EDITORIAL BOARD MEMO

To: Editors and Columnists
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CONGRESS POISED TO MAKE PERMANENT AS MUCH AS $500 BILLION IN CORPORATE TAX GIVEAWAYS

Please Write Opposing Extensions of Tax Breaks that Encourage American Corporations to Shift Profits to Tax Havens and Jobs Offshore

WASHINGTON, D.C.—Before the end of next week and possibly as soon as this week, a very expensive (costing as much as $700 billion) and complicated piece of tax legislation is likely to be voted on in Congress. Unless the bipartisan talks collapse, it is likely to consist of three elements:

- **A two-year renewal of about 50 tax breaks known as tax extenders.** These expired at the end of 2014 and are typically renewed every year or two by legislation. Their total cost is about $96 billion, according to the Joint Committee on Taxation (based on legislation that passed the Senate Finance Committee in July). About 80% of the cost ($78 billion) benefits corporations/businesses.

- **Up to six of these primarily corporate tax breaks may be made permanent**. This means they would no longer have to be renewed, and their 10-year cost would be unpaid for and added to the deficit. While the package has not been agreed to yet, the cost of making these six tax breaks permanent could be $400-$500 billion, based on modifications that could be made to legislation already approved in either the House of Representatives or the House Ways and Means Committee. One of these is called bonus depreciation, which is designed to stimulate the economy, but studies have shown it is of little benefit—even in economic recessions. Two others are tax breaks that encourage the shifting of jobs offshore and corporate profits to tax havens.

- **Improvements made in 2009 to two pro-work tax credits—the Earned Income Tax Credit and the Child Tax Credit—that are set to expire in 2017 would also be made permanent.** If these improvements expire, more than 16 million people—including about 8 million children—would be pushed into poverty or deeper into poverty. These are pro-work success stories and among the most successful anti-poverty tools ever developed.

This legislation, which is being designed as a tax cuts "grand bargain," has many moving parts. American for Tax Fairness urges you to editorialize about this important issue. Specifically we ask that you write to:

1) Oppose plans to make the costly and unpaid for corporate tax extenders permanent. The merits of those tax breaks should be debated and, if they are renewed, they should be paid for as part of broader corporate tax reform that closes other corporate tax loopholes. Broader tax reform has been discussed over the last two years. It would be bad policy to make some of these tax breaks permanent as part of an end-of-the-year backroom deal.

2) Oppose both temporary and permanent renewal of the ineffective bonus depreciation tax break and the tax loopholes that encourage corporations to shift profits to tax havens and ship jobs offshore: the Active Financing Exception and the Controlled Foreign Corporation (CFC) Look-Through Rule.

3) Support making permanent the 2009 improvements to the pro-worker and pro-family Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). These tax credits encourage work and they have an important role in alleviating poverty and income inequality at a time of wage stagnation for Americans in general and especially workers at lower-wage jobs.

CONTEXT FOR THE TAX EXTENDER DEBATE

Everyone has tax extenders they like. There are those that benefit individuals, such as the tax deduction for certain school expenses incurred by teachers, tax breaks for employees who ride mass transit to work, and tax relief for people who are taking a loss by selling their homes that have underwater mortgages.

There are some special tax breaks for owners of thoroughbred racehorses and NASCAR tracks, tax breaks for rum distillers in Puerto Rico and subsidies for Hollywood film studios. While of questionable value, their cost is relatively small.

Instead of carefully debating which of the 50 tax breaks included in the package of extenders should be continued and which should be allowed to expire, the debate has been focused on *which of these costly corporate tax breaks should be made permanent.*

The top candidates are based on bills that passed either the House of Representatives and/or the House Ways and Means Committee earlier this year. [See highlights in this chart] Their total cost is $667 billion over 10 years. They are the R&D tax credit ($182 billion), Section 179 expensing ($77 billion), bonus depreciation ($281 billion), and two offshoring tax loopholes – Active Financing Exception (AFE) ($78 billion) and the CFC Look-Through Rule ($22 billion).

There is substantial pressure on members of Congress to pass these measures from a small army of lobbyists. Nearly 1,400 of them, representing 373 corporations and trade associations, pressed members of Congress or their staff about tax extenders between January 2011 and September 2013, according to a report by Americans for Tax Fairness and Public Campaign.

Of course, these corporate tax breaks are never paid for. There is a double standard: corporate advocates in Congress insist that any new spending on domestic programs be paid for, but they approve spending billions on these tax breaks without closing any other corporate tax loopholes to pay for them.

