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TAX AVOIDANCE AND WHAT TO DO ABOUT IT

ANALYSTS

Kaci Emrich
Ruairidh Jack
Dhruv Shah
Johannes Wandel

EDITORS

Dain Rohtla
Pratiksha Saha

St Andrews

Abstract

In recent years, tax avoidance by the rich has become a major source of contention under the present US tax system. This is attributed to a shortfall in capital gains tax rates relative to labour income which has incentivised wealthy individuals to game the system by earning income through corporations or assets. A comprehensive analysis on these tax loopholes unearths three primary ways in which the rich have exploited the system: offshore tax shelters, sheltering income in corporate entities and pass-through deductions. These loopholes have been promoted recently through Donald Trump's Tax Cuts and Jobs Act of 2017 (TCJA) which has decreased the corporate tax rate. This paper argues that a fundamental tax overhaul is required to balance the deficit between capital gains and labour income. Therefore, the current US administration must consider policies which not only equalise the tax rates on domestic and offshore earnings of US multinational companies but target and tax corporate income immediately to avoid pass through treatment.

1 Introduction

The tax system in the US contains several loopholes which benefit the wealthy in the country, and often allows them to achieve a lower effective tax rate. Underlying this is the difference between the ways in which income from labour and gains on the appreciation of assets are treated for tax purposes – for example, in 2020, an individual paying taxes as a single tax filer had a tax-free capital gains allowance of $40,000 and would pay 15% on any gains from $40,001 - $441,450. [1] This compares to an individual facing income tax who received a standard deduction in 2020 of just $12,400 in comparison (Tax Policy Center). The tax advantages received by those paying capital gains tax rather than income tax create a strong incentive for individuals to re-classify earnings as capital gains where possible, allowing them to benefit from the favourable tax system and reducing federal tax receipts.

Another underlying issue is the way in which corporations can use offshore tax shelters to minimize their tax bills in countries in which they operate and earn revenue. By having the freedom to move profits between jurisdictions it is possible for corporations to minimize the amount of tax payable on their profits, which means a loss to tax receipts of the governments of the jurisdictions in which the firms operate.

This report will provide an overview of how the US tax system favours the wealthy by considering pass-through entities, offshore corporate tax shelters and the mismatch between capital gains and income tax rates in the US and will look at current policy developments and suggest further policy proposals to tackle some of the issues covered.

2 Tax-Avoidance – An Overview

There are many estimates of the effects of tax evasion and avoidance on federal tax receipts in the US. Sarin & Summers (2019), estimate that between 2020 and 2029, the Internal Revenue service will fail to collect almost $7.5 trillion in taxes that it is due, and in a 2019 report, the IRS itself estimated the average net annual tax gap between 2011 and 2013 was around $381 billion, or 14% of total tax liability (IRS, 2019). This means that from 2011-2013, each year there was an average gap of $381 billion between what the IRS were owed in taxation and what they received. To put this in context, in 2018/19, the UK Department of Health and Social Care's core budget was around £142.6 billion (The King's Fund), so the loss to federal tax receipts caused by the US tax gap significantly reduces available funding for expanding and maintaining key public services.

Significant loopholes in the design of the tax system in the US mean that it is possible for wealthy individuals to gain significant tax advantages. One of the main underlying issues is in the difference between capital gains tax and income tax. Income that is earned because of the gain on the disposal of an asset such as shares in a company, are taxed at the capital gains tax rates – which in the US are much lower than the income tax rates for assets that are held for longer than one year. Short-term capital gains tax rates apply to assets sold within one year of purchase, and these gains are added to overall annual income and taxed at the standard income tax rates ranging from 10% to 37%. This means that the tax system benefits those who hold on to assets for a longer period of time, thereby benefiting those who have more disposable income and can put money away into assets for a longer period. This can also incentivise individuals with access to corporations to organize their finances in such away that minimizes their tax liability by taking advantage of complex tax laws. An example of this is a pass-through entity, which is a business where all business income passes through to the owner and is taxed as personal income. This means that the entity does not pay any corporation tax compared to the case of 'c-corporations', which pay corporation tax on earnings, and any dividends distributed to shareholders are also taxed further at personal dividend tax rates.

