EDITORIAL BOARD MEMO

To: Editors and Columnists
From: Frank Clemente, Executive Director, Americans for Tax Fairness
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U.S. HOUSE TO VOTE THIS WEEK TO MAKE ANOTHER CORPORATE TAX BREAK PERMANENT ADDING $182 BILLION TO DEFICIT

Action follows on heels of Congress passing budget slashing $5 trillion in funding for key benefits and services

WASHINGTON, D.C. – This week the U.S. House of Representatives is expected to vote on HR 880, a bill that would make a temporary tax break known as the Research and Development (R&D) Tax Credit permanent. This corporate tax break will cost $181.6 billion over ten years, according to the Congressional Budget Office (CBO). It's not paid for by closing other corporate tax loopholes so it simply adds to the deficit. This vote follows closely on the heels of House and Senate passage along party lines of a budget plan earlier this month that will cut more than $5 trillion in spending, which largely affects low- and moderate- income Americans, ostensibly to achieve a balanced budget.

The R&D Tax Credit seeks to boost corporate investment in basic and applied research by providing a federal subsidy through the tax system. Some of America's largest companies benefit from and lobby for this tax break through the R&D Credit Coalition. Many of them have paid little in federal income taxes over a recent five-year period, or they have even gotten tax refunds, including Boeing (–1.0% effective tax rate), Corning (–0.3%), Honeywell (7.5%) and United Technologies (10.9%), despite reaping billions in profits.

There is considerable disagreement about the effectiveness of the R&D Tax Credit. Proponents think it generates significant increases in R&D investment; opponents think it is not very effective and is poorly targeted. Regardless of which side of that debate one is on, *we urge you to editorialize against passage of this tax break for several reasons:*

1) It is very costly and it is not paid for by closing other corporate tax loopholes.
2) This tax break is hypocritical, blatantly unfair and represents a legislative double-standard.
3) This and other tax breaks should be dealt with as part of corporate tax reform, which both parties have said is a priority this Congress.

Below is background on this proposal and a more detailed explanation of our objections.

BACKGROUND

The R&D Tax Credit is known as a "tax extender." It is one among more than 50 temporary tax breaks that Congress routinely renews for one or two years at a time, all of which expired at the end of 2014. The annual cost of renewing tax extenders is about $42 billion a year and more than $500 billion over ten years. About 80 percent of the value of tax extenders benefit businesses.

The R&D Tax Credit has strong bipartisan support from President Obama (but President Obama opposes making the R&D Tax Credit permanent unless it is paid for) and from Democrats and Republicans in Congress alike. They believe that it is a good use of tax dollars to subsidize private research. It is estimated that every dollar spent under the existing tax credit results in more than one dollar in new research.

However, the R&D Tax Credit has been criticized as a wasteful tax giveaway: corporations can claim the tax credit for questionable "innovations" including new food flavors, textures and packaging (p. 9) or use it on research they likely would have done anyway (p. 2), according to the watchdog group Citizens for Tax Justice. As the Congressional Research Service explains, companies can get away with claiming a tax credit for such dubious research because the guidelines for what qualifies as research are "vague and incomplete" (p. 25).

R&D TAX BREAK IS VERY COSTLY AND NOT PAID FOR LIKE OTHER HOUSE-PASSED TAX BREAKS

The House proposes to make the R&D Tax Credit permanent, and to make it significantly more generous than it is currently, at a cost of $181.6 billion over ten years. It will not be paid for – such as by closing other corporate tax loopholes – so it simply will add to the deficit.

By comparison, since last year Congress has been scrambling to figure out how to close a ten-year $168 billion shortfall projected in the Highway Trust Fund through 2025, according to CBO. Failure to do so by May 31 will imperil basic investments for roads, bridges and mass transit. Yet Republicans insist that this funding gap be offset through spending cuts.

The R&D tax credit is not the only huge tax giveaway to corporations and the rich the House has voted on this year. Table 1 below shows two other tax extenders that were approved this year without being paid for. One known as Section 179 expensing, is a tax break benefitting smaller businesses, which allows them to immediately take a deduction for capital expenses in the year when they place a property in service, rather than take depreciation deductions over years. The other, the State and Local Sales Tax Deduction Act, benefits taxpayers in the five states that do not have a state income tax by allowing taxpayers who itemize their tax deductions to elect to deduct state and local sales taxes. Moreover, last month the Republican-led House voted to repeal the estate tax – a $269 billion tax giveaway to the estates of the wealthiest 0.2% of multi-millionaires and billionaires.

Assuming the R&D Tax Credit passes, the House will have approved $570 billion in tax breaks this year. Other large unpaid for tax extenders are expected to be voted on in the House in coming weeks like they were last year. House Republicans are on track to wipe out the $846 billion that will be generated over the next 10 years from ending the Bush tax cuts for the richest 1 percent of Americans in the 2013 fiscal cliff deal. (The amount has increased from the original estimate of $620 billion due to it covering a later budget window.)

