



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 A: Limitation on Treaty Benefits for Certain Deductible Payments

Current Law

Under current law, foreign corporations generally pay a 30% withholding tax on income that is ‘effectively connected’ with trade or business activity in the United States. In many cases however, this is reduced or limited by a tax treaty with the country where the corporation is based.

Proposed Change

This provision will place severe limits on how tax treaties can limit taxation in the U.S. Under the proposal, the amount of U.S. withholding tax imposed on deductible related-party payments may not be reduced under any U.S. income tax treaty unless such withholding tax would have been reduced under a U.S. income tax treaty if the payment were made directly to the “foreign parent corporation” of the payee.

ATRF Analysis

If enacted, corporations who engage in business with the United States would face a whopping \$7.7 billion in tax hikes. It is vital to remember that these “foreign” companies are engaged in doing business in the United States, providing jobs to U.S. workers, and goods to U.S. consumers. If enacted, these tax hikes will ultimately be passed onto American families. Consumer goods will become more expensive, some businesses will cut jobs, or even close their doors. Economic activity throughout the United States would plummet. Workers in other industries who rely on these foreign companies for goods and services will feel the effects, and will also be forced to raise costs and lay off workers, leading to a chain reaction that will be extremely damaging to the U.S. economy.

10-year Joint Committee on Taxation Revenue Estimate: \$7.735 Billion

722 12th Street N.W.

Fourth Floor

Washington, D.C.

20005

T: (202) 785-0266

F: (202) 785-0261

www.atrf.org