GOP Tax Law Risks Shipping American Jobs Overseas

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Joint Economic Committee Democrats
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Ranking Member

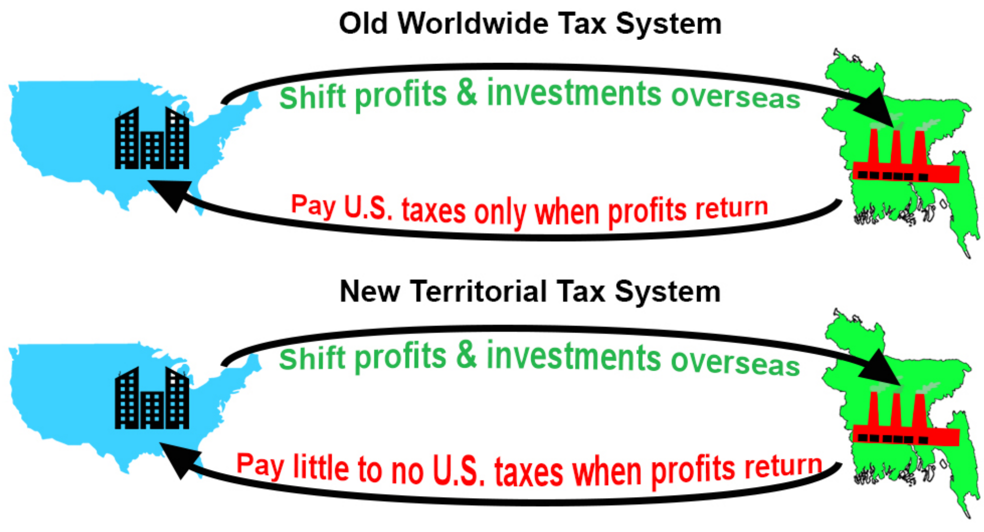
President Trump's tax law lavishes tax cuts on corporations and the wealthy, while stacking the deck against working families across the country. In addition to permanently lowering the corporate tax rate to levels not seen since the 1930s, the new law offers many companies a sweetener: they can reduce their tax liability even more by moving operations and jobs overseas.

More than 15.4 million Americans have jobs that are vulnerable to offshoring and work in industries with a track record of moving production to foreign countries.[1] Rather than passing policies that protect these workers and their families, President Trump and Congressional Republicans created a law that actually encourages companies to move factories and jobs out of the United States and into foreign countries in order to take advantage of new tax breaks.

Republicans Incentivize Companies to Leave Americans Behind

Prior to the Republican tax changes, when transferring earnings back to the U.S., American companies were required to pay a 35 percent corporate tax on income earned abroad.[2] Many companies were able to defer paying taxes on foreign earnings indefinitely by keeping them offshore – that is, outside of the United States.[3] This system not only deterred companies from bringing profits back home, but also encouraged them to move some operations overseas.[4]

The Trump tax law exacerbates, rather than solves, this problem by moving the U.S. closer to a "territorial" international tax system, providing new incentives for companies to move factories and jobs overseas.[5] Under a territorial tax system, corporate profits are taxed only in the country where the profits are generated. This means that a U.S. parent company does not have to pay taxes on the earnings it receives from its foreign subsidiaries, or on the earnings it brings back to the U.S. [6] While Republicans claimed this shift would ensure jobs stayed on American soil, it actually creates a new, permanent incentive for companies to shift profits and investment to lower-tax countries overseas.



In an effort to curb some of the fallout from eliminating taxes on foreign earnings, Republicans added several provisions to the new law to establish minimum tax rates on profits earned abroad and deter companies from abusing tax havens. However, two poorly designed provisions might actually encourage offshoring, making things worse for the American people:

Global Intangible Low-Taxed Income

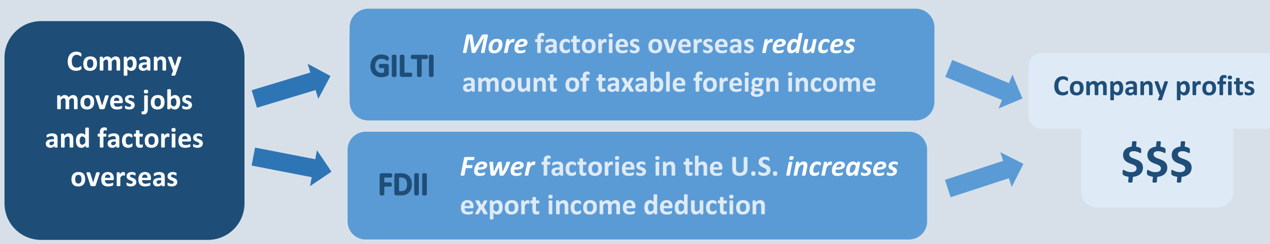
The tax law creates a new minimum tax on global intangible low-taxed income (GILTI)—foreign income that exceeds 10 percent of a company's foreign "tangible assets," such as factories and machinery.[7] The goal of this minimum tax is to discourage companies from moving "intangible assets," such as patents and copyrights, to lower-tax countries, not to prevent companies from offshoring tangible assets. Effectively, by locating factories and jobs in other countries, a company is able to reduce or even eliminate the amount of their foreign income that is categorized as GILTI and therefore subject to the tax.[8]

Even if a company cannot avoid paying the minimum tax, the tax imposed on their taxable foreign income is 10.5 percent—just half of the new 21 percent corporate rate on earnings generated domestically.[9] This establishes permanent preferential tax treatment for profits earned in other countries, further incentivizing U.S. companies to shift even more factories and jobs overseas.

