

The Role of U.S. Tax Policy in Offshoring

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The U.S. tax system taxes the foreign income of U.S. resident firms upon repatriation, providing a credit for tax paid to foreign governments. Deferral of U.S. taxation until repatriation provides an incentive for U.S.-based multinational firms to undertake offshoring activities in low-tax countries and to shift profits toward low-tax destinations. Any system of taxing multinational firms will reflect a compromise between the goals of ensuring efficient worldwide capital allocation, protecting the competitiveness of U.S. multinational firms, and seeking government revenue. While systematic changes should be considered cautiously, there is ample room for improvement in the U.S. tax system.