NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE
August 17, 2004

CONTACT: Mitchel Benson
(916) 653-4052

CALIFORNIA TREASURER ANGELIDES, ASSEMBLYMEMBERS CHU AND RIDLEY-THOMAS, BUSINESS LEADERS URGE LEGISLATURE TO CLOSE UNFAIR TAX LOOPHOLE

They Urge Governor's Backing of Proposal to Prevent Publicly Traded U.S. Corporations That Relocate Offshore - In Name Only - From Evading Their Fair Share Of California Taxes

SACRAMENTO, CA – State Treasurer Phil Angelides and Assemblymembers Judy Chu (D-Monterey Park) and Mark Ridley-Thomas (D-Los Angeles), joined by California business leaders, today called on members of the Legislature to pass a bill that would prevent 18 publicly traded U.S. corporations from evading their fair share of California taxes by relocating offshore – in name only – to locales such as Bermuda and the Cayman Islands. They also called on Governor Schwarzenegger to publicly support the measure to help ensure its legislative passage. A vote on the bill, AB 2584, authored by Assemblymember Chu and sponsored by Treasurer Angelides, is expected later this week on the Assembly floor.

"By passing AB 2584, the Legislature has an opportunity to begin the kind of reform that is sorely lacking in Governor Schwarzenegger's first budget – closing a tax loophole that benefits a few companies at the expense of the many Californians who depend on California's schools, law enforcement, and other critical services," Angelides said.

"And, at a time when the Governor has promised to make California more friendly to businesses in our State, this bill would eliminate an injustice faced by California businesses, large and small, who must compete with offshore giants that set up phony mailboxes in tax havens to avoid paying their fair share of taxes. I urge the Governor to pledge his support for this bill."

Assemblymember Chu added, "AB 2584 puts an end to a tax loophole that allows corporations to smuggle their profits offshore and commit tax treason. These companies establish phony parent companies in Bermuda to hide millions in profits from taxes and gain an unfair advantage over companies fighting to keep their headquarters and jobs in California."

Joining the Treasurer and Assemblymember Chu in urging passage of AB 2584 at a news conference here today was Cynthia McClain-Hill, President of the National Association of Women Business Owners - Los Angeles, who said, "These tax loopholes are simply unfair to California businesses that play by the rules and pay their fair share of California taxes. I applaud the efforts that Treasurer Angelides and Assemblywoman Chu have made to eliminate this egregious loophole that lines the pockets of multi-national conglomerates at the expense of home-grown California businesses that struggle to make ends meet."

Also lending his support for the bill was Michael Haren, President of Architectural Security Products, a Canoga Park-based company that distributes doors, door frames and hardware produced by American companies that compete with Ingersoll-Rand, one of the 18 companies identified as corporate expatriates.

"The taxpayers of California are being treated unfairly," Haren said in a statement. "Small companies like mine do not have the luxury of moving our corporate offices to Bermuda or the Cayman Islands. Tax breaks for offshore companies like Ingersoll-Rand create an unfair playing field for the small businesses that are the backbone of California's economy."

Assemblymember Mark Ridley-Thomas (D-Los Angeles), author of AB 2106, a bill that would require an annual review of all tax loopholes, similar to other expenditures in the budget, also participated in today's news conference.

In recent years, a handful of U.S.-based, publicly traded companies – 18 out of more than 8,000 publicly traded U.S. corporations – have restructured as foreign corporations in lax offshore havens. These "corporate expatriates" maintain their headquarters and operations in the United States, enjoying the benefits of operating as U.S. companies, but avoid federal and state taxes and skirt legal protections for investors.

According to the state Franchise Tax Board, California will lose an estimated $132 million in revenue over the next 10 years as a result of corporate expatriations that have already occurred. AB 2584 would stem these losses, recouping approximately $99 million that would otherwise be lost to these expatriations. If the number of corporations that expatriate continues to grow at the rate of the last 10 years, California will lose an estimated $180 million in tax revenues over the next decade – if no legislation is passed to close the expatriate tax loophole.