Foreign Derived Intangible Income

The Trump tax law creates a deduction for a new category of income tied to exports known as foreign derived intangible income (FDII), which is subject to a much lower tax rate of about 13 percent.[10] Because having more tangible assets in the U.S. reduces the amount of income that qualifies for this deduction, a company can claim a larger deduction by locating their tangible assets abroad.[11] Similar to the minimum tax on GILTI, this provision could incentivize companies to move factories and jobs overseas in order to take full advantage of this deduction.

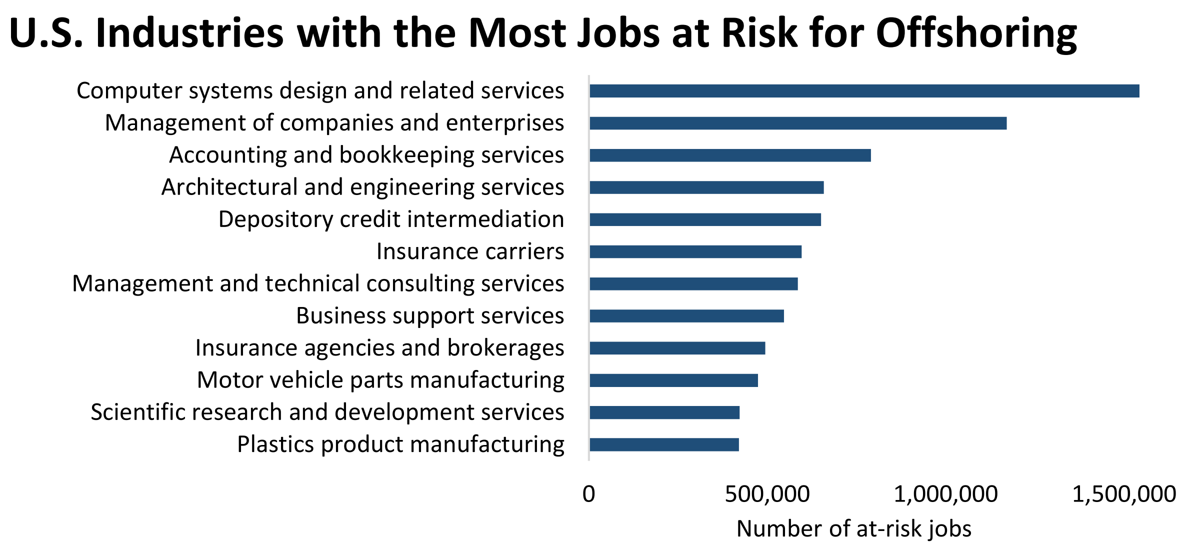
How Corporations Profit From Moving Jobs Overseas Under Trump's Tax Law



Both the minimum tax on GILTI and the FDII deduction create a permanent incentive for U.S. companies to move factories and jobs overseas in order to pay less in U.S. taxes.

American Workers Lose Under Trump's Tax Law

The international provisions in the Trump tax law tilt the playing field against American workers, making it harder for them to earn good wages, maintain steady incomes, and support their families. By taxing profits generated by workers in the U.S. at a much higher rate than profits generated by those abroad, the provisions encourage companies to lay off American workers and move operations overseas. For workers in industries already vulnerable to offshoring, Republicans have compounded the threat to their jobs and livelihoods.



Source: JEC Democratic staff calculations based on data from the Department of Labor Trade Adjustment Assistance program, BLS Quarterly Census of Employment and Wages and Occupational Employment Statistics, and Blinder, Alan S. "How many US jobs might be offshorable?" World Economics (2009).

Many manufacturing and service sector jobs face a very high risk of being shipped overseas. Manufacturing jobs leave when a company moves production to another country, while service jobs, such as data entry or staffing a call center, can be performed remotely by workers in other countries. Across the country, more than 15.4 million manufacturing and service jobs are at high risk of being offshored.[12] Instead of taking the opportunity to address this threat, President Trump and Congressional Republicans expose these Americans to further job loss.

Supporting Working Families

President Trump and Congressional Republicans promised their tax cuts for corporations and the wealthy would boost wages and spark unprecedented economic growth. Instead, the law further endangers 15.4 million Americans whose jobs and livelihoods are already at risk of moving abroad. Rather than tax giveaways to corporations willing to shutter American factories, lay off workers, and move operations abroad, we need real solutions that will keep jobs in the United States, support working families, and strengthen the middle class.

