



Americans For Tax Reform Foundation

Analysis of Administration Proposals to “Reform the U.S. International Tax System”
Reform Business Entity Classification Rules For Foreign Entities

Current Law

Businesses are classified under “check the box” regulations. Foreign business with a single owner can *choose* to be treated either as a corporation, or as a “disregarded entity”. In the case of a disregarded entity, the income of the entity is treated as the income of the owner, and revenue ‘flows through’ the entity to the owner, where it is taxed as income.

Proposed Change

The Obama budget abolishes ‘check the box’ and forces all foreign entities to be treated as corporations.

ATR Analysis

This proposal would completely abolish flow-through. As such, it would lead to significantly higher foreign taxes paid, and an increased burden on investment. It also removes flexibility and choice in corporate structure and financial planning, and denies persons the right to structure their finances as suits their needs.

Furthermore, this proposal may also lead to “double double” taxation: firstly, taxation on dividends paid and again as after tax corporate profits, and then double taxation by the country where a entity is located and also by the U.S. government.

This is a blatant tax-hike disguised in language of reform. If the Administration was serious about reforming international tax law, it would focus on abolishing our complex, burdensome and economically damaging system of ‘worldwide taxation’, and replace it with ‘territorial taxation’ – as is done in almost every other country. The current perverse system forces corporations into such arrangements to remain competitive. Punishing them with such changes will force many to close their doors, leading to lower long term revenue and job loses here at home. It is essential to address the root problem, and not continue with blatant tax grabs such as this.

10-year Revenue Estimate:

U.S Department of Treasury: \$86.5 billion

Joint Committee on Taxation: \$31.6 billion

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