

# **Rockefeller Bill to Repeal Tax Loopholes for Cruise Companies**

**Purpose:** This bill changes the treatment of the revenue that foreign-based cruise lines earn from ships that embark or disembark passengers in the United States. Although their headquarters and executives are located here and many of their passengers are picked up or dropped off at U.S. ports, cruise lines register their ships overseas and organize themselves as foreign corporations. As a result of a special exemption in the tax code, most of their income is not subject to U.S. taxes. A string of recent incidents has demonstrated that when cruise ships get into trouble, the companies rely on the resources and assistance of the U.S. Navy and Coast Guard. The industry also uses the services of over 20 other U.S. agencies to the tune of millions of taxpayer dollars every year.

At the same time, the cruise industry pays little or no income tax in the United States. For example, Carnival and Royal Caribbean – the two largest cruise companies representing more than half the industry – paid an effective worldwide tax rate of only 1.3 percent on their profits for the last seven years. Notably, this very low 1.3 percent figure also includes some foreign taxes, meaning their effective U.S. tax rate is even lower.

**Current Tax Regime:** The majority of cruise companies are organized as foreign corporations, even though many of their headquarters and executives are located here in the United States. The United States taxes income from foreign corporations if the source of the income is in the United States. However, the cruise industry enjoys a special exemption under Section 883 of the Internal Revenue Code, which provides that certain foreign corporations are not subject to U.S. taxes on income derived from the international operation of ships, even if the source of the income is in the United States. The rationale for exempting income related to international operation of ships under section 883 was that the taxation of the international operation of ships based on the source of the income was likely to result in multiple countries taxing the same income, creating an unfair situation and significant administrative issues.

A review of the legislative history of section 883 shows that at the time this special exemption was passed, there was an expectation that non-U.S. corporations would be taxed on their income from operating ships internationally in their home countries. However, this has not proven to be the case for the cruise industry, and this is not likely to change. Based on cruise industry SEC filings, the Committee has learned that the cruise companies pay little to no corporate income tax in their home countries. Given that these companies – whose headquarters and CEOs are located in the United States – are largely transporting U.S. passengers to and from locations in the U.S., with the assistance and oversight of U.S. agencies, this special tax treatment is clearly unjustified.

**Proposed Rockefeller Bill:** The Rockefeller bill would eliminate the section 883 special exemption for cruise industry income derived from passenger cruise voyages that embark or disembark passengers in the United States. This income would be treated as being U.S. sourced and effectively connected with a U.S. trade or business, so it would be subject to U.S. taxes at the same rate as other income.