

Obama wants 'economic patriotism' from companies dodging taxes

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LOS ANGELES — Staking out a populist stand ahead of the midterm elections, President Barack Obama on Thursday demanded "economic patriotism" from U.S. corporations that use legal means to avoid U.S. taxes through overseas mergers.

"I don't care if it's legal," Obama declared. "It's wrong."

Obama and congressional Democrats are pushing to severely limit such deals, a move resisted by Republicans who argue the entire corporate tax code needs an overhaul. At issue are companies that enter into arrangements with foreign companies, shifting their tax addresses overseas while retaining their U.S. headquarters.

"They're technically renouncing their U.S. citizenship. They're declaring they are based someplace else even though most of their operations are here," Obama said at a technical college in Los Angeles. "You know, some people are calling these companies corporate deserters."

He also charged that such companies are "cherry-picking the rules."

Though Obama included a proposal to rein in such mergers and acquisitions in his 2015 budget, his speech marked a new, more aggressive focus on the subject.

The push came amid a developing trend by companies to reorganize with foreign entities through deals called "inversions" partly to reduce their tax payments in the U.S.

It also came ahead of the fall political campaign as Democrats seek to draw sharp contrasts with Republicans by portraying them as defenders of corporate loopholes. Sen. Elizabeth Warren, D-Mass., and others have been drawing praise from liberal arms of the Democratic Party for their overtly populist positions.

The growth of inversions has also concerned Republicans, but by and large they have called for a broader tax overhaul that would reduce corporate rates.

A total of 47 U.S.-based companies have merged with or acquired foreign businesses over the past decade in inversions, according to the Congressional Research Service. The issue gained attention earlier this year when Pfizer made an unsuccessful attempt to take over British drugmaker AstraZeneca. The deal would have allowed Pfizer to incorporate in Britain and thus limit its exposure to higher U.S. corporate tax rates

Most recently, Walgreen Co., the drug store chain that promotes itself as "America's premier pharmacy," is considering a similar move with Swiss health and beauty retailer Alliance Boots.

Obama, speaking in shirt sleeves under a hot sun in a campaign rally atmosphere, sought to shame companies seeking such deals even though he mentioned none by name.

"You don't get to pick the tax rate you pay," Obama told a crowd of about 2,000. "Folks, if you are secretary

or a construction worker you don't say, 'You know, I feel like paying a little less so let me do that.' You don't get a chance to do that. These companies shouldn't either."

He added: "You shouldn't get to call yourself an American company only when you want a handout from American taxpayers."

The speech came at the end of a three-day West Coast fundraising tour. Obama employed many of the same partisan themes in his speech at the college that he did exhorting donors to help the Democratic Party.

"What really is going on is the Republicans in Congress are directly blocking policies that would help millions of Americans," he said.

The Obama administration began to ramp up attention to inversion transactions last week with a letter from Treasury Secretary Jacob Lew to House and Senate leaders. Lew said such deals "hollow out the U.S. corporate income tax base."

Obama is calling on Congress to enact legislation that is retroactive to May, arguing that will stop companies from rushing into deals to avoid the law.

Senate Democrats picked up the call this week, with Sen. Dick Durbin of Illinois, the second-ranking Democratic leader, sending a letter to Walgreen President and CEO Gregory Wasson urging him and his board to reconsider the overseas deal.

"I believe you will find that your customers are deeply patriotic and will not support Walgreen's decision to turn its back on the United States," Durbin wrote.

On Wednesday, Senate Majority Leader Harry Reid weighed in with a floor speech that called inversions a "corporate citizenship scam."

Walgreen's spokesman Michael Polzin said the company is evaluating where to take its partnership with Alliance Boots. "We will do what is in the best long-term interests of our customers, employees and shareholders," he said.

Under such inversion deals, U.S.-based, multinational companies can lower their tax bills in part by combining with a foreign company and reorganizing in a country with a lower tax rate. The United States has a 35 percent income tax rate, the highest in the industrialized world, and unlike many other countries it also taxes income earned overseas and then brought home.

Under current law, shareholders of a U.S. company that merged with an offshore entity would have to own less than 80 percent of the combined entity to take advantage of a lower foreign tax rate. Obama's budget proposes slashing that cutoff to 50 percent and making the restriction retroactive to last May.

Republicans such as Sen. Orrin Hatch of Utah say the U.S. first must change its policy of taxing income earned abroad. But in a hearing this week, Hatch also said he was open to addressing the issue directly provided it was not retroactive and did not generate additional revenue.

"Ultimately, the best way to solve this problem will be to reform our corporate and international tax system in a manner that will make our multinationals competitive against their foreign counterparts," he said.

Administration officials estimate the deals, if allowed to continue, will cost the U.S. Treasury \$17 billion in lost revenue over the next decade.

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