Intelligencer

> TOPIC

The Freeloading Playbook

Protesters and politicians alike have recently been noticing how little American corporations pay in taxes. (G.E. famously made $14 billion in worldwide profit last year without paying anything to the federal government.) Below, diagrams of some famous IRS-dodging strategies.

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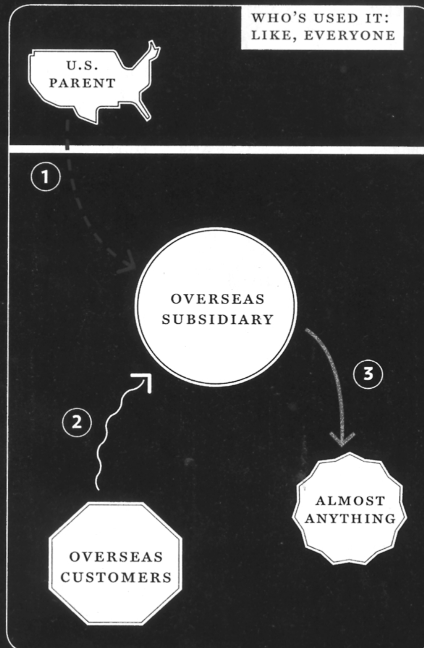
LICENSE ROYALTIES LEGAL MOVEMENT CASH STOCK PURCHASE

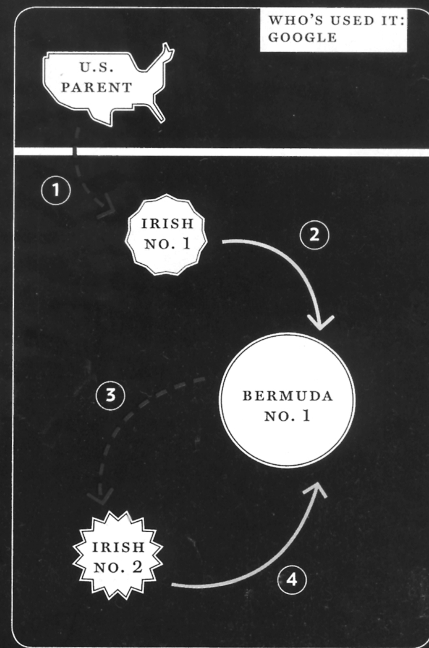
PRE (Permanently Reinvested Earnings)

(1) A U.S. company gives a foreign subsidiary the license to use its intellectual property (patents, designs, etc.) to make money overseas. (2) This unit collects all foreign earnings. (3) Those earnings, subject only to (lower) foreign tax rates, can be reinvested anywhere in the world; the only place they *can't* go is back to the U.S. company as cash profits.



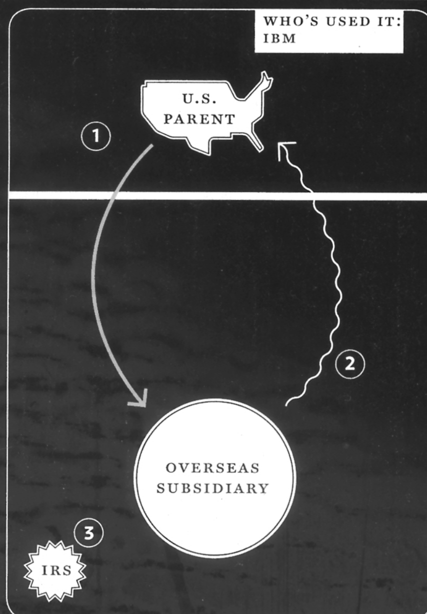
Double Irish

(1) A U.S. company licenses an Irish subsidiary to use its intellectual property abroad. (2) Irish No. 1 moves, for Irish tax purposes, to tax-free Bermuda, becoming Bermuda No. 1—but U.S. tax law still identifies it as Irish No. 1, thus masking the amount of taxes the company is avoiding (Ireland has low, but not nonexistent, corporate taxes). (3) Bermuda No. 1 sub-licenses *another* Irish company to manage the original intellectual property. (4) Irish No. 2 sends earnings to Bermuda No. 1 as "royalties" for the licensing rights. These payments are tax-deductible, so Irish No. 2 avoids most taxes, too.



Killer B

Here's one simple method, named after the section of the tax code it exploits, to bring foreign earnings home as cash. (1) A U.S. corporation gives some of its stock to a subsidiary in another country. (2) The subsidiary pays the U.S. company cash for the stock. (3) The U.S. company pays no taxes on the cash because it was received in exchange for stock. (The IRS has, of late, started cracking down on this technique.)



Deadly D

Another way of getting money back to America. (1) A U.S. company buys another company (one that it wants to buy anyway). (2) It then transfers ownership of that company to a foreign subsidiary. (3) The foreign subsidiary "pays" the U.S. parent for the new company in cash, which, because it's entering the country in exchange for the transferred ownership, is (4) not taxed by the IRS.