TAX FAIRNESS

BRIEFING MATERIALS

AMERICANS FOR TaxFairness

March 2015

AMERICANS FOR TaxFairness

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Americans for Tax Fairness is a diverse coalition of 425 national and state organizations that represent tens of millions of members. ATF 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.

Overview

Conservatives are expected to propose a balanced budget over the next 10 years and huge tax cuts for the wealthy and corporations. To balance the budget without raising new revenues, conservatives will have to slash $4.5 trillion in federal spending, affecting virtually every service the government provides. To effectively counter these proposals, progressives need to demand "tax fairness" instead – that the wealthy and big corporations should pay their fair share of taxes. Extensive polling (http://bit.ly/19rGsxN) shows that tax fairness is a winning message and an effective way to counter these harmful budget proposals:

1) **Polls show that the tax fairness message is strongly supported by the public** – not just by Democrats, but by a large segment of independents. And depending on the question, majorities of Republicans, or pluralities, support making the rich and corporations pay their fair share.

2) **Tax fairness provides a positive and winning message against conservative proposals to cut taxes – the centerpiece of their budget priorities**. Conservative budget proposals will deeply cut taxes, paid for by major cuts to discretionary and mandatory spending. Their proposals to lower taxes on the wealthy and corporations are actually *less popular* than their proposals to cut spending.

3) **A strong tax fairness message provides a way to more safely talk about increasing government spending.** The public has concerns about increasing government spending, while it wants all the good benefits and services the government provides. An effective way to indirectly talk about more government spending, or more investment, is to frame it as a "tax tradeoff": If we close tax loopholes for corporations that ship jobs and hide profits offshore, we can raise billions of dollars to invest in America. We can make our classrooms less crowded, improve roads and bridges, find new medical cures and make America energy independent.

4) **A tax fairness message connects deeply to the strong populist tide animating politics in America, including the need to address income inequality.** Polling shows the public is fed up with Washington because it feels the system is rigged and controlled by powerful corporate interests and the wealthy. Exhibit #1 is our loophole-ridden tax system, which allows the rich to get richer and limits the resources needed to invest in the economy. A tax fairness message allows you to tap into this anger and provide a solution that makes sense to people.

5) **We can't create the America we want without raising a lot more revenue.** That requires constantly delivering a message to the public that we need to raise more revenue, but in a way they can hear it – we need to close loopholes so that the rich and corporations pay their fair share and so that the rest of don't have to pick up their tab. And providing income supports and services to working Americans and having the money needed to make major new investments that make the economy more productive and create jobs, requires a lot more revenue.

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Messaging on Taxes and the Economy

These messages are based on a half dozen rigorous polls conducted by Hart Research Associates on behalf of Americans for Tax Fairness and other clients.

We need an economy that works for all of us, not just the wealthy and big corporations

- The promise of America should be for everyone, not just the wealthy few. Corporate CEOs now make 300 times the pay of the average worker, while many of us have gotten no raise at all. Corporations and the wealthy can afford to pay their fair share, so the rest of us have more opportunities to succeed.
- Millions of Americans are working harder than ever to keep from falling behind. Families are struggling and the middle-class is shrinking. The deck is stacked against us. The system is rigged in favor of the wealthy and big corporations.
- The tax system is full of loopholes and tax breaks that benefit big corporations and the wealthy. That means they don't pay their fair share of taxes. This hurts all of us who work hard and play by the rules, including small businesses on Main Street.
- The wealthy and big corporations like General Electric, Verizon and Apple use their lobbyists and campaign contributions to rig the tax system in their favor. If we close the loopholes they will have to start living by the same rules as the rest of us.
- Our country should provide opportunity for all. No one is guaranteed success in America, but everyone deserves a fair shot to succeed. The promise of America should be for everyone, not just for the rich and powerful.

Corporations and the wealthy should pay their fair share of taxes

- Our tax code is full of tax loopholes and tax breaks benefitting big corporations and the rich. When they don't pay their fair share of taxes, the rest of us pick up the tab. American families end up paying higher taxes or getting fewer services, and the country goes deeper into debt.

