Low-tax countries hit back at Obama's corporate crackdown

By Vanessa Houlder in London and Michael Steen in,Amsterdam
Published: May 6 2009 03:00 | Last updated: May 6 2009 03:00

The proposed US crackdown on corporate tax avoidance has provoked an angry response from low-tax countries used heavily by the multinationals that are the target of the Obama administration's reforms.

The US administration, in publishing the plan on Monday, highlighted the Cayman Islands, Bermuda, the Netherlands and Ireland. The US proposals are also likely to be felt in Luxembourg, Switzerland and Singapore, where profits reported by US subsidiaries often appear disproportionately high, given the size of those countries.

"We're not happy," said Jan Kees de Jager, the Netherlands' finance secretary. "We have a very transparent policy and we'll work with the US. I expect there'll be a clarification [by the US administration] and we'll not end up on lists like this in future, between Bermuda and Ireland."

Officials and tax experts pointed to the "very average" corporate tax rates in the Netherlands, which has corporation tax of 25.5 per cent, and noted the country had successfully attracted foreign investors partly because of its location and educational achievements. But the Netherlands has no taxes on capital gains and low taxes on dividends, which can make it an attractive location for the subsidiary holding companies of foreign firms.

The Cayman Islands said the proposed changes could have unintended consequences. Alden McLaughlin, a minister, defended the islands' role in forming "efficiencies" that benefited business: "Blocking access to the Cayman Islands may have very real unintended negative consequences for international trade and the economies of large countries."

Paula Cox, Bermuda's finance minister, said the announcement was not unexpected but added: "Bermuda will continue to put forth its views in an appropriate manner and at the appropriate level with decision-makers on Capitol Hill."

Critics of President Barack Obama's proposed reforms said such action would impede US multinationals' ability to compete abroad, as most other countries exempt foreign profits from tax. Companies also stepped up their lobbying against the plan by warning US multinationals could become more vulnerable to takeovers by foreign competitors.

The reduced attraction of the US as a base for multinationals could make them more likely takeover targets, if the acquirer were to restructure the business to remove foreign subsidiaries from the US tax net, tax experts said.

Catherine Schultz of the National Foreign Trade Council, which represents multinationals, said: "If there's a reasonable business and strategic reason for the investment anyway, taxes may very well be the factor that speeds the transaction along."

Dave Camp, lead Republican on the House ways and means committee, said: "Ironically, what the president proposes will make it more likely that American companies will be bought by their foreign competitors."

International business focused on changes designed to "level the playing field" by restricting what the US administration described as tax advantages for forming jobs overseas. That would tighten the system that allows US multinationals to defer paying US taxes on profits made overseas. Multinationals would no longer be able to claim tax deductions on most foreign expenses, such as interest costs, until they repatriated earnings.