Number of Jobs in Each State at Risk for Offshoring

State	Manufacturing Jobs	Service Jobs	Share of Private Workforce	Total Jobs
Alabama	100,915	103,875	13%	204,789
Alaska	412	11,618	5%	12,030
Arizona	83,430	202,158	12%	285,587
Arkansas	52,545	65,228	12%	117,773
California	604,589	1,275,438	13%	1,880,026
Colorado	59,811	219,714	13%	279,525
Connecticut	75,179	123,996	14%	199,174
Delaware	7,401	33,928	11%	41,329
District of Columbia	312	64,391	12%	64,702
Florida	160,026	582,198	10%	742,224
Georgia	145,497	312,685	12%	458,182
Hawaii	2,577	25,823	5%	28,399
Idaho	19,848	42,038	10%	61,886
Illinois	262,333	433,203	14%	695,536
Indiana	224,778	142,504	14%	367,282
Iowa	79,148	91,994	13%	171,142
Kansas	70,624	93,172	14%	163,796
Kentucky	98,262	99,529	13%	197,791
Louisiana	46,058	86,949	8%	133,006
Maine	14,043	35,688	10%	49,731
Maryland	48,459	213,405	12%	261,865
Massachusetts	122,170	320,822	14%	442,992
Michigan	308,214	286,581	16%	594,796
Minnesota	141,982	209,251	14%	351,233
Mississippi	42,244	41,297	9%	83,540
Missouri	109,251	196,912	13%	306,163
Montana	5,457	21,196	7%	26,653
Nebraska	32,243	72,115	13%	104,358
Nevada	22,840	70,986	8%	93,826
New Hampshire	39,180	43,882	15%	83,062
New Jersey	113,276	322,384	13%	435,660
New Mexico	9,426	51,170	10%	60,597
New York	214,662	673,252	11%	887,914
North Carolina	191,743	288,836	13%	480,579
North Dakota	6,196	20,656	8%	26,852
Ohio	312,460	366,973	15%	679,433
Oklahoma	56,909	81,766	11%	138,675
Oregon	75,114	118,853	12%	193,967
Pennsylvania	236,002	399,726	12%	635,728
Rhode Island	13,354	32,520	11%	45,874
South Carolina	112,811	107,320	13%	220,130
South Dakota	15,079	22,826	11%	37,905
Tennessee	154,345	176,251	13%	330,596
Texas	384,836	841,394	12%	1,226,230
Utah	59,305	117,263	15%	176,568
Vermont	10,152	14,883	10%	25,035
Virginia	81,494	380,808	15%	462,302
Washington	129,830	249,264	14%	379,094
West Virginia	13,814	30,393	8%	44,207
Wisconsin	215,314	178,210	16%	393,523
Wyoming	2,262	8,068	5%	10,330

Source: JEC Democratic staff calculations based on data from the Department of Labor Trade Adjustment Assistance program, BLS Quarterly Census of Employment and Wages and Occupational Employment Statistics, and Blinder, Alan S. "How many US jobs might be offshorable?" World Economics (2009)

[1] To determine the number of jobs that are vulnerable to offshoring, we estimate the number of workers who work in industries with a track record of moving production offshore and have job duties that easily performed abroad. Data from the Department of Labor's Trade Adjustment Assistance Program is used to identify industries that have moved production overseas at least 10 times in the last 5 years. We then use data from the Bureau of Labor Statistics' (BLS) Quarterly Census of Employment and Wages to calculate the number of workers employed in these at-risk industries. Finally, we use data from Alan Blinder (2009) and BLS' Occupational Employment Statistics to estimate the share of workers in each of the at-risk industries whose job characteristics make them susceptible to offshoring.

[2] https://www.cbpp.org/research/federal-tax/new-tax-law-is-fundamentally-flawed-and-will-require-basic-restructuring#_ftn45

[3] https://www.americanprogress.org/issues/general/news/2011/03/16/9215/tax-expenditure-of-the-week-offshore-tax-deferral/

[4] Ibid.

[5] https://www.cbpp.org/research/federal-tax/new-tax-law-is-fundamentally-flawed-and-will-require-basic-restructuring#_ftn45; As part of the transition to the new system, the TCJA allows companies that have accumulated earnings offshore to repatriate them—that is, bring them back—to the U.S. by paying a one-time tax of between 8 and 15.5 percent.

[6] https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf

[7] https://itep.org/new-legislation-would-close-significant-offshore-loopholes-in-the-tax-cuts-and-jobs-act/

[8] https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf

[9] https://www.cbpp.org/research/federal-tax/new-tax-law-is-fundamentally-flawed-and-will-require-basic-restructuring#_ftn45

[10] https://itep.org/understanding-and-fixing-the-new-international-corporate-tax-system/

[11] https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf

[12] See endnote 1.