AMERICANS FOR
TaxFairness

September 17, 2015

Dear Ways & Means Committee Member:

On behalf of Americans for Tax Fairness and our 425 endorsing organizations, I am writing in opposition to three tax breaks before the committee today – Subpart F Active Financing Exception, CFC Look Through Rule and Bonus Depreciation. Combined these tax breaks will cost $370 billion over 10 years, according to the Joint Committee on Taxation.

This is an astonishing giveaway to corporate America, especially when the House majority demands that any increase in domestic spending be paid for by cutting other domestic spending. The cost is nearly double the $168 billion 10-year shortfall in the highway and mass transit trust funds, which Congress continues to struggle with how to close. Moreover, these tax breaks are not justified on the merits.

Bonus depreciation, a tax break that will cost $281 billion over 10 years, 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 of the effectiveness of bonus depreciation, the Congressional Research Service said "research suggests that bonus depreciation was not very effective." The Congressional Budget Office estimates that increasing aid to the unemployed, investing in infrastructure or providing aid to state and local governments would provide two-to-three times as much bang for the buck as would the tax breaks from bonus depreciation.

We are very troubled by legislation that would benefit a small number of multinational corporations by making permanent two tax breaks that encourage companies to shift jobs offshore and hide profits offshore, primarily in tax havens:

- **Subpart F Active Financing Exception (cost: $78 billion):** This tax break lets corporations (primarily financial institutions such as GE Capital, Wall Street banks and insurance companies) avoid paying taxes to any nation on their 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 minus 11.1% over that period, according to Citizens for Tax Justice.

- **Controlled Foreign Corporations (CFC) Look Through Rules (Cost: $21.8 billion):** This tax break allows multinationals to create transactions purely for "earnings stripping" – to create dividends, interest, rents, and royalties to strip active income out of high-tax countries and move it into low-tax or no-tax countries without incurring any U.S. tax liability (or any tax liability anywhere). The rules also allow U.S. multinationals to create "stateless income," which is treated, for tax purposes, as earned in a low-tax (or no-tax) country, where the company's operations may consist only of renting a mailbox, instead of in the countries where the employees and assets are located.

Finally, it is unacceptable to focus on making permanent a few big tax breaks for corporations and Wall Street while ignoring critical supports for working families, such as the key provisions of the EITC and CTC that expire at the end of 2017. Unless Congress acts to save these crucial provisions, 16 million people in working families, including 8 million children, would be pushed into or deeper into poverty. If any expiring tax provisions are made permanent, these for working families should be the top priority. Neglecting them in favor of huge unpaid-for tax breaks that benefit corporations, will make it more likely that the EITC and CTC provisions will ultimately be allowed to expire.

For all of these reasons, we urge you to oppose these very misguided corporate tax breaks.

Sincerely,

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