The pass-through entity therefore removes this double taxation. It is also possible to use any losses generated in a pass-through entity to offset other income earned, as all pass-through entity profits are treated as personal income –therefore a loss from the pass-through entity can be used to offset an equal portion of other income earned, meaning it is not subject to income tax. This structure allows individuals who own such entities to reduce their tax bill in ways that are not possible for those earning income solely through labour.

3 Off-Shore Tax Shelters

Many US companies and wealthy individuals avoid paying corporate income taxes by shifting profits to foreign subsidiaries or affiliates (often shell companies) in “tax haven” countries that offer favorable tax rates and other financial incentives. They have done so because of opportunities created by American tax laws that many have characterised as inadequate and unfair. Prior to the enactment of the Tax Cuts and Jobs Act of 2017 (TCJA), the income of US multinational companies was taxed on a worldwide basis irrespective of where it was earned, but the tax obligation on the income of their foreign subsidiaries was deferred until the income was repatriated by making it available to the US parent company (Tax Policy Center). Thus, the use of such offshore tax shelters has allowed companies to evade US income tax obligations. on the foreign profits until such profits were brought ashore to the US (if in fact they ever were). This loophole has encouraged companies to defer bringing money into the U.S. economy for as long as possible or even permanently. The magnitude of the problem is such that as of 2017, US corporations had total overseas profits of $2.6 trillion that had yet to be repatriated (Looney, 2017). As a result, enormous losses in American tax revenue and substantial inequities exist in a system in which multinational companies and wealthy individuals can easily shield large portions of their income from taxation while other taxpayers cannot. The problem is not confined to America, but rather is a world-wide phenomenon. Indeed, according to the International Monetary Fund (IMF), offshore tax shelters are estimated to deprive governments of tax revenues of between $500 billion-$600 billion and have a substantial impact on the international economy (Shaxson, 2019).

The offshoring loophole in the American system results in an unfair shifting in the allocation of the federal tax burden. The tremendous losses to the American tax system, and the resulting inequities are caused by the fact that many financially strong companies simply are not paying their commensurate share. One prominent historical illustration of the problem is that despite earning more than $74 billion on worldwide sales between 2009 and 2012, Apple paid virtually no taxes to the U.S. or any other country as a result of its offshoring tax strategies (Americans for Tax Fairness, 2014). The enormous benefits that multinational companies realize as a result of such strategies causes an inequitable allocation of financial responsibility for funding the federal government's expenditures as other taxpayers are required to foot the bill. It can also trap money abroad and thereby impede the US economy.

By lowering the corporate tax rate and making other changes, the TCJA was supposed to make improvements by reducing the incentive for companies to stash money abroad indefinitely. Proponents of the legislation believed that it would lead to a boost in the US economy and tax revenues as companies that had substantial amounts of cash trapped abroad would have increased motivation to repatriate that cash and invest in domestic growth. The TCJA switched from a worldwide tax system based on repatriation to a modified territorial one under which income from foreign sources is largely exempt from U.S. taxation, with the exception of an additional tax imposed on certain types of foreign income (Furner & Dickins, 2019). As a means of transitioning to the new tax framework, TCJA imposed a one-time transition tax payable over eight years (15.5% if held as cash or cash equivalents, and of 8% if held as illiquid assets) on all unrepatriated foreign profits (Furner & Dickins, 2019; Smolyansky, et al., 2018). Although the TCJA helped to repatriate $465 billion during the first half of 2018, $2.5 trillion was still left overseas as of that time (Furner & Dickins, 2019). An additional problem was that the TCJA excluded from taxation the dividends that domestic corporations receive from foreign corporations in which they own at least a 10% stake (Tax Policy Center).

Thus, the TCJA arguably may have partially closed one tax loophole, but it created another. Indeed, Congress' Joint Committee on Taxation found that

instead of increasing revenue, the TCJA will actually reduce revenue by $14 billion over a period of 10 years (Institute on Taxation and Economic Policy, 2019). Similarly, the Congressional Budget Office has concluded that not with standing the purpose of the TCJA, “U.S. companies will continue to avoid taxes on $235 billion in profits shifted offshore annually” (Institute on Taxation and Economic Policy, 2019). Moreover, a study that looked into the effects of that legislation found that, rather than investing in domestic capital assets, the affected companies used the cash to buy back their own stock and paradoxically to invest in foreign capital assets (Smolyansky, et al., 2018; Beyer, et al., 2019; Cohen, 2019). In other words, the legislation did not have its intended effect and the substantial problems created by the offshoring loopholes still remain and need to be addressed.

