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Avoiding Taxes Like Big Corporations

TRILIBRIUM

Brian Seltzer

I'm an accountant. My college degrees and CPA license are the intellectual properties that enable me to earn a living. Now suppose that I formed a corporation to deliver my services, then took my diplomas and license off my wall and placed them in a safe deposit box in a Luxembourg bank. When clients came to my Oregon office, I would explain that the value of my services was represented by the diplomas and license now held in the offshore bank, and they should send their payment to my corporation housed at a PO Box in Luxembourg. Using this little accounting trick, I would be able to avoid paying U.S. taxes, until I brought those “foreign” funds back to the United States.

If I spun this ludicrous tale to my clients, I expect most of them would leave my practice immediately and find a different accountant.

But this accounting acrobatics is exactly the sort of transaction that hundreds of U.S. multinational corporations use to avoid paying billions of dollars annually in U.S. corporate income taxes. Technology, pharmaceutical and entertainment corporations, whose profits depend heavily on patents, trademarks and copyrights, have aggressively shifted profits from the United States, to one of dozens of tax havens that charge little or no taxes.

Bloomberg Business Week recently illustrated examples of this tax avoiding behavior: Forest Laboratories “sells nearly 100 percent of its drugs in the U.S. — and cuts its U.S. taxes dramatically by attributing the bulk of its profits to

a law office in Bermuda. ... Google reduced its income taxes by \$3.1 billion over three years by shifting income to Ireland, then the Netherlands, and ultimately to Bermuda.”

These tax avoiding strategies cost the U.S. Treasury more than \$100 billion a year. And they have led to more than \$1.2 trillion in

35% corporate income tax that would otherwise be owed.

The coalition calls itself WIN America, but the numbers involved in the corporate tax holiday mean a real loss for America. The Congressional Joint Committee on Taxation has calculated this tax windfall would cost \$80 billion, money that would be made up with higher taxes on small business people like me, or through reduced government services and infrastructure upon which all businesses, communities and

U.S. multinationals, it wholly stems from corporations who engage in these transactions for the principle purpose of shifting profits between countries in order to avoid taxes. Creating an incentive for such anti-social behavior through preferential tax rates will only serve to accelerate the offshoring of U.S. profits through fictional transactions.

Indeed, this is exactly what happened in 2004, when Congress enacted the American Jobs Creation Act, a bill which promised that a 5.25% tax rate would bring home billions of dollars that supporters claimed would be reinvested to create American jobs. The promise never materialized; most of the funds went instead to boost shareholder dividends and stock buybacks. Many of the biggest beneficiaries of the tax break, including Pfizer, Honeywell, and Hewlett Packard, laid off thousands of workers just months after receiving their tax windfall. That tax holiday, and the promise of another, has dramatically accelerated the amount of U.S. profits shifted offshore.

All of my education took place in the United States, as do all of my client meetings. The vast majority of Americans find it right and logical that I have a duty to pay taxes in the U.S. It is time that the same logic applies to multinational corporations, and that we stop accepting fairy tales about patents and trademarks held in some far-away bank vault.

Seltzer is President and founder of TriLibrium, a public accounting and business advisory firm located in Portland, OR

These tax avoiding strategies cost the U.S. Treasury more than \$100 billion a year

liquid assets being stashed offshore by U.S. corporations.

A new coalition of corporate tax avoiders including Google, Apple Computer, Pfizer, Duke Energy

families depend.

Tax amnesty programs are nothing new. The IRS has a couple of times allowed individual taxpayers to declare hidden offshore

Creating an incentive for such anti-social behavior through preferential tax rates will only serve to accelerate the offshoring of U.S. profits through fictional transactions

and an array of industry trade groups are demanding that Congress pass a special tax break that would reward these tax avoiders who “repatriate,” or bring back their offshore stash to the U.S., with a 5.25% tax rate, not the

assets and pay both the full tax due and penalties in exchange for avoiding prosecution and possible jail time. While much corporate tax-dodging through the use of tax havens is neither hidden, nor illegal under current law favoring

Drug Policies Have Led to Broken Prisons

YES! MAGAZINE

Sarah van Gelder

If there was any doubt about the broken state of our prison system, the news this week should put it to rest.

The Global Commission on Drug Policy, made up of former presidents and other luminaries from the United States and abroad, concludes that the Drug War is an expensive failure. The California prison system—which the U.S. Supreme Court declared to be in violation of the 8th Amendment due to overcrowding and neglect—has yet to develop a plan to bring it into compliance with the court order.

Less well publicized, but also disturbing, is a letter from Tom Lutz in which he resigns from his post as department chair at the University of California Riverside. Lutz warns that the state is dismantling in just a few years a world-class system of higher education. Funding has shifted dramatically from educating California's young to imprisoning them—not a way to build a strong country.

Meanwhile, massive state budget deficits are worsened by the expense of locking up more of our own citizens than any other country in the world.

Perhaps we're finally ready for a reassessment. What might a more effective and rational system look like?

ease, and the crimes caused by drug use.

Most of the 2.3 million now in prison will eventually be released. Education and job training are proven ways to reduce the number who reoffend and return to prison. Ex-offenders and ex-addicts can be the best mentors of those released from prison; the Delancey Street Project, for example, offers peer support and job-

skills training in businesses run by ex-inmates and addicts, and their success record is impressive.

Traditional approaches to crime hold special promise. In New Zealand, instead of locking up young offenders, a council made up of family, community members, and crime victims holds them accountable for their crimes, and then gives them an opportunity to make restitution and be reintegrated into the community. This approach, which borrows from the Maori people, has become the norm in New Zealand, reducing to almost zero the number of young

instructor who volunteers to instruct inmates, a Girl Scout leader who brings girls to visit their imprisoned mothers, or a garden club that helps inmates start prison gardens all do their part to create vital links to the outside.

There are people we might agree should be locked up: psychopathic killers, rapists, and others who endanger their families or communities.

But most of those in prison are people with few resources who have committed nonviolent offenses—especially poor people, people of color, drug users, alcoholics, and the mentally challenged. Imprisoning millions of these people does not make us safer. But imprisoning 2.3 million people does deplete government coffers resulting in massive cuts in programs—like California's system of higher education—that have proven track records for reducing crime.

A smarter and more compassionate criminal justice system could not only save lives and restore communities especially hard hit by imprisonments, it could save us from fiscal meltdown.

Sarah van Gelder is executive editor of YES! Magazine and yesmagazine.org. The Summer 2011 issue of YES! Magazine is “Beyond Prisons.”

Funding has shifted dramatically from educating California's young to imprisoning them

people locked up in expensive and violent detention facilities.

This “restorative justice” approach is spreading. Studies show crime victims who are involved in victim-offender mediation processes are less likely to experience long-term post-traumatic stress.

The involvement of the broader community is key to the success of restorative approaches. A welding