Obama seeks tax changes for U.S. firms overseas

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By Kim Dixon and Caren BohanKim Dixon And Caren Bohan –1 hr 19 mins ago

WASHINGTON (Reuters) –President Barack Obama on Monday will propose changing provisions in the tax code that he says encourage U.S. companies to move jobs overseas, as part of a broader package aimed at saving $210 billion over 10 years.

U.S. officials said that in an announcement planned for 11:05 a.m. EDT, Obama will seek to follow through on a campaign promise to change the tax treatment of American firms with overseas operations.

That portion of his plan -- opposed by such firms as Pfizer Inc and Oracle Corp -- would raise more than $100 billion in revenue over the next decade.

In an echo of a line he used often on the campaign trail last year, Obama vowed in a February address to the U.S. Congress to make the tax code more fair by "finally ending the tax breaks for corporations that ship our jobs overseas."

Currently, U.S. firms are allowed to defer paying taxes on profits earned overseas if they plow those profits back into their foreign subsidiaries.

Critics say those rules encourage businesses to bolster their foreign operations instead of creating jobs at home.

But an array of firms signed onto a letter to congressional leaders in March opposing changes to the so-called deferral provision, saying they would make U.S. businesses less competitive.

The letter was signed by 200 companies and trade associations, including Pfizer, Oracle, Microsoft Corp Johnson & Johnson and General Electric Co as well as the Business Round table and the U.S. Chamber of Commerce.

The letter said the firms would not be on a level playing field with international rivals, many of which are not required to pay taxes at home on overseas entities.

Senior U.S. officials who described Obama's plans said they were balanced and would not put excessive burdens on firms.

NO MORE DEDUCTING EXPENSES

A central provision would prohibit companies from deducting expenses supporting their overseas operations until they pay taxes on offshore profits.

The officials said the plan would also end a practice by which some firms take big deductions against their taxes by inflating the amount of foreign taxes they have paid.

The proposal also includes extension of a research and experimentation tax credit the administration says businesses have been pushing for, which is expected to give a tax cut of $74.5 billion over 10 years to companies investing at home.

Obama's proposals on deferral mirror legislation drafted by House Democrats, whom the Obama administration consulted in crafting its plan.

In addition to the changes to the deferral provisions, separate proposals in Obama's plan would raise $95 billion by cracking down on overseas tax havens. Such tax havens became a major topic at the April meeting in London of leaders of the Group of 20 major economies.

The Obama plan would close loopholes that allow firms and individuals to hide income. He also plans to bolster enforcement of overseas tax evasion and wants to see stiffer penalties for those who fail to meet reporting requirements.

While serving in the U.S. Senate, Obama backed legislation drafted by Sen. Carl Levin, head of the Senate Permanent Subcommittee on Investigations, to crack down on tax havens.

That legislation did not pass, but Levin and other lawmakers are working on other ways to address these issues.

In one of the proposals to crack down on tax evasion, the administration would require financial institutions to share information to the Internal Revenue Service about its U.S. customers. Foreign institutions must sign up with the IRS to become "a qualified intermediary" or else face a presumption that they are helping individuals evade taxes.

"The financial institution has to come forward with evidence to show there is not tax evasion going on," one official said.

Swiss banking giant UBS AG acknowledged in February that it helped U.S. clients conceal assets from their government. It agreed to pay a $780 million fine and has since identified about 320 of its American clients.

The U.S. government is now suing UBS in a civil case to reveal the identities of 52,000 Americans suspected of using accounts at the bank to hide about $14.8 billion of assets and evade U.S. taxes.

(Editing by Doina Chiacu)