GOP Tax Law Risks Shipping Connecticut Jobs Overseas



U.S. Congress Joint Economic Committee
Democratic Staff

August 2018

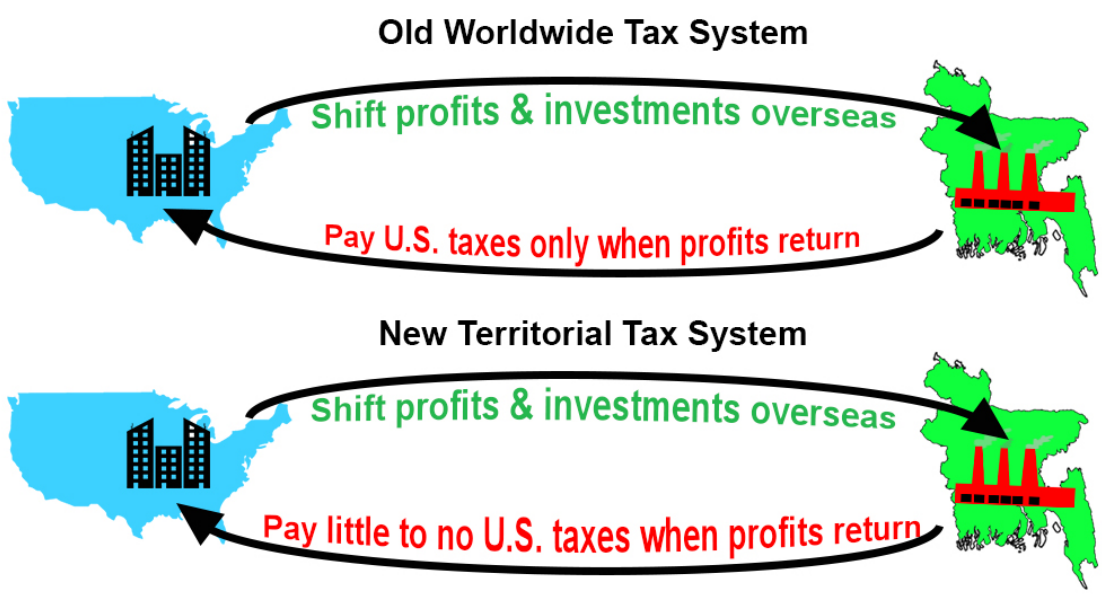
President Trump's tax law lavishes tax cuts on corporations and the wealthy, while stacking the deck against working families in Connecticut and across the country. In addition to permanently lowering the corporate tax rate to levels not seen since the 1930s, the new law offers many companies a sweetener: they can reduce their tax liability even more by moving operations and jobs overseas.

About 199,200 Nutmeggers have jobs that are vulnerable to offshoring and work in industries with a track record of moving production to foreign countries.[1] Rather than passing policies that protect these workers and their families, President Trump and Congressional Republicans created a law that actually encourages companies to move factories and jobs out of Connecticut and into foreign countries in order to take advantage of new tax breaks.

Republicans Incentivize Companies to Leave Americans Behind

Prior to the Republican tax changes, when transferring earnings back to the U.S., American companies were required to pay a 35 percent corporate tax on income earned abroad.[2] Many companies were able to defer paying taxes on foreign earnings indefinitely by keeping them offshore – that is, outside of the United States.[3] This system not only deterred companies from bringing profits back home, but also encouraged them to move some operations overseas.[4]

The Trump tax law exacerbates, rather than solves, this problem by moving the U.S. closer to a "territorial" international tax system, providing new incentives for companies to move factories and jobs overseas.[5] Under a territorial tax system, corporate profits are taxed only in the country where the profits are generated. This means that a U.S. parent company does not have to pay taxes on the earnings it receives from its foreign subsidiaries, or on the earnings it brings back to the U.S. [6] While Republicans claimed this shift would ensure jobs stayed on American soil, it actually creates a new, permanent incentive for companies to shift profits and investment to lower-tax countries overseas.



In an effort to curb some of the fallout from eliminating taxes on foreign earnings, Republicans added several provisions to the new law to establish minimum tax rates on profits earned abroad and deter companies from abusing tax havens. However, two poorly designed provisions might actually encourage offshoring, making things worse for the people of Connecticut:

