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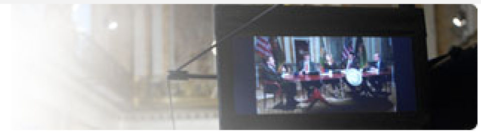

Treasury Announces First Steps to Reduce Tax Benefits of Corporate Inversions

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Unfair Practice Erodes the U.S. Tax Base

WASHINGTON – Today, the U.S. Department of the Treasury and the Internal Revenue Service (IRS) issued a notice that takes targeted action to reduce the tax benefits of — and when possible, stop — corporate tax inversions. Companies are increasingly using the technique of inversion, whereby a U.S. based multinational restructures so that the U.S. parent is replaced by a foreign corporation, in order to avoid U.S. taxes. These transactions erode the U.S. tax base, unfairly placing a larger burden on all other taxpayers, including small businesses and hardworking Americans.

More than two years ago, President Obama laid out his framework for business tax reform. In addition, the Administration's FY 2015 budget included a legislative plan to reduce the incentives to invert as well as make it more difficult to accomplish an inversion. Secretary Lew has been urging Congress to move forward with anti-inversion legislation, which is the only way to fully rein in these transactions.

"These first, targeted steps make substantial progress in constraining the creative techniques used to avoid U.S. taxes, both in terms of meaningfully reducing the economic benefits of inversions after the fact, and when possible, stopping them altogether," said Treasury Secretary Jacob J. Lew. "While comprehensive business tax reform that includes specific anti-inversion provisions is the best way to address the recent surge of inversions, we cannot wait to address this problem. Treasury will continue to review a broad range of authorities for further anti-inversion measures as part of our continued work to close loopholes that allow some taxpayers to avoid paying their fair share."

Genuine cross-border mergers make the U.S. economy stronger by enabling U.S. companies to invest overseas and encouraging foreign investment to flow into the United States. But these transactions should be driven by genuine business strategies and economic efficiencies, not a desire to shift the tax residence of the parent entity to a low-tax jurisdiction simply to avoid U.S. taxes.

Specifically, today's action eliminates certain techniques inverted companies currently use to gain tax-free access to the deferred earnings of a foreign subsidiary, significantly diminishing the ability of inverted companies to escape U.S. taxation. It also makes it more difficult for U.S. entities to invert by strengthening the requirement that the former owners of the U.S. company own less than 80 percent of the new combined entity. For some companies considering mergers, today's action will mean that inversions no longer make economic sense.

Treasury will continue to examine ways to reduce the tax benefits of inversions, including through additional regulatory guidance as well as by reviewing our tax treaties and other international commitments. Today's Notice requests comments on additional ways that Treasury can make inversion deals less economically appealing. Today's actions apply to deals closed today or after today.

For more information, see Treasury's fact sheet.

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