

Opening Statement by Senator John McCain on Apple Profit Shifting

Thank you, Mr. Chairman. Apple's corporate tax strategy reflects a flawed corporate tax system that allows large multinational corporations to shift profits offshore to low-tax jurisdictions. For years, Apple has opted to forgo fully contributing to the US treasury and to American society by shifting profits and circumventing US taxes. In the last four years alone, Apple has avoided paying taxes on \$44 billion dollars in income.

With over \$145 billion dollars in cash on hand, Apple ranks as one of the wealthiest multinational corporations in the world. Given its annual intake, Apple executives enjoy reminding the public that the company is likely the largest corporate taxpayer in the United States. However, these same executives fail to mention another, less attractive, fact—that Apple is also one of the biggest tax avoiders in America.

Today, Apple has over \$100 billion dollars, more than two-thirds of its total profits, stashed away in an offshore account. That's over \$100 billion dollars that are not currently subject to US corporate income taxes and, therefore, cannot be used to ease the deficit or help invigorate the same American economy that fostered the creation of this large corporation in the first place. As the shadow of sequestration encroaches on hard-working American families, it is unacceptable that corporations like Apple are able to exploit tax loopholes to avoid paying billions in taxes.

Apple's corporate tax strategy is fueled by the company's fixation on reducing US tax payments. Apple has developed a complex corporate tax strategy that enables the company to shift billions of dollars in global profits into overseas subsidiaries without having to pay U.S. taxes. Although Apple is by all accounts an American company, its holding company in Ireland currently retains the bulk of its profits.

The Subcommittee's investigation has uncovered a disturbing truth. Apple's three primary Irish entities hold 60 percent of the company's profits, but claim to be tax residents nowhere in the world. It is completely outrageous that Apple has not only dodged full payment of US taxes, but it has managed to evade paying taxes around the world through its convoluted and pernicious strategies. .

Specifically, from 2009 to 2012, Apple Operations International received roughly \$30 billion dollars in dividends from other Apple subsidiaries around the world. This made up 30 percent of Apple's total worldwide net profits over the last few years. However, AOI did not pay corporate income tax to any national government. Furthermore, AOI, a company with tens of billions of dollars in cash, has never had any employees. It shares its address with other subsidiaries in Ireland. There are three individuals on its Board of Directors, two Apple Inc. employees located in California, and one employee of Apple's Irish sub, ADI. Its operations appear to be completely directed by Apple in California.

Perhaps sensing that it might need to maintain some semblance of legitimacy, Apple Sales International, another subsidiary with no tax residence, and no employees until 2011, began

employing 250 people in 2012. However, with \$22 billion dollars of income in 2011, ASI only paid one twentieth of one percent in Irish taxes. As Apple funnels billions of dollars through its numerous Irish entities, even those entities that **do** pay taxes enjoy a negotiated tax rate of less than two percent.

Apple has also taken its most valuable asset, its intellectual property, and divided it between its legal and economic rights. The company left 100 percent of its legal rights in the United States, but transferred a portion of those economic rights to its Irish entities, thereby shifting billions of dollars to Ireland. Despite the fact that 95 percent of Apple's research and development takes place right here in America, the majority of its profits are elsewhere. Apple's Irish sub has profited in amount far in excess of its research and development contributions.

By engaging in these elusive corporate strategies aimed at deferring and reducing tax payments, Apple's tax department has given new meaning to the company's old slogan, quote: "think different."

In my view, loopholes like these, which multinationals like Apple aggressively employ, are harmful in that they provide large corporations huge competitive advantages over smaller domestic companies. These domestic companies pay a higher tax rate because they cannot use overseas operations to lower their effective corporate rate. It is problematic when small and emerging American companies feel the full weight of corporate income taxes while larger corporations maneuver around full tax payment.

Given the massive budget cuts under sequestration that have impacted our nation's most vital interests, U.S. corporations cannot continue to avoid paying their appropriate share in taxes. **Our military cannot afford it. Our economy cannot endure it. And most importantly, the American people will not tolerate it.**

America's tax system is broken and uncompetitive, and I have long supported efforts to modernize it. However, I will not allow that position to be used as an excuse to turn a blind eye to the highly questionable tax strategies used by Apple. The general American public should not have to make up the balance as corporations avoid paying billions in U.S. taxes. The egregious loopholes that exist in the tax code must be closed so that the nearly \$1 trillion dollars in untaxed overseas profits can come back to the United States. It is past time for American corporations, like Apple, to reorganize their tax strategies, to pay what they should, and invest again in the American economy.

When Tim Cook, the CEO of Apple, met with the Subcommittee he said that, though he has no immediate intentions of repatriating Apple's foreign cash, the company does have plans to grow manufacturing in the United States and create more American jobs. This is a step in the right direction, and we must have a tax system that encourages this objective.

I thank the witnesses for appearing before the Subcommittee today, and I look forward to their testimony.