We should end tax breaks for companies that ship jobs and hide profits offshore

- A great threat to our economy is American jobs moving overseas. Congress should end tax breaks that encourage corporations to move our jobs offshore.
- Congress should close loopholes that let corporations avoid taxes by hiding their profits offshore. American companies have $2 trillion in profits sitting overseas – much of it in tax havens. As long as the money is offshore, companies avoid paying U.S. income taxes on it.
- It's time to stop corporate tax dodging and invest in America again. If we close tax loopholes for corporations that ship jobs and hide profits offshore, we can raise billions of dollars to invest in America. We can make our classrooms less crowded, improve roads and bridges, find new medical cures and make America energy independent.
- If we end tax breaks for companies that ship jobs offshore, we can level the playing field for small businesses that create jobs in America. It's about time big corporations played by the same rules as Main Street businesses.

Corporations that desert America to dodge paying their fair share of taxes are unpatriotic

- Companies that undertake a corporate inversion simply shift their address to an offshore tax haven to avoid paying their fair share of taxes. They are corporate deserters. They are un-American. They are traitors like Benedict Arnold.
- These corporations move their corporate address offshore on paper, but their operations remain here. They want all the benefits of being an American company, but they don't want to pay for them. They want to take advantage of our educated workforce, legal system, financial markets and transportation system. But they want you and me to pick up the tab.
- These selfish corporations know no country, they feel no patriotism, and they have no allegiance to America – just to the almighty dollar.

Some corporations pay nothing in federal income taxes

- Some large, profitable corporations pay absolutely nothing – zero – in federal income taxes. Twenty-six large corporations made billions in profits but paid no U.S. income taxes over five years. Giant companies like General Electric, Boeing and Verizon actually got tax refunds.
- You paid more in federal income taxes in one year than those corporations paid in five years.

Millionaires and billionaires shouldn't pay lower tax rates than working families

- Someone who works for a paycheck shouldn't have to pay a higher tax rate than the rich person living off their Wall Street investments. Middle-class families shouldn't pay a higher tax rate than billionaires.
- We should close the loophole that allows billionaire Wall Street private equity managers to pay lower tax rates than their secretaries. Congress should pass the "Buffett rule" to make sure millionaires and billionaires pay at least as high a tax rate as middle-class families.

Corporations should pay their workers fair wages, not get tax subsidies for CEO bonuses

- Corporate profits are soaring and CEO pay is skyrocketing, but workers' wages are standing still. Because of a tax loophole, the more corporations pay their executives in bonuses the less they pay in taxes. American workers should not be subsidizing lavish bonuses for their bosses.

If corporations and the rich pay their fair share, the economy will work better for everyone

- Instead of making seniors pay more for Medicare or cutting Social Security benefits, we should close tax loopholes that allow large corporations to hide profits offshore.
- Instead of cutting funding for repairing our roads and bridges, we should end huge tax subsidies to oil and gas companies making record profits.
- Instead of cutting funding for teachers and firefighters, we should ask multi-millionaires and billionaires to pay at least as high a tax rate as public servants pay.
- Instead of blocking benefits for the unemployed, we should end tax breaks for corporations that send American jobs offshore.

Messaging on Income Inequality & Taxes

Fighting *against* income inequality means fighting *for* economic fairness and *for* economic opportunity – where everyone has a chance to succeed. And tax fairness is central to creating economic fairness and economic opportunity for all. There are various ways to address income inequality and to promote economic opportunity – raise workers' wages, give workers more bargaining power through unions, and create a full employment economy that gives workers more leverage to demand higher pay from employers. Another way is to create a fairer tax system that raises resources to fund vital services, provide benefits and make new investments in jobs and the economy, and that reduces the wealth gap between the 1 percent and the rest of us.

Below is a set of talking points we suggest using when addressing the related issues of income inequality, economic opportunity and tax fairness. These message suggestions are based in part on extensive polling that has been done by Hart Research Associates over the last two years for Americans for Tax Fairness and more recently for the Center for American Progress.

1) We need an economy that works for everyone, not just the wealthy few.

- People are working harder and harder – and falling farther and farther behind. They can't make ends meet. They work two jobs or more to barely keep their head above water. They can't save enough to go to college, buy a home or retire with peace of mind.
- Our economy works for the wealthy and big corporations, but it's not working for the rest of us. Everyone deserves a fair shot. Everyone in America should have a real chance to succeed. But instead, the deck is stacked against working people and the middle class is shrinking.

