



Americans For Tax Reform Foundation

Analysis of Administration Proposals to “Reform the U.S. International Tax System”
Repeal 80/20 Company Rules

Current Law

Under current law, if at least 80% of a corporation’s gross income during a 3 year period is foreign-source and attributable to the active conduct of a foreign trade or business, a foreign person does not have to pay withholding tax on its dividends or interest.

Proposed Change

This proposal would repeal the “80/20” provision.

ATR Analysis

This would vastly increase the scope of the IRS’s power to ‘withhold’ a taxpayer’s money and would extend withholding to foreign taxpayers who receive almost all their income from foreign activities.

Withholding leads to greater compliance costs for taxpayers, significantly greater burdens in recovery of taxes, depreciation of financial value of capital over time due to inflation, lost interest opportunities, and would also limit the flexibility of a taxpayer in spending his money at the appropriate time.

The only justification for this proposal is taken from Star Trek’s First Ferengi Rule of Acquisition: “once you have their money, never give it back”.

10-year Revenue Estimate:

U.S. Department of Treasury: \$1.2 billion

Joint Committee on Taxation: \$850 million

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