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TAX REFORM AND BUDGET BATTLES HEATING UP IN WASHINGTON, D.C.; TIME TO ASK MEMBERS OF CONGRESS WHERE THEY STAND ON RAISING REVENUES DURING AUGUST RECESS

Funding the government and tax reform will be hot topics in Washington this fall. Last week, President Obama announced that he would agree to substantial cuts in the corporate income tax rate – a Republican priority – in exchange for closing loopholes and funding a short-term jobs program. The chairmen of the two tax-writing committees in Congress, Sen. Max Baucus (D-Mont.) and Rep. Dave Camp (R-Mich.), have joined forces to attempt a bipartisan compromise on tax reform. And there's potential for a train wreck, as government funding expires Sept. 30 and both chambers remain far apart about how much to cut and whether to raise revenues to replace $109 billion in new across-the-board spending cuts that kick in Oct. 1.

The American public is largely unaware of the storm brewing in Washington, but lobbyists on K Street have geared up for the fight and already are storming Capitol Hill. For this reason, Americans for Tax Fairness (ATF) urges you to question members of Congress who are back home until Sept. 9 about where they stand on these critical issues and to consider writing an editorial to help readers understand what's at stake in the coming battle over tax reform and the budget.

President Obama's recent proposal to lower corporate tax rates provides an excellent opportunity to introduce your readers to this subject. The President has taken a position intended as a compromise with Republicans, but they have rejected it because it includes a modest, short-term revenue increase. The substance of Obama's plan is also controversial with his base, and opposed by ATF for reasons explained below.

ATF is a diverse coalition of more than 325 national and state 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.

President Obama's Corporate Tax Reform Plan

The president's plan would lower the overall corporate income tax rate from 35 percent to 28 percent and lower the effective corporate tax rate for manufacturers to 25 percent. He wants to fund those lower rates by eliminating loopholes, including ones that encourage sending jobs overseas. He also proposes a minimum tax on corporate foreign earnings – almost like a Buffett Rule for multinational corporations. He has provided no details about how this proposal would work, what the tax rate would be or how much revenue it would raise.

The president also proposes using one-time revenue-raisers to support new "investments such as modernizing our infrastructure; creating new manufacturing hubs; and training our workers. ..." Although it is not clear in the White House fact sheet, a recent story in *The Washington Post* suggests that the funding mechanism would be a temporary tax during the transition to a new business tax system on the $2 trillion in U.S. corporate profits that are offshore and untaxed by the federal government until brought back home.

ATF Has Four Primary Objections with the President's Plan

1) **In the long-term, the plan is revenue-neutral – savings from closing some corporate tax loopholes will benefit corporations in the form of lower tax rates and increased tax subsidies.** This means corporations overall will pay nothing to help strengthen the nation's fiscal standing. Instead, unless other revenue sources are agreed upon, deficit reduction will continue to take place entirely through deep cuts in government spending, further eroding programs that provide essential services to American families and create the infrastructure for a robust economy. The president has effectively accepted the Republican frame of the debate; he will accept cuts in numerous programs and services as long as taxes don't increase on America's most profitable corporations.

   This fact sheet describes the tax plan outlined in the president's fiscal year 2014 budget. The president proposes raising $398 billion from corporations over 10 years, but would give back that money to corporations through $291 billion in tax cuts and other incentives and $94 billion in lower corporate tax rates.

   ATF believes the first goal of tax reform should *not* be to lower corporate tax rates or increase corporate tax subsidies. Instead, it should be to raise revenues that deal with our long-term fiscal needs, help meet the pressing needs of American families, and make new investments to grow the economy and create jobs. To reduce the deficit, President Obama and Congress already have cut $1.8 trillion in spending (including interest) and raised just $620 billion in new tax revenues on the wealthy. (p. 2) That's $3 in cuts for every $1 in new revenue, an outcome neither balanced nor fair.

   As the editors of the New York Times recently noted in their criticism of the president's corporate tax plan: "Yet what the nation needs, going forward, is more revenue — to care for the aged, improve education and infrastructure, develop clean energy and tackle the deficit. If corporate tax increases are off the table, those needs will go unmet or a disproportionate share of needed revenue will have to come from individual taxpayers."

2) **The 28 percent corporate income tax rate the president proposes is neither practical nor achievable.** The Congressional Joint Committee on Taxation estimated in 2011 that reducing the corporate income tax rate from 35 percent to 28 percent would require finding nearly $1 trillion over 10 years in additional revenue (p. 7) by eliminating major corporate tax loopholes, which is unlikely to be achieved. Making up for this loss would require elimination of major corporate tax loopholes like accelerated depreciation and the research and development tax credit, which also are unlikely to be achieved given the enormous power of the interest groups behind them. This sum is more than double the $400 billion the president's 2014 budget proposed raising by closing corporate tax loopholes. Republican lawmakers have been silent about which loopholes they will close to raise revenue to pay for lower rates.

3) **The president's proposal to fund new investments by raising revenue during the transition period to a new corporate tax system by levying a tax on the $2 trillion in profits that U.S. companies have offshore could be a huge giveaway.** Currently, those profits are not taxed until they are "repatriated" to the United States. If the tax rate is set low during this transition, as it was during the repatriation tax holiday in 2004 at 5.25 percent and as Rep. Camp has proposed, it would result in a

huge loss to the Treasury, according to the Center on Budget and Policy Priorities. As the Economic Policy Institute noted: “Giving a tax break to multinational corporations that have moved jobs and profits offshore is a bad bargain. It may raise some revenue today, but it also encourages multinationals to engage in tax avoidance behavior in the expectation of getting another tax break in the future.

