



**August 1, 2011**

## Closing Tax Law Loopholes

Tax law loopholes are causing the US government to waste billions of dollars every year yet so little effort is being done to close them. The bottom line is that due to various loopholes, the wealthy pay very little taxes percentage-wise whereas the middle class pay more. This also applies to profitable corporations. These loopholes are so rampant and have become such public knowledge that Warren Buffet, one of the richest men in the world, is famously known to declare that his secretary pays more taxes percentage-wise than he himself does.

One example of the tax loopholes allows subsidiaries of US corporations that have operations overseas to declare to the IRS that they pay taxes overseas while at the same time declare to the overseas governments that they pay taxes in the US.

Another example is one where the tax code says if a company creates a job for an American in a foreign country, it will be given certain tax deductions even though the company does not pay any taxes. On this issue, President Obama has shared his view when he said, “(companies should not be allowed to) pay lower taxes if you create a job in Bangalore, India, than if you create one in Buffalo, New York.” In light of this, the Cayman Islands (a well-known tax haven) is known to have a building that houses the headquarters of 12,000 companies, prompting President Obama to comment, “This is the largest building in the world or the largest tax scam in the world.”

It’s an open secret that wealthy people maintain offshore bank accounts to evade taxes on their balances. This is partly because of another loophole where the tax law does not require offshore banks to send a 1099 Form to the IRS, like local US banks are required to do. That means your interest income in offshore banks go unreported.

The government could save \$210 billion over 10 years just by closing these loopholes. Another \$23 billion could be collected by changing the law to require hedge fund and private equity managers to account for hidden profits. And the government stands to gain another \$844 million simply by making government contractors pay full taxes. If the government removes tax giveaways and subsidies for oil and gas companies, it will have an additional \$31 billion which can be used to generate cleaner, more efficient energy.

If closing these tax loopholes is not enough, all the government has to do to raise revenue is increase the tax rate of the wealthy. Three out of four people say they wouldn't mind if taxes were raised on earned income over \$250,000 a year.