4 Tax avoidance strategies

The Tax Cuts and Jobs Act of 2017 is considered to have introduced the most extensive changes to the Internal Revenue Code since the Tax Reform Act of 1986 (Donaldson, 2018; Kaminet al., 2019)[1]. As an analysis of all the different new modifications in the new tax legislation would be too exhaustive for this essay, we concentrate on the following two key alterations: The lowering of the US corporate tax rate from 35% to 21% and the creation of an up to 20% deduction for income that is earned through a pass-through business (Kaminet al., 2019; Greenberg and Kaeding, 2018; Saezand Zucman, 2019; Shaviro, 2018). [2]

Both of these changes play a core role in the tax reform and give rise to controversial debates about the introduced tax rate cuts from a welfare and efficiency perspective as well as about potential loopholes originating from the new legislative framework.

4.1Sheltering Income: A Two Step Process

Corporate tax sheltering is the process by which an individual earns income through a corporation, avoiding higher levels of taxation incurred by a higher individual tax rate. [3]

The process will be shortly discussed, however, it is crucial to note that despite corporate income being taxed twice, once when the income is earned and lastly upon distribution of that income; an adequately low corporate tax rate allows individuals to still benefit despite being taxed twice. Individuals, in many instances, can even forego to pay the second layer of tax. Tax gaming focused on using corporations involves two key steps. Firstly, the individual must earn income through the corporation as opposed to an individual. Secondly, the individual defers or completely avoids triggering the second layer of tax by distributing earnings from the corporation or by selling stock. If followed, these two steps allow an individual to create notable savings on taxation by avoiding paying any individual income tax. Even if the second layer of tax is not avoided, one can still gain from paying a lower tax rate on their income under the TCJA - unlike prior laws implemented (Kaminet al., 2019). This is made possible by lowering of the corporate tax rate to 21%. The maths is explained in sufficient detail below:

Ordinary income is taxed at 40.8% under the new law (down from 44.6%). If a corporation is used as a tax shelter, the individual is taxed at a maximum rate of 21%. When the post-tax income is distributed as dividends, the remaining amount is taxed at a top rate of 23.8%. The combined effective rate of tax isoverall39.8%, and still less than the maximum 40.8% income tax rate an individual would have to pay without using corporations as tax shelters (Kaminet., 2019). In this sense, tax gaming is a win-win situation for individuals.

An Important point to note is that new changes made under the TCJA favours income earned through corporations instead of earned as individuals and is made possible by the decreases made in corporation tax. Such benefits can be magnified by entirely removing this second layer of tax. If done correctly, the individual is taxed at only 21% - cutting their tax bills by nearly a half.

There are a variety of ways to defer this second layer of tax. The simplest way is to not distribute the income out of the corporation for an extended period–avoiding any taxes on dividends. If an individual held the corporate stock till death, their heirs could escape paying any tax because the TCJA eliminates any built-in gain on assets (I.R.C. § 1014).

In the long run, an individual's heirs would avoid paying a second layer of tax and game the system. Of course, one does not need to wait till death. A second method tax payers can utilise to eliminate the layer of taxes by careful investment. Kaminet al. (2019) point out that one can achieve a similar result by keeping their corporate shares in a Roth retirement account. When entering retirement, the individual can pay no extra tax from the corporation, thus paying only a mere 21% of tax on income overall.

4.2 Pass-Through deductions

There are certain requirements for income to be eligible for the pass-through deduction. Note first that labour income is excluded from the deduction (i.e. one must be a partner in a partnership, a shareholder of a S corporation or the owner and manager of a sole proprietorship). The deduction is further limited to income that is generated from pass-through businesses. If the combined taxable income for a married couple exceeds $315,000 ($207,500 for a single individual) the deduction is only applicable to income originating from certain types of passthrough businesses. [4] Finally, for a combined taxable income exceeding $315,000 for a married couple ($157,500 for a single individual) the amount deductible depends on the number of wages paid to employees and the amount of real assets of the company. That is, taxpayers with a total taxable income above the given threshold can deduct up to 50% of the paid "W-2 wages" or if greater 25% of the paid "W-2 wages" plus 2.5% of the historical value of any acquired qualified real asset (Kamin et al., 2019; Saez and Zucman, 2019; Shaviro 2018; Donaldson, 2018). [5]

The rules governing the deduction are rather arbitrary and lack foundation in economic theory. There does not seem to exist an adequate theoretical justification for the favourable treatment of some businesses over others. The complexity and missing economic basis of the law incentivise taxpayers to engage in tax avoidance strategies. That is, one is intrigued to look for possibilities to make use of the pass-through deduction although the respective income my not (automatically) be eligible for it.

