## IMPOSE A 15 PERCENT MINIMUM TAX ON BOOK EARNINGS OF LARGE CORPORATIONS

### Current Law

Taxpayers are generally required to compute their taxable income based on their books and records. Although books and records are the starting point for determining taxable income, various provisions of the Internal Revenue Code result in providing profitable corporations with a variety of allowances that reduce their income subject to federal income tax. Corporations are simultaneously able to report large profits to shareholders in financial reports and reward executives based on these measures, while claiming that their taxable income is at such a low level that they do not have any federal income tax liability. In a typical year, around 120 companies report pre-tax net income of $2 billion or more on their financial statements but a significant share of these firms pay zero income tax or receive tax refunds.

### Reasons for Change

The proposal would work to reduce the significant disparity between the income reported by large corporations on their federal income tax returns and the profits reported to shareholders in financial statements by requiring them to pay a minimum amount of tax based on their reported financial income. The proposal is a targeted approach to ensure that the most aggressive corporate tax avoiders bear meaningful federal income tax liabilities. The proposal would also provide a backstop for the proposed new international tax regime since highly profitable multinational corporations would no longer be able to report significant profits to shareholders while avoiding federal income taxation entirely.

### Proposal

The proposal would impose a 15 percent minimum tax on worldwide book income for corporations with such income in excess of $2 billion. In particular, taxpayers would calculate book tentative minimum tax (BTMT) equal to 15 percent of worldwide pre-tax book income (calculated after subtracting book net operating loss deductions from book income), less General Business Credits (including R&D, clean energy and housing tax credits) and foreign tax credits. The book income tax equals the excess, if any, of tentative minimum tax over regular tax. Additionally, taxpayers would be allowed to claim a book tax credit (generated by a positive book tax liability) against regular tax in future years but this credit could not reduce tax liability below book tentative minimum tax in that year.

The proposal would be effective for taxable years beginning after December 31, 2021.