Table 1. Large Tax Breaks Passed by the House in 2015 But Not Paid For As of May 18, 2015

Tax Extender & Estate Tax Bills	Ten Year Cost
Section 179 Expensing (HR 636)	$77.1 billion
State and Local Sales Tax Deduction Fairness Act (HR 622)	$42.4 billion
R&D Tax Credit (HR 880)*	$181.6 billion
Total cost of extenders YTD	**$301.1 billion**
Estate Tax Repeal Act (HR 1105)	$268.9 billion
Total cost of 2015 House tax bills that are not paid for	**$570.0 billion**

* Assumes House passage of R&D Tax Credit the week of May 18
Sources: Congressional Budget Office

HYPOCRISY, UNFAIRNESS AND A DOUBLE-STANDARD

In the first week of May, conservatives in Congress approved a federal budget blueprint for the next 10 years that would cut more than $5 trillion in spending from vital services and benefits and by disinvesting in America's future by slashing funding for infrastructure, research and education. [See ATF's editorial board memo on the budget from May 7.] At least 63 percent of the plan's non-defense cuts come from services that benefit low- and moderate-income people, according to the Center on Budget and Policy Priorities, even though these programs account for less than one-fourth of federal spending.

These draconian cuts come on top of the across-the-board sequester cuts that will return in full force in next year's budget, which begins this October, subjecting non-defense discretionary programs to an additional $37 billion in annual cuts.

The wealthy and corporations were not asked to pay one additional cent in taxes to help reduce the deficit in the Republican budget plan. But low-income families were asked to pay more. That's because the Republican budget failed to renew the 2009 improvements to the Earned Income Tax Credit and Child Tax Credit, which expire in 2017 and provide crucial income support to working families, according to the Center on Budget and Policy Priorities. Failure to make those two credits permanent would mean more than 13 million families (including nearly 25 million children) would lose an average of $1,073 per family, according to Citizens for Tax Justice. [Link provides state-by-state data on number of families affected.]

Yet this week the House is voting to make the R&D Tax Credit permanent and not pay a cent towards its $182 billion cost by closing corporate tax loopholes. This is the height of hypocrisy, as *USA Today* has noted, and represents an egregious double standard.

It is also patently unfair. Federal spending is expected to be cut by about [$3.6 trillion over the next 10 years (p. 11)] due to budget deals enacted since 2010, according to Senate Budget Committee Democrats. Total revenue increases will be about $836 billion. That's a very unbalanced ratio of $4 in spending cuts for every $1 raised from taxes on the wealthy.

Later this year there will be a major debate about what to do with the budget sequester – how to relieve the deep cuts mandated by spending caps. Republicans insist that any increases in domestic spending be paid for by other spending cuts. (They refuse to raise any additional revenues to pay for the new spending.) If these are the standards applied to increasing spending for vital services and benefits, similar standards should be applied to extending corporate tax breaks by requiring that they be paid for by closing other corporate tax loopholes.

TAX BREAKS SHOULD BE DEALT WITH AS PART OF CORPORATE TAX REFORM LEGISLATION

For months, corporate tax reform has been identified as a priority for this Congress. Therefore, regardless of merit it makes no sense to skip ahead and make the R&D Tax Credit or any other corporate tax extenders permanent. Republicans and corporations say that they want to dramatically cut the U.S. corporate income tax rate from the current 35 percent rate to 25 percent. This will cost $1.2 trillion over the next 10 years, according to the Joint Economic Committee. That will necessitate closing some large tax loopholes in order to ensure that lowering rates does not lose revenue. Of necessity, the very same large tax extenders that the House has been passing – or is about to pass in the case of the R&D Tax Credit – may need to be significantly trimmed or eliminated to achieve a 25 percent tax rate.

Whether people agree or not about the merits of the R&D Tax Credit or any other tax extender, there should be no disagreement that they should be paid for by closing other corporate tax loopholes – not by further cutting benefits and services. **We urge you to editorialize about this important matter as soon as possible.** Policy experts at ATF and at our coalition partners are always available to provide you with a telephone briefing or send you more information. Thank you for your consideration on this important issue.

RESOURCES

OPINION

What tax extenders cost you: Our view, *USA Today*, December 2, 2014

Congress needs a 'tax extenders' bill that paves the way for future reform, *The Washington Post*, November 25, 2014

REPORTS

House Efforts to Make Tax "Extenders" Permanent Are Ill-Advised, Center on Budget and Policy Priorities, April 15, 2015

Research Tax Credit: Current Law and Policy Issues for the 114th Congress, Congressional Research Service, March 13, 2015
Tax Provisions that Expired in 2014 ("Tax Extenders"), Congressional Research Service, February 6, 2015
Reform the Research Tax Credit – Or Let It Die, Citizens for Tax Justice, December 4, 2013

Americans for Tax Fairness *is a diverse coalition of 425 national and state endorsing organizations that collectively represent tens of millions of members. The organization was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs. ATF is playing a central role in Washington and in the states on federal tax-reform issues.*

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