4.2.1 Becoming self-employed

As noted above, pass-through deductions are not applicable for labour income. Thus, changing the position of an employee into an independent contractor or partner makes the income potentially eligible for the deduction. As Kamin et al. (2019) put it:

> *Do not be John Doe, employee. Be John Doe, independent contractor or partner in an LLC receiving a profit share rather than wages.*

(Kamin et al., 2019, p. 1463) Therefore, businesses might change the positions of their employees into one where the income is eligible for pass-through deductions (Kamin et al., 2019). Promoting employers into higher positions mainly on the grounds of tax purposes (and not due to job performance) might cause for distortions on the labour markets leading to a misallocation of resources, inefficiencies and eventually to welfare losses. Furthermore, there does not seem to be an economic reason for (further) benefiting business income (or any income of the deduction eligible category) over labour income. [6] Due to this ambiguity, the current legislation might lead to a situation where a big part of high taxpayers is going to disappear into a self-employed status which would significantly decrease the tax base (Shaviro, 2018; Saez and Zucman, 2019; Kamin et al., 2019).

4.2.2 “Packing” and “Cracking”

Some lines of business are not eligible (or only eligible under certain requirements) for the pass-through deduction. However, one way to still get parts of the deduction, is to separate (“Cracking”) or add (“Packing”) qualifying businesses from/to the service partnership. The aim is to reallocate parts of the profit stream from the service partnership to another business that is eligible for the pass-through deduction (Kamin et al., 2019). One way of doing that would for example be to start a real-estate business (which is automatically eligible for the pass-through deduction without any requirements), transform all real-estate property from the service partnership (e.g. a law firm) to the real-estate company and then charge the service partnership with a rent as high as the current market situation allows.

Although the common ownership of the two companies cannot exceed 50%, there are still structures that enables tax avoidance (Kamin et al., 2019; Donaldson, 2018). For example, there are “outward facing” cracking companies (i.e., organisational structures where the cracked company also has other consumers than the service partnerships) or “real cracking” companies, where the cracked businesses do not have common ownership but the saved taxes within the eligible company are split among the concerned parties (Kamin et al., 2019; Donaldson, 2018). It is very difficult to clearly distinguish between a cracking strategy and normal business practices in these situations.

4.2.3 Creating losses

As noted above, some businesses are only eligible for the pass-through deduction if they pay sufficient W-2 wages or have enough depreciable real assets. Given that, companies might play the game of creating losses by making negative net present value investment decisions that help them to increase their depreciation expenses to an extend that the net loss of the investment is overcompensated by the tax gain through the increased pass-through deduction. If that is the case, the resources would have been put do better use within the economy. That is, in this case the efficient allocation of resources would be distorted leading to welfare losses (Kamin et al., 2019). This might be a rather theoretical creation of potential loophole. However, it highlights possibly welfare decreasing incentives generated by the tax code.

4.3 Conclusion

There are many more potential tax avoiding strategies occurring from the new tax legislation. The Trump administration has defended the implementation of the Tax Cuts and Jobs Act of 2017 (TCJA), and the sweeping changes it brought to corporate taxation, arguing it to bring:

"*Rocket fuel for our economy.” (Hobson, 2019)*

In retrospect, the changes brought about by TCJA have remained minimal, with no substantial economic growth and an absence

of high-powered growth rate of jobs in the economy (Varun, 2020). Following Saez and Zucman (2019), the pass-through deduction in the current form leads to a top marginal tax rate for business income of 29.6% relative to a top marginal tax rate of 37% for wages (Saez and Zucman, 2019). As most of the US business income is earned within the pass-through sector, the estimated overall drop of the top individual income tax from 40.8% to 33.4% will affect a big tax base. Consequently, the total federal revenue is estimated to decrease by $414 billion (Kamin et al., 2019; Greenberg and Kaeding, 2018). The Joint Committee on Congress similarly concurs and warns that the economic impact will result in the TCJA costing more than $1 trillion, and primarily benefitting the rich (JCX, 2017). Given that inequality has been steadily rising the last few decades, the gap between super rich and poor has grown exponentially (Piketty et al., 2013). This puts into question not only the efficiency of lowering taxes, but the larger more problematic question of, who benefits from such changes in legislation. As this report argues, these loopholes favour mainly the rich.