Global Intangible Low-Taxed Income

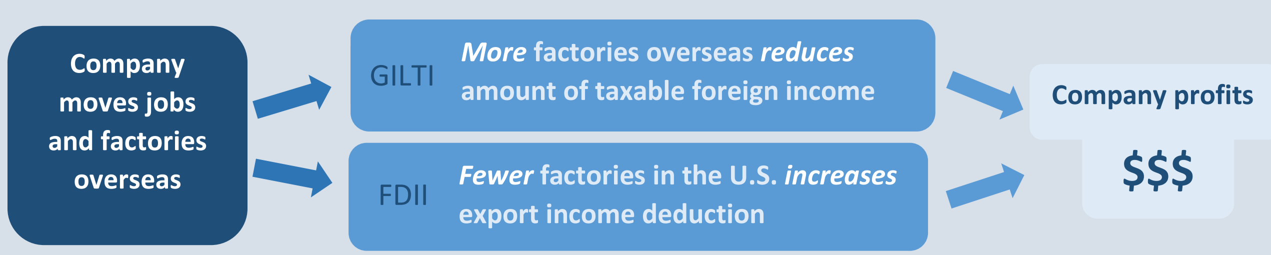
The tax law creates a new minimum tax on global intangible low-taxed income (GILTI)—foreign income that exceeds 10 percent of a company's foreign "tangible assets," such as factories and machinery.[7] The goal of this minimum tax is to discourage companies from moving "intangible assets," such as patents and copyrights, to lower-tax countries, not to prevent companies from offshoring tangible assets. Effectively, by locating factories and jobs in other countries, a company is able to reduce or even eliminate the amount of their foreign income that is categorized as GILTI and therefore subject to the tax.[8]

Even if a company cannot avoid paying the minimum tax, the tax imposed on their taxable foreign income is 10.5 percent—just half of the new 21 percent corporate rate on earnings generated domestically.[9] This establishes permanent preferential tax treatment for profits earned in other countries, further incentivizing U.S. companies to shift even more factories and jobs overseas.

Foreign Derived Intangible Income

The Trump tax law creates a deduction for a new category of income tied to exports known as foreign derived intangible income (FDII), which is subject to a much lower tax rate of about 13 percent.[10] Because having more tangible assets in the U.S. reduces the amount of income that qualifies for this deduction, a company can claim a larger deduction by locating their tangible assets abroad.[11] Similar to the minimum tax on GILTI, this provision could incentivize companies to move factories and jobs overseas in order to take full advantage of this deduction.

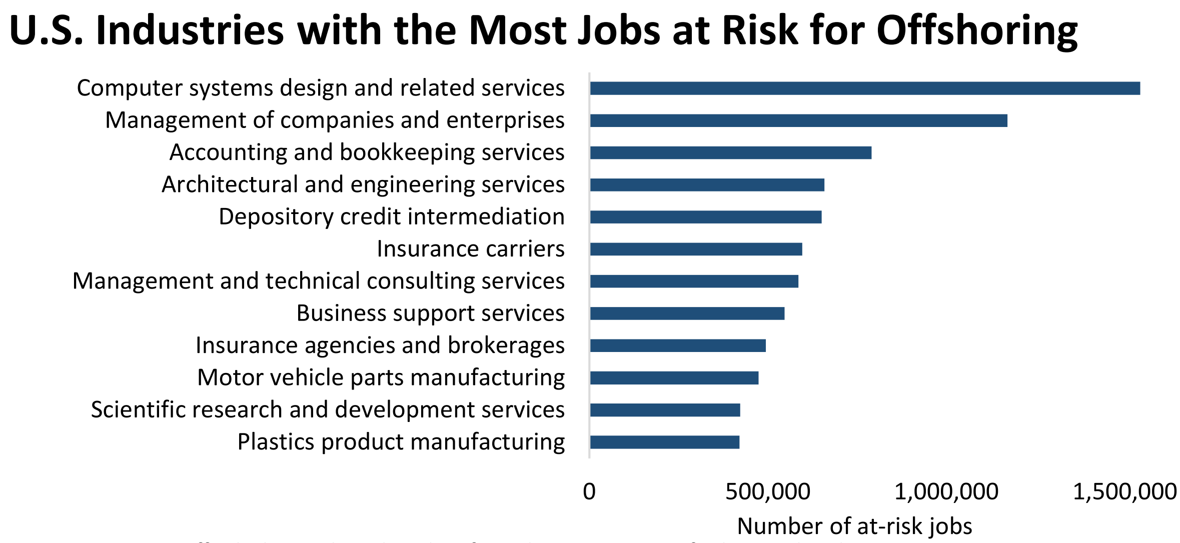
How Corporations Profit From Moving Jobs Overseas Under Trump's Tax Law



Both the minimum tax on GILTI and the FDII deduction create a permanent incentive for U.S. companies to move factories and jobs overseas in order to pay less in U.S. taxes.

American Workers Lose Under Trump's Tax Law

The international provisions in the Trump tax law tilt the playing field against American workers, making it harder for them to earn good wages, maintain steady incomes, and support their families. By taxing profits generated by workers in the U.S. at a much higher rate than profits generated by those abroad, the provisions encourage companies to lay off American workers and move operations overseas. For workers in industries already vulnerable to offshoring, Republicans have compounded the threat to their jobs and livelihoods.