2) You can't get a fair shot when the deck is stacked against working Americans, in favor of the wealthy and big corporations.

- The richest 1 percent of Americans own 35 percent of America's wealth.
- CEOs make nearly three *hundred* times as much as the average worker gets paid.
- Some big corporations – Verizon, General Electric and Wells Fargo bank – pay ZERO in federal income taxes some years. That's less than what most American families pay.
- Many big and profitable corporations spend more for lobbyists in Washington to protect tax loopholes than they pay in income taxes to the government.
- Too many politicians have stacked the deck in favor of their wealthy campaign contributors and corporate interests while the middle class gets stuck with tab.

3) Tax breaks for the rich and corporate tax loopholes for Wall Street are a drain on the economy and hurt the rest of us.

- Ordinary families and small businesses have to pay more for public services like roads, schools, and health care when corporations and the wealthy use tax loopholes to avoid paying their fair share.
- We won't have the resources to invest in America again if we don't close giant loopholes that encourage companies to ship jobs and profits offshore.
- Our tax system should help level the playing field and expand opportunity; instead it tilts the playing field further in favor of the rich and big corporations.

4) We can't create an economy that works for everyone unless we create a tax system that works for everyone. But that's not what we have today.

- Congress gives corporations billions of dollars in tax breaks each year for shipping American jobs offshore. But it refuses to make corporations pay their fair share of taxes so that we can rebuild our roads and bridges and put Americans back to work at home.
- Republicans in Congress refuse to provide emergency unemployment benefits to the long-term unemployed because of the cost – but at the same time they give away billions in huge tax breaks to the rich and corporations.
- Many people who get up and go to work every day pay a higher tax rate than wealthy people living off their investments.
- We have a tax system that lets Wall Street hedge fund managers pay a lower tax rate than their kids' teachers.
- Corporations get a special tax break for paying their CEOs bonuses even as they stash billions in profits offshore to avoid paying U.S. taxes.

5) We can address inequality and create economic opportunity for all Americans if corporations and the wealthy pay their fair share of taxes:

- We can protect our families by ensuring that Social Security, Medicare and Medicaid are fully funded so they will be there for everyone when we need them.
- We can make sure that returning veterans get health care, families that are hungry get food stamps, and people with disabilities have job training.
- We can create jobs and economic opportunity by investing in our schools, making college more affordable, investing in finding new medical cures, and researching new clean forms of energy.
- We can help give everyone in America a real chance to succeed.
- And when the wealthy pay their fair share of taxes, we can reduce the wealth gap between the rich and everyone else.

AMERICANS FOR TaxFairness

Messaging On Middle Class Tax Cuts

In 2015, it has become popular to call for "middle class tax cuts" as a partial solution to wage stagnation and growing inequality. ATF supports *targeted* proposals to significantly expand some tax cuts, such as the Earned Income Tax Credit and the Child Tax Credit, which raise working families' living standards and show that progressives support strong families and people who work hard at low-wage jobs. We oppose broad-based tax cuts, because they are inconsistent with progressive commitments to investments and preserving the safety net. ATF has concerns about the way the middle class tax cut issue has been framed in the media, as explained below. These are followed by alternative ways to frame the proposals from ATF and President Obama, so that it is a winning message that does not harm the longer-range goal of maintaining strong public support for a tax fairness agenda.

Concerns About Middle Class Tax Cuts Messaging

1) **Calling for middle-class tax cuts frames the debate in the way our opponents talk about taxes. That is not our strength, and it undermines our long-term goals.** The middle class is not overtaxed; therefore, it's not a good idea to suggest that they are overtaxed and need "tax relief." The fundamental problem with our tax system is that the rich and corporations are not paying their fair share. Progressives are winning with this message big-time. Calling for middle-class tax cuts goes in the opposite direction.

2) **If both progressives and conservatives push for middle-class "tax relief" there is grave danger of a bidding war that will result in a huge drain of revenues, at a time when a lot more revenues are needed.** It is a very slippery slope to push for middle-class tax cuts, which is likely to result in a bidding war between progressives and conservatives. The result will be insufficient revenues to meet the retirement needs of the baby-boom generation and to make the critical investments needed to grow the economy and create jobs.