5 Policy Recommendations

This report identifies three main issues concerning tax-avoidance and the related consequences for the economy and society. Firstly, the different rates at which income from capital is taxed compared to labour income, incentivises individuals and organisations who are able to reclassify income as capital gains to do so, and thereby reduce their effective marginal tax rate. See for example the potential exploitation of the pass-through deduction rules. The lack of economic logic underlying the classification of some businesses to be eligible for the passthrough deductions and others not, is the fundamental issue of the pass-through deduction rules. The seemingly arbitrary distinction between different kind of businesses for tax purposes incentivises individuals to reclassify their income in order to take part of the beneficial tax treatment. Following Kamin et al. (2019), the pass-through deduction should therefore be eliminated from the tax code due to its complexity, regressivity and expense (Kamin et al., 2019).

Given that these tax advantages are generally open to those with higher incomes – who can afford to invest and receive income in the form of capital gains, increasing the taxation of such gains

would be a fairly progressive taxation policy measure as it would disproportionately affect the wealthier individuals in society, but could also increase the government's tax revenues, allowing for greater spending on public services. Tax gaming opportunities are shown to have arisen primarily because a lowering of the corporation tax creates incentives to avoid paying the top individual income tax rate (Bayern, 2017). A process enabling individuals to game the system. One possible solution is thus considered below. Assuming the current administration wishes to keep the corporate tax rate at a much lower level in comparison to the individual tax rate, a fundamental tax change is required to mitigate tax gaming. The biggest problem the tax system faces is that the current gap between capital and labour income earnings are skewed towards capital gains. If this gap exists, individuals will be incentivised to avoid paying income tax. Therefore, one option to close this gap is to tax any earning through corporations immediately, thus avoiding any pass-through treatment. Moreover, such a reform would have the added benefit of undermining any gains one may have had prior by investing through corporations (Gergen, 2016).

This idea of reducing the gap between the taxation of labour and capital was recently put to work in the UK. A recent report by the office for tax simplification recommended closer alignment of the rates. With a capital gains personal allowance in the UK of £12,300: 50,000 taxpayers reported capital gains just below this figure and therefore not taxed for the year 2017-18 (OTS, Capital Gains Tax Review, 2020). Reducing the personal allowance to a much lower level of £2000-£4000 would mean only relatively small capital gains were untaxed and would bring the majority of those 50,000 individuals into the taxable levels. Importantly decreasing the tax relief available to capital gains reduces the opportunity for avoidance of tax in particular by company owners, who may be able to classify part of their income as capital gains to take advantage of the tax-free allowance.

The report estimates a maximum increase in tax revenues of £14bn if capital gains tax rates were aligned with income tax rates assuming no change in behaviour – however such a policy measure would likely lead to individuals changing their behaviour and disposing of assets earlier to avoid the higher tax, so the £14bn figure is likely an unrealistically high estimate.

Despite this, closer alignment of US capital gains tax rates with income tax rates and lowering of the personal allowance would reduce the incentives for individuals to reclassify income to take advantage of lower tax rates and generate significant additional tax revenues for the government. This could be achieved by aligning the long-term capital gains tax rates with the short-term rates which reflect labour income taxes. This would significantly reduce the tax advantages available to those who can afford to retain assets for long periods of time.

Secondly, the shifting of profits to foreign subsidiaries in “tax-havens” in order to avoid paying (the generally higher) domestic tax bills in the US. The Biden administration has proposed several measures intended to close the offshoring loopholes, including: (i) removing the provision that allows certain U.S. companies that have call centers or production facilities overseas to escape paying taxes on the first 10% of their profits, (ii) doubling the tax rate to a minimum tax of 21% on all foreign earnings of US companies overseas so that it approximates what a domestic company would be obligated to pay for activities within the US, (iii) applying the minimum tax to each foreign jurisdiction separately; and (iv) imposing a 10% offshoring tax penalty for goods and services produced overseas (Epstein, 2020; Conklin, 2021). It would be useful to enact legislation that roughly equalizes tax rates on domestic and offshore earnings of US multinational companies (Institute on Taxation and Economic Policy, 2019), and compels them to recognize income in the tax year during which it is earned rather than when the money is repatriated to the US.

