



Americans For Tax Reform Foundation

Analysis of Proposals To Reform International Tax System

H.R. 4849: The Small Business And Infrastructure Jobs Tax Act of 2010

*Revenue Provision C: Repeal of Special Rules for Interest and Dividends Received from Persons Meeting the 80-Percent Foreign Business Requirements*

722 12<sup>th</sup> Street N.W.

Fourth Floor

Washington, D.C.

20005

T: (202) 785-0266

F: (202) 785-0261

[www.atr.org](http://www.atr.org)

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. This is known as the 80/20 provision.

Proposed Change

**This proposal would repeal the "80/20" provision.**

ATRF 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.

10-year Joint Committee on Taxation Revenue Estimate: \$950 million