Corporations have not contributed a dime to deficit reduction in recent years by repealing even one corporate tax break or loophole. Meanwhile, nearly $2.7 trillion in spending cuts are scheduled over the next 10 years. Even with the recent budget deal, nondefense discretionary programs—which include education, housing, infrastructure, and research—will be cut to a smaller share of the economy than any time since the government began tracking this data in 1962.

The effort to make corporate tax breaks permanent without regard to the long-term cost is particularly shocking in light of the level of current corporate tax dodging. For example, U.S. corporations have $2.1 trillion in profits stashed offshore on which they do not have to pay any U.S. income taxes until they are brought back here, which may never occur. More than half of these profits are in tax havens. It is estimated that corporations owe $600 billion in taxes on those profits.

Some major corporations already use various tax avoidance methods to completely avoid paying federal income taxes. A report by the watchdog organization Citizens for Tax Justice found that 111 profitable Fortune 500 companies paid zero federal income taxes in one or more of five years from 2008 to 2012. Even worse, 26 of them including Boeing, General Electric and Verizon, paid nothing over the entire five-years. Astoundingly, they got tax refunds instead. Overall, the report found that the effective corporate tax rate paid by the 288 Fortune 500 companies studied was just 19.4 percent – about half the effective U.S. corporate tax rate of 35 percent. This finding about tax rates is similar to a compilation recently prepared by 24 international tax experts.

ESPECIALLY NOTEWORTHY TAX BREAKS BEING CONSIDERED FOR PERMANMENT STATUS

- **Bonus depreciation** ($281 billion over 10 years). This tax break was previously enacted to help stimulate the economy during two recent downturns, but its purported benefits are very limited. In a review of several studies the Congressional Research Service said "research suggests that bonus depreciation was not very effective." Moreover, Moody's Analytics found that the bang for the buck (additional GDP per tax dollar) of accelerated depreciation, which is similar to bonus depreciation, is much less effective than other types of tax cuts or public spending. For example, every dollar "spent" on bonus depreciation creates just 29 cents of economic activity versus $1.23 for the EITC, $1.38 for the Child Tax Credit, $1.44 for infrastructure investment and $1.70 for Food Stamps spending. And the ten-year cost of making bonus depreciation permanent could nearly double spending on medical research funded by the National Institutes of Health, whose budget is $30 billion a year. For a more detailed bonus depreciation fact sheet go here.

- **Active Financing Exception** ($78 billion over 10 years). This tax loophole lets corporations (primarily financial institutions such as GE Capital, Wall Street banks and insurance companies) avoid paying U.S. taxes on the financial income they earn (or claim to earn) in foreign countries, so long as those profits remain officially offshore. This is a major reason that General Electric, which made $27.5 billion in profits from 2008-2012, got a total of $3.1 billion in federal tax refunds and paid an effective tax rate of negative 11.1% over that period, according to Citizens for Tax Justice. For a more detailed AFE fact sheet go here.

- **Controlled Foreign Corporation (CFC) Look-Through Rule** ($22 billion over 10 years). This tax loophole lets U.S. multinationals shift profits between foreign subsidiaries without triggering the U.S. taxes normally due. It works like this: A U.S. corporation sets up offshore Subsidiary A, which conducts real business selling goods and services in a country with normal tax rates. It also sets up Subsidiary B, often with little more than an office address, in a foreign tax haven with low or no corporate taxes. The U.S. parent grants ownership of assets like brands and patents to Subsidiary B, which "licenses" them to Subsidiary A at steep prices. The internal royalty payments artificially inflate Subsidiary A's costs and therefore reduce its profits and tax liability and ultimately that of its parent corporation. For a more detailed CFC fact sheet go here.

A BETTER CHOICE

Rather than provide more tax breaks for big corporations, Congress should lend a hand to working families by making permanent the 2009 improvements to the pro-work Earned Income Tax Credit and the Child Tax Credit, which are expiring at the end of 2017.

The EITC may be available to families with at least three children that make up to $52,000, and it provides a maximum tax credit of around $6,000. With the CTC, a parent can reduce their federal income tax by up to $1,000 for each child under 17. The phase-out of the CTC begins at different ranges—from as low as $55,000 up to $110,000—depending on filing status.

Several key features of the tax credits are set to expire in 2017. For example, a lower CTC earnings exclusion will end. It allows millions of working families to earn a more adequate CTC and fewer working-poor families are shut out of the credit. Expiring provisions of the EITC are "marriage-penalty" relief and a larger EITC for families raising more than two children.

If these improvements expire, it will push more than 16 million people—including about 8 million children—into poverty or deeper into poverty. The EITC and low-income Child Tax Credit are pro-work success stories and among the most successful anti-poverty tools ever developed.

Thank you for considering editorializing about this important issue.

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.*