3) **Framing the debate as the need for tax cuts to help middle-class families combat stagnant wages shifts the focus from the source of the problem – corporations not paying decent wages.** By arguing for tax cuts, people are more likely to blame the government for taxing them too much – the frame of our opponents. Instead, the focus needs to be that corporations are paying their workers too little. While temporary, targeted tax cuts may make sense as a short-term step to help working families, they do not address the core problem of inadequate wages and benefits, as explained in this New York Times oped.

ATF's Messaging Recommendations on Middle-class Tax Cuts

- We need to close tax loopholes so that wealthy Americans and big corporations start paying their fair share of taxes. This will allow us to responsibly pay for the investments we need to help working families get ahead and grow the economy to create jobs.

- President Obama's tax plan will help make the tax system fairer in three important ways:
    - He requires the very rich to pay a somewhat higher tax rate on their investments *in order to provide tax incentives for 16 million working families.*

- He closes the Trust Fund Loophole that allows inheritors of large fortunes to dodge paying their fair share of taxes *in order to make child care more affordable for 5 million working families.*
- He requires 100 of Wall Street's biggest banks to pay a small fee on the billions of dollars they borrow for speculative investments *in order to provide two years of free community college for 9 million students.*

Messaging Used by President Obama

From the State of the Union:

First -- middle-class economics means helping working families feel more secure in a world of constant change. That means helping folks afford childcare, college, health care, a home, retirement -- and my budget will address each of these issues, lowering the taxes of working families and putting thousands of dollars back into their pockets each year.

… Where we too often run onto the rocks is how to pay for these investments. As Americans, we don't mind paying our fair share of taxes, as long as everybody else does, too. But for far too long, lobbyists have rigged the tax code with loopholes that let some corporations pay nothing while others pay full freight. They've riddled it with giveaways the superrich don't need, denying a break to middle class families who do.

This year, we have an opportunity to change that. Let's close loopholes so we stop rewarding companies that keep profits abroad, and reward those that invest in America. Let's use those savings to rebuild our infrastructure and make it more attractive for companies to bring jobs home. … And let's close the loopholes that lead to inequality by allowing the top one percent to avoid paying taxes on their accumulated wealth. We can use that money to help more families pay for childcare and send their kids to college. We need a tax code that truly helps working Americans trying to get a leg up in the new economy, and we can achieve that together.

From President Obama's FACT SHEET: A Simpler, Fairer Tax Code That Responsibly Invests in Middle Class Families

The President [has a] plan to simplify our complex tax code for individuals, make it fairer by eliminating some of the biggest loopholes, and use the savings to responsibly pay for the investments we need to help middle class families get ahead and grow the economy.

By ensuring those at the top pay their fair share in taxes, the President's plan responsibly pays for investments we need to help middle class families get ahead, like his proposal to make two years of community college free for every student willing to do the work. The savings will pay for additional reforms that will help the paychecks of middle-class and working families go further to cover the cost of child care, college, and a secure retirement.

Rather than make it easier for middle-class families to make ends meet, our tax system has changed over time in ways that make it easier for the wealthy to avoid paying their fair share. Though President Obama restored top tax rates on the highest income Americans to their levels under President Clinton, high-income tax rates remain historically low, especially on capital income.

CORPORATE TAX REFORM PRINCIPLES

January 30, 2015

For a better future, elected leaders must make sure that the wealthy and big corporations pay their fair share of taxes. This will allow us to generate the revenues needed to ensure economic security for families and seniors and to make investments in education, energy, roads and research needed to grow the economy and create jobs. Lawmakers must also make permanent the improvements in critical tax credits that can lift people out of poverty, incentivize work and give more people a chance to join the middle class.

Special-interest tax breaks let many big corporations pay well below the 35 percent tax rate. Loopholes let some profitable corporations pay less in federal income taxes than a single middle-class family pays. Our tax system encourages corporations to abandon their responsibility to America by lowering their taxes when they shift jobs and profits offshore.

To create a system that promotes tax fairness while helping working families and Main Street businesses, Americans for Tax Fairness proposes the following corporate tax reform principles:

1. **Corporations need to pay their fair share of taxes.**
   - Corporate tax reform must raise significant revenue over the long term to pay for services and investments that benefit our families and communities. "Revenue neutral" reform that closes loopholes to pay for lower corporate tax rates is not acceptable.
   - Corporations have not contributed a dime to deficit reduction. Yet, since 2010 the rest of us have suffered from cuts of $2.5 trillion (over 10 years) to services we rely on in order to reduce the deficit.
   - Cost estimates of corporate tax reform must be honest and realistic and not use funny math and timing gimmicks, such as dynamic scoring and manipulated baselines.

