US budget proposal to attack overseas tax breaks

By Krishna Guha in Washington

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The Obama administration yesterday unveiled plans for a fresh assault on international tax avoidance that officials say will help reduce the deficit from a record $1,556bn this year.

Under the plan, US-based multinationals that transfer brands and patents to foreign affiliates that pay little tax overseas would pay a surcharge on the excess returns on those assets.

The administration also proposes denying companies that borrow money to invest overseas the ability to take immediate tax deductions on the interest payments. Officials say the crackdown would raise $122bn over the next 10 years.

The announcements came as part of Barack Obama's budget plan, which will see another $100bn jobs programme this year followed by deficit reduction from 2011. "We won't be able to bring down this deficit overnight, given that the recovery is still taking hold and families across the country need help," the president said.

"We simply cannot continue to spend as if deficits don't have consequences," he warned.

The proposed changes to the tax code met with a hostile reaction from the senior Republican on the Senate finance committee and, more importantly for Mr Obama, a lukewarm reaction from its Democratic chairman.

Under the president's budget, the deficit would fall from 10.6 per cent of GDP in 2010 to 3.9 per cent by 2015.

Mr Obama challenged Republicans to join Democrats in developing plans for further deficit reduction through a bipartisan commission - but received little encouragement from Republican leaders.

The plan assumes a rise in tax on "carried interest" payments to partners in financial firms.

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