Additional changes, however, are also necessary to resolve some of the problems created by the TCJA itself. Most importantly, the exemption from taxation of dividends that domestic corporations receive from foreign corporations in which they own at least a 10% stake needs to be eliminated or modified, as it provides too much room for gamesmanship designed to avoid paying taxes. Additionally, a host of highly-technical changes proposed by the recently introduced Stop Tax Haven Abuse Act (H.R. 1786/S.725) need to be carefully considered (Clark, 2021). Many of the proposed changes relate to requiring greater transparency by US multinational corporations and imposing stiffer penalties upon those who fail to comply.

These appear to be warranted as they will help cut down on fraudulent or questionable tax avoidance schemes. Other proposed changes relate to modifications to the Base Erosion and Anti-Abuse Tax (BEAT) that had been implemented under the TCJA to impose a minimum tax on payments between a US corporation and a related foreign subsidiary that otherwise would have been deductible (EY Tax News Update, 2021). These proposed changes include, for example, lowering the threshold of the tax from $500 million to $100 million and eliminating an exception for royalty payments (EY Tax News Update, 2021). Although these proposed changes need to be studied in further detail, they appear to be worth considering.

Lastly, the more general issue of the fundamental incentives to search for and find tax loopholes in the tax code at all should be addressed. The market for the tax avoidance industry is surprisingly efficient. That is, the market provides new and innovative tax avoidance strategies with a high frequency that benefits both, consumers and producers. In particular, the government almost always seems to be slower than the tax avoidance market in closing the new-found loopholes. Saez and Zucman (2019) put it the following way:

> *"Everyone understands that the market for tax dodging will always be one step ahead of governments: it's impossible to anticipate the myriad ways in which highly paid and motivated tax accountants and consultants will try to circumvent the law" (Saez and Zucman, 2019, p. 56)*

It has to be noted however, that it is at least questionable if the surplus generated in the tax avoidance market benefits total social welfare. That is, it can be argued that the tax-avoidance industry does not create values that are beneficial for the whole society. In particular, the market outcome of tax avoiding strategies might be of such nature that it creates surplus for one part of the society at the cost of the other part (i.e. government spending, that can be considered as crucial for a civilized society if the government is assumed to try to maximise overall welfare, drops). Thus, overall social welfare might decrease as a consequence of the activities in the tax avoidance industry because markets (as efficient for the allocation of resources they may be) do not generally take the common good into consideration.

This observation has two core implications: Firstly, Saez and Zucman suggest that the regulatory policy approach to the issue of tax avoidance should build more heavily on the economic substance doctrine. That is, instead of focussing primarily on regulating specific loopholes, legislators should follow the guideline that every transaction that is solely aiming at reducing tax bills should be forbidden. This can be seen as a case of deregulating every single potential loophole and building on a more general guideline for policy measures. Secondly, it has to be questioned whether it is welfare enhancing to have a market economy in the tax avoidance industry. On the basis of this argument, there seem to be good reasons to regulate the tax-avoidance industry more effectively, at least if the observation is true that the efficient market outcome in this particular market decreases overall social welfare.

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End Notes

1 - Statistics on US income tax rates and standard deductions are sourced from Tax Policy Center (2020). UK health department budget data are sourced from The King's Fund (2020)

2 - See Donaldson (2018) for an overview of the changes introduced by the Tax Cuts and Jobs Act of 2017.

3 - Pass-through businesses are businesses that that are not subject to corporate tax (i.e. sole proprietorships, S corporations and partnerships). That is, in these businesses profits are allocated directly to the owners and taxed with the individual income tax (see Berk et al., 2019, p. 38 f. and Greenberg and Kaeding, 2018, p.1).

4 - Excluded businesses for example include health services, law, consulting, actuarial science, business that involve investment management and businesses where the main asset is the reputation and personal skill of the owners and/or employees (Donaldson, 2018, pp. 14 ff.; Kamin et al., 2019, p. 1460).

5 - These requirements and guidelines to determine what kind of income is eligible for the deduction only represent the basic and most important legislative rules. For a more detailed overview see for example Donaldson (2018).

6 - Saez and Zucman (2019) show that over less than the past two decades the federal income tax has turned into one that more and more benefits capital over labour income (see Saez and Zucman, 2019, p.19).