2. **Our tax system should not encourage corporations to shift jobs or profits offshore.**
   - Offshore profits should not be taxed at a lower rate than domestic profits because this creates an incentive for companies to move production offshore and to disguise domestic profits as offshore profits. This gives multinational corporations an unfair edge over small businesses and domestic companies.
   - The tax break that allows corporations to indefinitely defer U.S. taxes on their offshore profits should be repealed. "Deferral" allows corporations to pay lower taxes when they move operations offshore and when they disguise domestic profits as offshore profits.
   - The U.S. must *not* adopt a "territorial" tax system, in which U.S. companies would pay little or no U.S. taxes on their offshore profits. Such a system would only increase the tax incentives for U.S. companies to shift jobs and profits offshore.

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- The $2 trillion in untaxed profits that corporations have already accumulated offshore should not be treated in a way that gives corporations an incentive to shift jobs or profits offshore in the future, such as through a repatriation tax holiday.

3. **Our tax system should discourage financial speculation and encourage corporations to make long-term investments in their companies and to increase wages as productivity and profits rise.**
    - A small tax should be levied on financial transactions to rein in Wall Street speculation, encourage productive long-term corporate investment, and generate significant revenue for public investment.
    - A small tax should be levied on the largest financial firms with the most debt to discourage behavior that increases the risk of another financial crisis.
    - The tax deductibility of executive "performance pay" (such as stock options and bonuses) should be eliminated. This tax break has boosted executive pay and incomes of the 1 percent while increasing pressure on corporations to maximize short-term stock prices. This encourages lower wages, downsizing, outsourcing, and offshoring.

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Offshore Corporate Tax Loopholes

Overview

Many U.S. corporations use offshore tax havens and other accounting gimmicks to avoid paying as much as $90 billion a year in federal income taxes. A large loophole at the heart of U.S. tax law enables corporations to avoid paying taxes on foreign profits until they are brought home. Known as "deferral," it provides a huge incentive to keep profits offshore as long as possible. Many corporations choose never to bring the profits home and never pay U.S. taxes on them.

Deferral gives corporations enormous incentives to use accounting tricks to make it appear that profits earned here were generated in a tax haven. Profits are funneled through subsidiaries, often shell companies with few employees and little real business activity. Effectively, firms launder U.S. profits to avoid paying U.S. taxes.

Loopholes used to shift U.S. profits to tax havens

- U.S. firms can set up a subsidiary offshore, channel billions of dollars of profit through it and make the subsidiary "disappear" for U.S. tax purposes simply by "checking a box" on an IRS form.
- Corporations can sell the right to patents and licenses at a low price to an offshore subsidiary, which then "licenses" back to the U.S. parent at a steep price the right to sell its products in America. The goal of this "transfer pricing" is to make it appear that the company earns profits in tax havens but not in the U.S.
- Wall Street banks, credit card companies and other corporations with large financial units can easily move U.S. profits offshore using a loophole known as the "active financing exception."
- A U.S. corporation can do an "inversion" by buying a foreign firm and then claiming that the new, merged company is foreign. This lets it reincorporate in a country, often a tax haven, with a much lower tax rate. The process takes place on paper – the company doesn't move its headquarters offshore and its ownership is mostly unchanged – but it continues to enjoy the privileges of operating here while paying low tax rates in the foreign country.

How to solve the problem

The simplest solution is to end "deferral," as proposed by Sen. Bernie Sanders and Rep. Jan Schakowsky. Corporations would pay taxes on offshore income the year it is earned, rather than indefinitely avoid paying U.S. income taxes. This would also remove incentives to shift U.S. profits to tax havens, and it would raise $600 billion over 10 years.

Short of ending deferral, Congress should close the most egregious loopholes, such as "check the box," "transfer pricing," "active financing exception" and corporate "inversions." It should also end the loophole that lets firms deduct the cost of expenses from moving jobs and operations offshore if the profits earned from those activities remain offshore and untaxed by the U.S. – saving $51 billion over 10 years.

