to get American companies to reel in the enormous sum and pay at least some of the tax that is due. The second is to overhaul how foreign earnings are taxed in the future so that multinationals change their ways.

The broad plan unveiled on April 26 by Mr. Mnuchin, shows that the Trump administration is eager to tackle both issues, but the plan does not provide enough detail to judge whether its approach will actually work, The Times says.

Republicans and Democrats have railed against the accounting acrobatics that American multinationals exploit to avoid paying taxes on foreign earnings. They buy or merge with foreign companies to establish headquarters outside the United States — a practice known as inversion — or relocate their patents and copyrights to places with low tax rates, like Bermuda or the Cayman Islands. The arrangement not only deprives the United States of revenue but also increases the tax burden on American businesses that cannot or will not move their profits overseas.

The current system has perpetuated a lot of waste and nonsense, said Alan D. Viard, a tax expert at the conservative American Enterprise Institute and a former senior economist at the Federal Reserve Bank of Dallas. The nominal corporate rate is 35 percent, roughly 10 points above the average rate in most developed European nations. That differential encourages tax avoidance, Mr. Viard said.

Apple, for example, has kept earnings abroad and borrowed money from its own foreign subsidiaries to pay dividends and make new investments. Because the interest paid on loans is also deductible, Apple ends up reaping a second tax benefit.

"These bizarre short-term loans are just silliness," Mr. Viard said, according to The Times.

"Whatever the rate is, it should be collected when the money is earned," regardless of whether it is repatriated, he said, adding, "Companies should be free to keep the money where they want and use it however they want."