

Tool Maker Backs Away From a Move to Avoid Taxes

By THE NEW YORK TIMES
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Stanley Works, the Connecticut tool maker, said last night that it was abandoning its proposal to reincorporate in Bermuda, a plan that would have allowed it to reduce its taxes but had drawn objections from employees and lawmakers.

The company attributed its reversal to the growing prospect of legislation in Washington to resolve what it characterized as inequities in the United States tax laws.

“Our ability to compete is being undermined by the U.S. tax code,” John M. Trani, the company's chairman and chief executive, said in a statement, “which is archaic in today's global market, putting U.S. companies that compete globally in an untenable position. We have been asked by the Congressional leadership on both sides of the aisle to support their efforts toward rectifying this situation by enacting legislation that will create a level playing field for companies incorporated in the U.S. We have honored their request, and the ball is now in their court.”

The proposed move by Stanley, which it estimated would have saved about \$30 million a year, had drawn increasing criticism from legislators and workers.

The company, based in New Britain, held an initial shareholders' vote on the Bermuda move on May 9; it said it had won the vote by the slimmest of margins. Stanley threw out the results the next day after it was sued by the two state officials and was contacted by investigators for the Securities and Exchange Commission — and after Mr. Trani was accused by union leaders of stealing the election.

Stanley had been planning a second vote, using a prospectus that the attorney general and the treasurer of Connecticut have called misleading to shareholders.

Late last month, John J. Sweeney, president of the A.F.L.-C.I.O., wrote Stanley Works directors to ask them to stop trying to acquire a Bermuda mail drop “before you inflict serious harm on Stanley Works, its shareholders and employees.” Escaping taxes through a Bermuda deal is “particularly inflammatory at a time when American workers and domestic companies are being asked to finance the war on terrorism with their tax dollars,” he wrote.

On Monday, he led a rally of more than 200 workers and Democratic Party supporters at the company's headquarters.

Stanley Works had also run into growing negative sentiment in Washington and elsewhere.

“I think we ought to look at people who are trying to avoid U.S. taxes as a problem,” Mr. Bush said to reporters on Wednesday. “I think American companies ought to pay taxes here, and be a part — good citizens.”

The House approved a measure that would ban any company that establish an offshore headquarters to evade American taxes from holding contracts with the Department of Homeland Security, and the Senate passed a similar measure regarding contracts with the Pentagon. In California, the state treasurer has issued an order banning 19 companies that use the tax dodge from participating in state contracts that are under his control.

Stanley reported sales of \$2.62 billion last year and had about \$5 million in government contracts in 2001.

Dozens of corporations, like Tyco International and Ingersoll-Rand, have moved their headquarters to Bermuda or other tax havens in recent years or are doing so. By moving to Bermuda, their income from outside the United States becomes exempt from American taxes. Also, when the American company borrows from its Bermuda parent, the interest it pays creates a deduction that reduces American taxes, but there is no tax on the interest earned by the Bermuda parent.