Key Facts

Tax avoidance through offshore tax loopholes is a significant reason why corporations, which paid one-third of federal revenues 60 years ago, now pay one-tenth of federal revenues.

U.S. corporations dodge $90 billion a year in income taxes by shifting profits to subsidiaries—often no more than a post office box—in tax havens.

U.S. corporations hold $2.1 trillion in profits offshore – much in tax havens – that have not been taxed in the U.S.

General Electric, which uses a loophole for offshore financial profits, earned $27.5 billion in profits from 2008 to 2012 but claimed tax refunds of $3.1 billion.

Apple made $74 billion from 2009-2012 on worldwide sales (excluding the Americas) and paid almost nothing in taxes to any country.

26 profitable Fortune 500 firms paid no federal income taxes from 2008-2012. 111 large, profitable corporations paid zero federal income taxes in at least one of those five years.

News Coverage

The Islands Treasured by Offshore Tax Avoiders, The New York Times

For U.S. Companies, Money 'Offshore' Means Manhattan, The New York Times

Switching Names to Save on Taxes, The New York Times

G.E.'s Tax Strategies Let it Avoid Taxes Altogether, The New York Times

Cash Abroad Rises $206 Billion as Apple to IBM Avoid Tax, Bloomberg News

Britain Becomes Haven for U.S. Companies Keen to Cut Tax Bills, Reuters

Apple's Web of Tax Shelters Saved It Billions Panel Finds, The New York Times

Sen. Sheldon Whitehouse (D-RI) and Rep. Lloyd Doggett (D-TX) have introduced the Stop Tax Haven Abuse Act (S. 174, H.R. 297), which will close some of these loopholes and raise $278 billion over 10 years.

Corporations really want a "territorial" tax system

Corporations don't just want to "defer" paying U.S. taxes on foreign profits. They want a "territorial" tax system that eliminates all U.S. taxation of offshore profits. This would provide even more incentives for corporations to shift profits to offshore tax havens. A system in which U.S. corporations pay no U.S. income taxes on offshore profits would encourage U.S. firms to create 800,000 jobs overseas rather than in the U.S.

Why not let companies "bring the money home?"

Because U.S. firms are officially holding $2.1 trillion in untaxed profits offshore, they are proposing a "repatriation tax holiday," which would allow them to bring that money home at a special low tax rate. Supporters say this would increase domestic investment, creating jobs.

A tax holiday was tried in 2004, when $300 billion was brought home at a 5.25% tax rate, but it was a big failure. It did not increase domestic investment or create jobs, and the money was used largely for stock buybacks, dividends and executive bonuses. Also, a tax holiday costs more than it raises – it will lose $100 billion over 10 years. Worst of all, it rewards firms that use offshore tax loopholes, encouraging even more tax dodging in the future.

Talking points

- We should end tax breaks for corporations that ship jobs and profits offshore. It's time to invest in America and create jobs here.
- When big corporations use tax havens to dodge paying their fair share of taxes, the rest of us have to pick up the tab. Families pay higher taxes, get fewer services or we all get a bigger deficit.
- Tax dodging by large corporations puts small businesses that play by the rules at a disadvantage. We need to level the playing field.
- *Corporations say our 35% corporate income tax rate is the highest in the world, which makes them uncompetitive and kills jobs.* But corporations aren't paying too much in taxes; many pay too little. The typical American family paid more income taxes in one year than General Electric and dozens of other companies paid in five years. Many large, profitable corporations pay a tax rate of less than 20%, and some pay absolutely nothing for years. If corporations pay less, you will have to pay more. Corporations need to pay their fair share too.
- *Corporations say a repatriation tax holiday will enable them to bring profits home, invest and create jobs.* When this was tried in 2004 it was an utter failure. Companies actually cut jobs, but they lined the pockets of big shareholders and corporate executives. A tax holiday gives tax breaks to corporations that have done the most to dodge paying their fair share of taxes.

