

1. This provision will close a loophole that allows hedge fund managers to avoid paying taxes on income paid to them by tax shelters operating in the Cayman Islands and other off-shore tax havens. This proposal is estimated to raise approximately \$24.3 billion over 10 years.

Current inclusion of deferred compensation paid by certain tax indifferent parties (i.e., offshore corporations in tax haven jurisdictions). H.R. 6049 would tax certain individuals on a current basis if such they receive deferred compensation from certain tax indifferent parties (generally, offshore corporations that operate in tax haven jurisdictions such as the Cayman Islands). Current law allows executives and other employees to defer paying income taxes on their compensation until the compensation is paid. This deferral is made possible by rules that require the corporation paying the deferred compensation to defer the deduction that relates to this compensation until the compensation is paid. Matching the timing of the deduction with the income inclusion ensures that executives are not able to achieve the tax benefits of deferred compensation at the expense of the Treasury. Instead, the corporation paying the compensation bears the expense of paying deferred compensation as a result of the deferred deduction. Where an individual is paid deferred compensation by a tax indifferent party (such as an offshore corporation operating in a tax haven jurisdiction), there is no offsetting deduction that can be deferred. As a result, individuals receiving deferred compensation from a tax indifferent party are able to achieve the tax benefits of deferred compensation at the expense of the Treasury.

2. This provision will delay the effect of liberalized worldwide interest allocation rules that would have saved U.S. multinational corporations nearly \$30 billion in corporate taxes over the next ten years compared to what they would otherwise have been required to pay. This provision will raise approximately \$30 billion over 10 years.

Delay Implementation of Worldwide Interest Allocation. The American Jobs Creation Act of 2004 (Pub. L. No. 108-357) provided U.S. multinational corporations with an election to take advantage of liberalized rules for allocating interest expense deductions between U.S. sources and foreign sources for purposes of computing the foreign tax credit limitation. Although enacted in 2004, the effective date of these liberalized rules was delayed until January 1, 2009. H.R. 6049 would further delay the effective date of the worldwide interest allocation rules for ten years, until taxable years beginning after December 31, 2018.