Angelides has been a national leader in fighting to end the troubling practice of corporate expatriation. In July 2002, for example, Angelides banned the State's $58 billion Pooled Money Investment Account (PMIA) from investing in publicly held U.S. corporations that reincorporate in offshore tax havens. He also prohibited the State Treasurer's Office from contracting with or engaging in any business dealings with expatriate U.S. companies. And, in 2003, the Treasurer sponsored SB 640, authored by Senate President pro Tem John Burton (D-San Francisco) and signed into law by then-Governor Davis on October 2, 2003, which prohibits the State of California from contracting with publicly held U.S. corporate expatriate companies, unless those companies agree to shareholder protections and to pay their fair share of taxes.

In the wake of the State's fiscal crisis, Treasurer Angelides has led the charge to close a number of unfair and unjustified corporate tax loopholes. In the last legislative session, the Treasurer sponsored SB 1067, authored by state Senator Jackie Speier (D-Hillsborough), a measure similar to AB 2584, which fell just one vote short of passage in the state Senate. And, in April, the Treasurer and a group of lawmakers proposed a package of bills, including AB 2584, to close a set of eight tax loopholes that represent a combined $386 million in lost tax revenue annually, and Ridley-Thomas' AB 2106, which would require the annual review of tax loopholes.

# # #

PUBLICLY HELD U.S. CORPORATIONS IDENTIFIED AS EXPATRIATING TO OFFSHORE TAX HAVENS

(Partial list based on information available as of 06/30/04)

Company Name	Ticker Symbol	Exchange	Domestic Headquarters	Expatriation Date	Offshore Haven
Accenture, Ltd.	ACN	NYSE	Chicago, IL	2001	Bermuda
Cooper Industries, Ltd.	CBE	NYSE	Houston, TX	2002	Bermuda
Everest Reinsurance Group. Ltd.	RE	NYSE	Liberty Corner, NJ	2000	Bermuda
Foster Wheeler, Ltd.	FWLRF	OTC BB	Clinton, NJ	2001	Bermuda
GlobalSantaFe (Global Marine)	GSF	NYSE	Houston, TX	2001	Cayman
Helen of Troy, Ltd.	HELE	NASDAQ	El Paso, TX	1994	Bermuda
Ingersoll-Rand Company, Ltd.	IR	NYSE	Woodcliff Lake, NJ	2002	Bermuda
Leucadia National Corp *	LUK	NYSE	New York, NY	Pending	Pending
McDermott International, Inc	MDR	NYSE	New Orleans, LA	1983	Panama
Nabors Industries, Ltd.	NBR	AMEX	Houston, TX	2002	Bermuda
Noble Corporation (Drilling)	NE	NYSE	Sugar Land, TX	2002	Cayman
PXRE Group, Ltd.	PXT	NYSE	Edison, NJ	1999	Bermuda
Seagate Technology	STX	NYSE	Scotts Valley, CA	2002	Cayman
Transocean, Inc.	RIG	NYSE	Houston, TX	1999	Cayman
Tyco International, Ltd.	TYC	NYSE	Exeter, NH	1997	Bermuda
Weatherford International, Ltd.	WFT	NYSE	Houston, TX	2002	Bermuda
White Mountains Insurance Group, Ltd.	WTM	NYSE	Hanover, NH	1999	Bermuda
Xoma, Ltd.	XOMA	NASDAQ	Berkeley, CA	1999	Bermuda

Sources: Office of U.S. Representative Lloyd Doggett (Texas) based on Library of Congress records; Office of U.S. Representative Richard Neal (Massachusetts) based on various news sources; Bloomberg, recent SEC filings.

Note: Chart reflects *public companies* identified as of June 30, 2004, and is not reflective of the status of any company (public or private) after that date.

Investment actions by Pooled Money Investment Account, CalPERS, and CalSTRS would be contingent on independent verification.

* Leucadia National Corporation has until 2005 to move offshore, but has not actually done so.