Source: JEC Democratic staff calculations based on data from the Department of Labor Trade Adjustment Assistance program, BLS Quarterly Census of Employment and Wages and Occupational Employment Statistics, and Blinder, Alan S. "How many US jobs might be offshorable?" World Economics (2009).

Many manufacturing and service sector jobs face a very high risk of being shipped overseas. Manufacturing jobs leave when a company moves production to another country, while service jobs, such as data entry or staffing a call center, can be performed remotely by workers in other countries. Across the country, more than 15.4 million manufacturing and service jobs are at high risk of being offshored.[12] Instead of taking the opportunity to address this threat, President Trump and Congressional Republicans expose these Americans to further job loss.

Thousands of Good Jobs in Connecticut at Risk

In Connecticut, an estimated 199,200 workers across 58 industries face the most risk of losing their jobs to offshoring, representing about 14 percent of the state's private workforce. That is more people than the entire population of Bridgeport, Connecticut's largest city.

The aerospace product and parts manufacturing industry, which has shifted operations overseas about 34 times over the last five years, has the most employees that are vulnerable to offshoring within Connecticut's manufacturing sector. Roughly 20,100 workers in this industry are at risk of having their jobs moved abroad as manufacturers shift operations overseas. Overall, about 75,200 people working in Connecticut's manufacturing sector are at risk of losing their jobs.

Within the service sector, the insurance carriers industry has about 22,700 jobs that are vulnerable to offshoring. Over the last five years, this industry has moved operations overseas 66 times. Other service industries with high numbers of at-risk jobs are the computer systems design and related services industry, with 19,200 jobs at risk, and the management of companies and enterprises industry, with 16,600 jobs at risk.

Connecticut's Top Ten Industries with the Most Jobs at Risk for Offshoring	
Industry	**Number of Jobs at Risk**
Insurance carriers	22,689
Aerospace product and parts manufacturing	20,093
Computer systems design and related services	19,154
Management of companies and enterprises	16,614
Accounting and bookkeeping services	8,173
Depository credit intermediation	6,791
Architectural and engineering services	6,088
Insurance agencies and brokerages	5,911
Management and technical consulting services	5,336
Scientific research and development services	4,538
Source: JEC Democratic staff calculations based on data from the Department of Labor Trade Adjustment Assistance program, BLS Quarterly Census of Employment and Wages and Occupational Employment Statistics, and Blinder, Alan S. "How many US jobs might be offshorable?" World Economics (2009).	

Supporting Connecticut's Working Families

President Trump and Congressional Republicans promised their tax cuts for corporations and the wealthy would boost wages and spark unprecedented economic growth. Instead, the law further endangers 199,200 Nutmeggers whose jobs and livelihoods are already at risk of moving abroad. Rather than tax giveaways to corporations willing to shutter American factories, lay off workers, and move operations abroad, we need real solutions that will keep jobs in Connecticut, support working families, and strengthen the middle class.

---

[1] To determine the number of jobs that are vulnerable to offshoring, we estimate the number of workers who work in industries with a track record of moving production offshore and have job duties that easily performed abroad. Data from the Department of Labor's Trade Adjustment Assistance Program is used to identify industries that have moved production overseas at least 10 times in the last 5 years. We then use data from the Bureau of Labor Statistics' (BLS) Quarterly Census of Employment and Wages to calculate the number of workers employed in these at-risk industries. Finally, we use data from Alan Blinder (2009) and BLS' Occupational Employment Statistics to estimate the share of workers in each of the at-risk industries whose job characteristics make them susceptible to offshoring.

[2] https://www.cbpp.org/research/federal-tax/new-tax-law-is-fundamentally-flawed-and-will-require-basic-restructuring#_ftn45

[3] https://www.americanprogress.org/issues/general/news/2011/03/16/9215/tax-expenditure-of-the-week-offshore-tax-deferral/

[4] Ibid.

[5] https://www.cbpp.org/research/federal-tax/new-tax-law-is-fundamentally-flawed-and-will-require-basic-restructuring#_ftn45; As part of the transition to the new system, the TCJA allows companies that have accumulated earnings offshore to repatriate them—that is, bring them back—to the U.S. by paying a one-time tax of between 8 and 15.5 percent.

[6] https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf

[7] https://itep.org/new-legislation-would-close-significant-offshore-loopholes-in-the-tax-cuts-and-jobs-act/

[8] https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf

[9] https://www.cbpp.org/research/federal-tax/new-tax-law-is-fundamentally-flawed-and-will-require-basic-restructuring#_ftn45

[10] https://itep.org/understanding-and-fixing-the-new-international-corporate-tax-system/
[11] https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf
[12] See endnote 1.