4) **The president’s rationale for reducing the corporate tax rate is exaggerated.** In his recent announcement, the president accepts the Republican position that the corporate tax rate should be lowered from 35 percent to 28 percent in order to make the United States more “globally competitive.” However, two recent analyses suggest that this argument is significantly overblown.

   The Congressional Research Service, the nonpartisan research branch serving the U.S. Congress, states in a recent report that the benefits of corporate tax cuts are modest, whereas the revenue costs of such cuts are extremely high:

   > *“Because of the factors that constrain capital flows, estimates for a rate cut from 35% to 25% suggest a modest positive effect on wages and output: an eventual one-time increase of less than two-tenths of 1% of output. Most of this output gain is not an increase in national income because returns to capital imported from abroad belong to foreigners and the returns to U.S. investment abroad that come back to the United States are already owned by U.S. firms. … The revenue cost of such a rate cut is estimated at between $1.2 trillion and $1.5 trillion over the next 10 years.”*

   In a separate study, the Economic Policy Institute concludes that the *effective* tax rates on U.S. corporations is not markedly different than the *effective* tax rates on corporations in other countries:

   > *“Claims that the United States’ corporate tax rate is uniquely burdensome to U.S. business when compared with the corporate tax rates of its industrial peers are incorrect. While the United States has one of the highest statutory corporate income-tax rates among advanced countries, the effective corporate income-tax rate (27.7 percent) is quite close to the average of rich countries (27.2 percent, weighted by GDP).*

   Furthermore, the EPI study reinforces the conclusions in the Congressional Research Service report:

   > *“Lowering the corporate income-tax rate would not spur economic growth. The analysis finds no evidence that high corporate tax rates have a negative impact on economic growth (i.e., it finds no evidence that changes in either the statutory corporate tax rate or the effective marginal tax rate on capital income are correlated with economic growth).”*

Fall 2013: A Spending and Revenue Train Wreck

With regard to the budget and the second year of across-the-board spending cuts, it appears we are headed for a train wreck, as the Washington Post reports. Congress has from Labor Day until Sept. 30 to pass appropriations bills to fund the government for next fiscal year. Senate and House appropriations bills are far apart in their spending levels, and it is not easy to see how they get resolved. Both chambers have to wrestle with cutting discretionary spending by another $109 billion in fiscal year 2014 because of sequestration starting Oct. 1. The Congressional Budget Office estimates that this reduced government spending will cost 900,000 jobs next year.

President Obama and Democrats may try to fashion an alternative to the sequester cuts that most likely would be balanced between new revenues and other spending cuts, a position contained in the Senate Budget Resolution that passed in March. A key question is whether Republicans agree to any tax increases on the wealthy and corporations to substitute for any spending cuts. Senate Majority Leader Mitch McConnell (R-Ky.) is saying no.

On a separate path, the House and Senate tax-writing committees are planning to mark up broad tax reform legislation. It's unclear whether these committees will be able to move legislation, let alone whether either chamber will put a bill on the floor.

Another pending catastrophe is the fact that the debt limit will need to be increased in late October or November. Republicans want to make this a major health care and budget battle; President Obama has refused to give ground on these issues. It's quite possible that the spending/budget battles in September get pushed back to a resolution around the debt limit in November. In other words, we may again be facing the possible fiscal meltdown that roiled financial markets in July 2011.

Americans for Tax Fairness' Top Priority: Closing Offshore Tax Loopholes

ATF has three tax-reform priorities: 1) Raise at least $1 trillion over the next 10 years. 2) Ensure that corporate tax reform is "revenue positive," rather than "revenue neutral," so that corporations make a significant contribution to the common good. 3) Raise new revenue from corporations by closing loopholes that allow multinational companies to stash profits offshore in tax havens where they pay little or no tax. Tax havens are now recognized as a worldwide problem -- the Organization for Economic Cooperation and Development at the behest of G20 countries has been charged with developing a strategy to block some corporate tax avoidance schemes.

American companies reported earning 43 percent of overseas profits in five countries considered tax havens (Bermuda, Ireland, Luxembourg, the Netherlands and Switzerland) in 2008, while hiring 4 percent of their foreign work force and making 7 percent of their foreign investments in those economies. (pp. 4-5). Other data on tax havens can be found here. For a report on how much tax havens cost taxpayers and small businesses in your state go here.

A new U. S. PIRG study released last week found that:

- As of 2012, 82 of the top 100 publicly traded U.S. companies operate subsidiaries in tax haven jurisdictions. All told, these 82 companies maintain 2,686 tax-haven subsidiaries.
- The 15 companies with the most money held offshore collectively operate 1,897 tax-haven subsidiaries and hold a combined $776 billion overseas. That is 66 percent of the nearly $1.2 trillion that the top 100 companies report holding offshore.
- Only 21 of the top 100 publicly traded companies disclose the amount they would expect to pay in U.S. taxes if they didn't keep profits offshore. All told, these 21 companies would collectively owe more than $93 billion in additional federal taxes. The average tax rate the 21 companies pay to other countries on this income is a mere 6.9 percent.

In conclusion, the outcome of the upcoming debate on budget and tax issues in Congress could have a dramatic, long-term effect on the economy, on our nation's fiscal health, and on the quality of life for American families. With members of Congress back home until Sept. 9, we encourage you to write an editorial that lets your readers know what is at stake, calls for corporations to contribute their fair share of taxes – rather than support revenue-neutral corporate tax reform – and supports the closure of offshore tax loopholes.