OFFICE OF THE TREASURER
P. O. BOX 942809
SACRAMENTO, CA 94209-0001

Closing the Corporate Offshore Loophole:

Ensuring Expatriate Corporations Pay Their Fair Share

AB 2584
(Chu)

FACT SHEET

Summary

AB 2584, introduced by Assembly-member Judy Chu and sponsored by State Treasurer Phil Angelides, will prevent publicly traded U.S. corporations from evading their fair share of California taxes by relocating offshore – in name only – to locales such as Bermuda and the Cayman Islands. According to the Franchise Tax Board, California will lose an estimated $132 million over the next 10 years – as the result of corporate expatriations that have already occurred. If the number of corporations that expatriate continues to grow at the rate of the past 10 years, California will lose an estimated $180 million in tax revenues over the next 10 years. This bill would stem these losses, saving approximately $99 million that would otherwise be lost to expatriations.

Background

The U.S. Treasury Department has noted "a marked increase recently in the frequency, size and profile" of paper-only corporate relocations to offshore tax havens such as Bermuda and the Cayman Islands. A handful of U.S.-based companies, out of more than 8,000 publicly traded U.S. corporations, have restructured as foreign corporations in lax offshore havens. These corporate expatriates maintain their headquarters and operations in the United States, enjoying the benefits of operating as U.S. companies, but avoid federal and State taxes and skirt legal protections for investors. This practice is unfair to other companies that meet their corporate responsibilities and pay their fair share of State and federal corporate income taxes.

Expatriates shift the tax burden to competitors

"Expatriate corporations" use practices such as "corporate inversions" to transform themselves into nominally foreign companies. For example, they establish a subsidiary in a foreign tax haven, then have that subsidiary "buy" the parent company. This paper transaction leaves the company with its operations and headquarters in the United States, but changes its nominal legal home to the tax haven. Many expatriate corporations transform significant amounts of their worldwide income from U.S.-based income to foreign-based income through "earnings stripping" transactions. In these transactions, the U.S.-based subsidiary makes deductible payments (such as interest, management fee, or royalty payments) to the new sheltered "foreign" parent. These payments, then, reduce their effective rate of U.S. and California taxation by reducing their net income subject to taxes.

Under California's current corporate tax system, corporations with operations in the State can choose between two methods of computing the income on which they will pay their State corporate income taxes – the "worldwide"[1] method or the "water's edge" [2] method. The Franchise Tax Board estimates that approximately 75 percent of expatriate corporations filing in California elect the "water's edge" method. Because an expatriate corporation can transform a large portion of its worldwide income from U.S.-based income to foreign-based income, continuing to allow the use of the water's edge method permits these companies to reduce the net income on which the California share of corporate income is based and taxed.

The result is that the expatriate corporation receives the same public services as its competitors and enjoys all the benefits of operating in the United States, but can shift the burden of paying for those services to more responsible companies and their shareholders. In Congress, Sen. Charles Grassley, R-Iowa, the chairman of the Senate Finance Committee, has been trying, so far without success, to end this basic unfairness. "The average individual taxpayer can't skip out on his tax bill," Grassley notes. "He doesn't have the luxury of setting up a filing cabinet and a mailbox overseas to escape his federal taxes. The same should be true for corporations."

What Can California Do to Overcome Abuses by Expatriate Corporations?

The State Treasurer's Office is sponsoring legislation to prohibit expatriate corporations from utilizing the water's edge election under California corporate tax law to shield certain foreign-based income from California tax. This legislation would effectively preclude these companies from artificially excluding U.S.-based income from taxation.

The bill would require expatriate corporations, under certain conditions, to treat the income and factors attributable to their headquarters corporation as inside the water's edge for California tax purposes. The bill would not raise the corporate tax payments of other corporations. It would simply require expatriate companies to pay their fair share.

Additional features of the bill include:

- The bill will "grandfather" existing taxpayer agreements between the State and expatriate corporations that already have elected the water's edge method. The bill would prevent the extension of those agreements beyond their current seven-year terms.

- The bill would affect only expatriate corporations that are, or would seek to become, water's edge filers, and other water's edge filers that seek to expatriate.

[1] Under the worldwide method, California corporate taxes are paid on a certain share of the combined income of the corporation, earned both in the U.S. and abroad.
[2] Under the water's edge method, California corporate taxes are paid on a certain share of U.S.-based (or "water's edge) income of the corporation only, based on certain presumptions specified in State law on how the U.S.-based income must be determined.