EDITORIAL BOARD MEMO

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Date: March 27, 2014

Corporate Tax Package in Congress Threatens to Blow Deficit Sky High

Bill Moving in U.S. Senate in Early April

On April 2, the U.S. Senate will begin consideration of a large package of 55 tax breaks that could cost nearly $50 billion a year, and up to $700 billion over 10 years. It is considered "must-pass" legislation because it contains some popular tax breaks that expired at the end of 2013, but it also includes brazen giveaways to special interests and expensive deals for large corporations. Neither party has indicated a willingness to offset the cost – so passing the package could add significantly to the deficit. If there is no public outcry, it is likely that Congress will rubber-stamp most or all of the tax breaks.

The tax breaks are known as "tax extenders" because they expire every year or two and usually get extended with little debate. This has occurred numerous times in the past. This allows Congress to hide the true 10-year cost of these tax breaks – Congress normally "scores" its budgets with a 10-year time horizon. According to the Congressional Research Service, "by making these tax provisions temporary rather than permanent, these provisions have a smaller effect on the long-term fiscal outlook." But this appearance is misleading because, if the past is an indication, Congress will continue to pass these tax breaks every year or two, effectively making them permanent.

There are some perennial boondoggles in the tax extenders package like 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. The big costs are in bonus depreciation for some of America's biggest companies and tax breaks that encourage corporations to shift profits to offshore tax havens.

Although Democrats and Republicans have been warring over the deficit, both parties are apparently willing to pass the tax extenders without considering the long-term cost or the value of the specific tax breaks. Senate Majority Leader Harry Reid (D-NV) tried to pass the tax breaks in December before they expired at the end of 2013. Senate Minority Leader Mitch McConnell (R-KY) said at a recent televised press conference that Republicans don't believe it is necessary to pay for the tax extenders because they are "existing policy." McConnell's position is in sharp contrast to his party's refusal over the last few months to pass an extension of emergency unemployment benefits unless the cost is offset. Apparently, even though every penny going to unemployed Americans must be paid for with other spending cuts, tax breaks that largely benefit corporate interests are "off the books."

The tax extender package has a great deal of momentum not only because these tax breaks have been passed many times before, but because members of Congress feel so strongly about the good provisions that many may be willing to overlook the bad ones. There is a tax deduction for teachers who buy school supplies out of their own pockets, a deduction for "underwater" homeowners that receive help when they lose money on the sale of their homes, and a deduction for commuters that use public transportation.

Perhaps most important, there are powerful corporate interests behind most of them – 90% of the value of the tax package goes to businesses, according to Congressional Budget Office data. These include items like tax breaks for bonus depreciation ($281 billion over 10 years,) tax breaks for renewable energy production ($23 billion over 10 years,) and tax breaks for corporate research and development ($66 billion over 10 years.)

The most egregious tax break in the package is a loophole that enables companies to hide profits on financial income offshore in order to avoid paying federal income taxes. The loophole is known inside the Beltway as the Active Financing Exception (AFE). The primary beneficiaries are Wall Street banks, insurance companies, and manufacturers like General Electric that have a financing unit. This tax break alone will cost American taxpayers more than $60 billion over 10 years.

General Electric has used the loophole in the past to avoid paying billions in federal income taxes. In the 5 years between 2008 and 2012, the company earned $27.5 billion in profits but requested $3 billion in federal income tax refunds – a tax rate of **negative** 11.1% – according to a recent study by Citizens for Tax Justice. GE's 2012 Annual Report states: "If this provision [AFE] is not extended, we expect our effective tax rate to increase significantly after 2014."

Congress has repeatedly "extended" the Active Financing Exception since 1997, as part of the larger tax extender package. Congress eliminated the exception in the 1986 tax reform that swept away many corporate loopholes. But in 1997, Congress caved to pressure and passed a "temporary" amendment to the tax code, bringing back the exception. President Clinton line-item vetoed it, but the Supreme Court declared his line-item veto unconstitutional.

Congress will begin consideration of this legislation as early as April 2. It will be the first test for Senator Ron Wyden (D-OR), the new chairman of the Senate Finance Committee. Because of the considerable political momentum behind this legislation, the bill could be before the full Senate in late April.

In conclusion, we ask you to advocate for two things with respect to tax extenders legislation:

1) Oppose the Active Financing Exception, which would allow financial firms to launder profits offshore to avoid U.S. taxation.

2) Recommend that the costs of other corporate tax extenders be offset by closing other corporate tax breaks.

If the large corporate tax breaks in the extender packager are passed, it will shift the burden of taxation further away from large corporations onto the backs of American families. The time to influence the debate is now.

***Americans for Tax Fairness** is a diverse coalition of 400 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.*

Resources

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