The Apple Company’s Offshore Assets and US Tax System

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Corporate Cash Holdings and Apple’s Offshore Wealth

Some of the largest corporations on Earth are based in the United States. These companies are so big and wealthy that they can buy entire countries. These multinational corporations have been working for a long time and have expanded their operations over the years. Today, they have businesses in multiple countries. Not only that, but they also earn a significant amount of money, which they keep abroad. This paper will discuss one such company; Apple Inc. (“Americans Are Paying Apple Millions to Shelter Overseas Profits,” n.d.).

Apple Inc. is not only one of America’s most giant corporations but also one of the wealthiest companies. It holds one of the largest cash reserves in the world. Over the past few years, it has become a symbol for American multinational firms for hiding overseas profits instead of paying taxes. However, the alarming thing is it has received almost half a billion dollars not to pay taxes, by the U.S. government.

(Hickey, n.d.)

In the past, American corporations would keep cash holdings that equaled 10 % of their yearly revenue. However, these days, American companies keep cash equal to around 13% of their sales revenue. This money is not distributed equally(Monga, 2016). The first 20 companies have about 40 % of the cash holdings, while the remaining is distributed among the rest of the businesses.

Tax Deferral, Legal Avoidance, and the Growth of Overseas Assets

There was a time when Apple was known for bringing its profits back and doing research on and developing new products. However, now the company generates more cash from sales than it needs. Apple’s CEO claims the company has returned around $200 billion to shareholders. This news might be ideal, though Apple technically requires all of its cash back to the U.S.; the country of origin(Titcomb, 2017).

Apparently, what Apple is doing is not illegal. America’s tax system has specific rules that allow Apple to stash its enormous cash reserve in the United States, by buying government bonds. The Treasury Department becomes liable to pay more than $600 million in interest payments by purchasing government bonds.

(“US firms’ untaxed cash more than India’s GDP – Times of India,” n.d.)

Treasury Investments, Disclosure, and Corporate Tax Strategy

According to many tax experts, Apple is not the only company to avoid paying taxes to the United States. Some other U.S.-based multinational companies are benefitting from the same policies. The recipe for tax avoidance is simple: save billions of dollars by buying U.S Treasuries with overseas cash. Hence, multinational companies, which should be helping their home country in its economic outlook, are some of the most prominent hypocrites. Experts claim this is akin to borrowing a bike that belongs to you.

The entire procedure for Apple and other big companies to buy U.S. treasuries is legal. The government has allowed corporations to buy U.S. debt to avoid paying taxes. However, the entire investment would still be considered as foreign earnings. The interest earned is taxable, according to the tax laws, and if the company decides to sell the U.S. debt, the money will be taxed, as per the rules.

When the media contacted Apple, its spokesman, Josh Rosenstock showed the company’s annual financial report, which had been filed with the United States Securities and Exchange Commission. The report claimed that Apple had paid around $10.4 billion in taxes, all over the world. However, the Internal Revenue Service and the Treasury departments did not give any answers to questions asked by the media.

(“Apple’s Cash Dilemma,” n.d.)

Section 956 and the Debate Over Offshore Tax Exemptions

Apparently, the issue of American companies hoarding taxable money overseas is serious. Even though the procedure is entirely legal, U.S. lawmakers have been discussing it for some time now. In fact, during the 2016 U.S. presidential elections, Donald Trump promised to make companies bring back that money; if not all then some of it. He said this could be done by introducing a new law that will charge only a 10 % tax instead of 35 %.

The exemption policy in the U.S. tax code, Section 956(C)(2) has existed since 1962. However, it was used quite recently; around two decades ago, by multinational companies in technology and pharmaceuticals. They use it for tax reduction against their substantial overseas profits. The law states that companies can bring back foreign income, without paying taxes, if they invest in the U.S. Treasuries and other securities in America. But, if the company decides to spend the money for any other cause, it must pay a 35 % tax.

(Bobkoff, n.d.)

European Taxation and the Politics of Repatriation

While the battle of words is going on, among United States lawmakers, Apple seems more concerned about the European Commission's decision to pay $14.5 billion to settle a tax bill. The bill comes from Apple's use of Irish laws for tax concession in the European Union. Apple's management is angry at the European Commission's move and has lashed out against it.

Apple's management does not want to repatriate the offshore cash holdings until they are aware of any repatriation policy by the U.S., which would profit Apple. Exactly what kind of repatriation deal Apple is looking for may not be apparent, but one thing is confirmed: Apple may be looking for a deal similar to the one it gets in Ireland. Hence, Apple has been storing its cash in Ireland, so it may not have to bring it back to the U.S. According to the European Commission's new policy it wanted to tax Apple for the past ten years. This has resulted in Apple's plan to backfire, and now, it has to develop a new idea.

In this case, the United States is fighting against the European Commission's policy to tax the company. According to it, the E.C. is trying to seize tax money that belongs to the U.S. However; it should be noted that the money it is fighting for, would never have come to the U.S. anyway. In a way, the United States is itself to blame. It charges a whopping 40 % tax on corporations, far more than the offshore tax havens cost. Prominent Irish lawyer; Sean Coffey, says that the U.S. is the rightful heir to the taxes. However, its policies have resulted in corporations hiding their money offshore.

Tax Reform, Reduced Rates, and Corporate Incentives

The European Union is now taxing Apple's products from its European sales. According to Coffey, this is wrong, because it says the sales have arisen by selling products that were researched and developed in the U.S. The truth is, people, do business to maximize their profits. It is justified that a company, no matter how big or small, should pay taxes to the country where it operates, but it is not right to pay double taxes. An American multinational corporation working in Europe should pay taxes to the country where it originates or from where it operates. Paying double taxes results in the company earning less profit, which insults all those who have put in the hard work.

Currently, the Trump administration has voted for a new tax reform. The new reform is a Repatriation Act, which will allow big corporations to bring back money they hold overseas. Previously, if they would bring overseas profit back to the U.S., the corporations had to pay a 35% tax. However, the tax rate has now decreased to 10%. The Trump administration believes this will allow corporations to return their overseas cash to the United States, which will be used to create more jobs for the locals. It also means that the corporations would only pay levies to the countries where the products are manufactured.

It may sound like a nice plan, to reduce the tax rate, but is it profitable for the companies? Suppose, a company, for example, Apple, says 'yes' to the government and brings its overseas cash back; it would have to declare all its overseas profits. A company, being a business identity with an identity of its own, has the right to declare or not to declare its profits. If profits are made outside the United States, it can do as it will. I believe that this new tax reform is a trap for the big businesses. They should not jump on the bandwagon and shift their cash holdings so soon.

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