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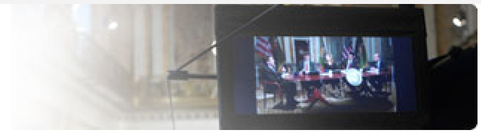

Treasury Announces Additional Action to Curb Inversions, Address Earnings Stripping

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Releases Updated Framework for Business Tax Reform as Model for Future Action

WASHINGTON – Today, the U.S. Department of the Treasury and the Internal Revenue Service (IRS) issued temporary and proposed regulations to further reduce the benefits of and limit the number of corporate tax inversions, including by addressing earnings stripping. By undertaking an inversion transaction, companies move their tax residence overseas to avoid U.S. taxes without making significant changes in their business operations. After an inversion, many of these companies continue to take advantage of the benefits of being based in the United States, while shifting a greater tax burden to other businesses and American families.

“Treasury has taken action twice to make it harder for companies to invert. These actions took away some of the economic benefits of inverting and helped slow the pace of these transactions, but we know companies will continue to seek new and creative ways to relocate their tax residence to avoid paying taxes here at home,” said Treasury Secretary Jacob J. Lew. “Today, we are announcing additional actions to further rein in inversions and reduce the ability of companies to avoid taxes through earnings stripping. This will have an important effect, but we cannot stop these transactions without new legislation. I urge Congress to move forward with anti-inversion legislation this year. Ultimately, the best way to address inversions is to reform our business tax system, which is why Treasury is releasing an updated framework on business tax reform, outlining the administration’s proposals to date as a guide for future reform. While that work goes on, Congress should not wait to act as inversions continue to erode our tax base.”

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 a parent entity to a low-tax jurisdiction simply to avoid U.S. taxes.

Today, Treasury is taking action to:

- Limit inversions by disregarding foreign parent stock attributable to recent inversions or acquisitions of U.S. companies. This will prevent a foreign company (including a recent inverter) that acquires multiple American companies in stock-based transactions from using the resulting increase in size to avoid the current inversion thresholds for a subsequent U.S. acquisition.
- Address earnings stripping by:
  - Targeting transactions that generate large interest deductions by simply increasing related-party debt without financing new investment in the United States.
  - Allowing the IRS on audit to divide debt instruments into part debt and part equity, rather than the current system that generally treats them as wholly one or the other.
  - Facilitating improved due diligence and compliance by requiring certain large corporations to do up-front due diligence and documentation with respect to the characterization of related-party financial instruments as debt. If these requirements are not met, instruments will be treated as equity for tax purposes.
- Formalize Treasury’s two previous actions in September 2014 and November 2015.

Treasury will continue to explore additional ways to address inversions.

Treasury is also releasing an updated framework for business tax reform, which revises the framework released in 2012. This lays out the key elements of the President’s approach to reform and details the specific proposals the administration has put forward, including a comprehensive approach to reforming the international tax system.

For more information on today’s action, see Treasury’s fact sheet.

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