Opinion

'A is for Avoidance', The New York Times

Corporations and their Tax Shell Games: Time for a Global Crackdown, The Los Angeles Times

Resources

Tax Havens: International Tax Avoidance and Evasion, Congressional Research Service

International Corporate Tax Rate Comparisons and Policy Implications, Congressional Research Service

Offshore Shell Games 2014, Citizens for Tax Justice and U.S. PIRG

The Sorry State of Corporate Taxes, Citizens for Tax Justice

Don't Renew the Offshore Tax Loopholes, Citizens for Tax Justice

General Electric's Special Tax Loophole Lets Company Dodge Billions in Taxes, Americans for Tax Fairness

The Fiscal and Economic Risks of Territorial Taxation, Center on Budget & Policy Priorities

Repatriation Tax Holiday Would Lose Revenue and Is a Proven Policy Failure, Center on Budget & Policy Priorities

Corporate Tax Rates And Economic Growth Since 1947, Economic Policy Institute

Corporate Income Tax: Effective Tax Rates Can Differ Significantly from the Statutory Rate, U.S. Government Accountability Office

Americans for Tax Fairness

Americans for Tax Fairness is a diverse coalition of 425 national and state organizations that collectively represent tens of millions of members. ATF was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs.

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Corporate Tax Rates

Overview

Corporations are paying a smaller share of federal tax revenue than they did in the 1950s, dropping from one-third then to only one-tenth of the total today. Yet, an army of lobbyists is pushing hard to convince Congress to cut the corporate income tax rate by nearly one-third – from the current 35% to 25%. This issue is at the epicenter of the coming battle over tax reform.

Conservatives have defined the debate in a highly-misleading manner. They focus on the top *statutory* rate – the rate specified by law – instead of the *effective* tax rate – what is actually paid. Because U.S. statutory rates are somewhat higher than other OECD countries, corporations claim that this makes them less competitive, and that it stunts job growth. But their argument is unpersuasive when the debate focuses on *effective* corporate tax rates.

The debate has been further skewed by calls for "revenue neutral" corporate tax reform, in which any revenue raised by closing tax loopholes is used to reduce rates. Corporations haven't contributed a dime towards deficit reduction in recent budget deals. And they want to continue this special treatment while American families shoulder the entire burden. Meanwhile, the country is starved for resources needed to foster economic growth and job creation – from infrastructure to research to improved schools.

U.S. *effective* corporate tax rates are not a burden

The top *statutory* tax rate of 35% in the U.S. is somewhat higher than that of 30 other OECD countries, but the average *effective* tax rate – the actual rate paid after deductions and credits, is slightly lower than our competitors, according to the Congressional Research Service (CRS).

Several studies have found that U.S. corporations pay a similar or a lower *effective* tax rate – the rate actually paid – than corporations in other countries. For example:

- Our average effective tax rate is 27.1% compared with 27.7% for the other 30 OECD countries, according to CRS.
- Profitable corporations paid U.S. income taxes amounting to just 12.6% of worldwide income in 2010, according to the Government Accountability Office.
- Citizens for Tax Justice's survey of 288 corporations, which included most of the Fortune 500 corporations that were profitable each year from 2008 through 2012, found that they paid an average effective federal tax rate of just 19.4% over that period.
- Of 125 corporations in that study that had significant foreign profits, 82 (two-thirds) paid a higher effective rate to foreign governments than they paid to the U.S.

Key Facts

Corporate share of federal tax revenue has dropped by two-thirds in 60 years – from 32% in 1952 to 10% in 2013.

General Electric, Boeing, Verizon and 23 other profitable Fortune 500 firms paid no federal income taxes from 2008-2012.

288 big and profitable Fortune 500 corporations paid an average effective federal tax rate of just 19.4% from 2008 to 2012.

Profitable corporations paid U.S. income taxes amounting to just 12.6% of worldwide income in 2010.

U.S. corporations dodge $90 billion a year in income taxes by shifting profits to subsidiaries—often no more than post office boxes—in tax havens.

U.S. corporations officially hold $2.1 trillion in profits offshore – much of it in tax havens – that have not yet been taxed here.

News Coverage

Many Big U.S. Corporations Pay Very Little in Taxes, Reuters

Big Companies Paid a Fraction of Corporate Tax Rate, The New York Times

Post Analysis of Dow 30 Firms Shows Declining Tax Burden as a Share of Profits, The Washington Post

Report: Corporations Pay Fraction of Top Rate, The Hill

G.E.'s Strategies Let It Avoid Taxes Altogether, The New York Times

With Tax Break, Corporate Rate Is Lowest in Decades, The Wall Street Journal

U.S. Business Has High Tax Rates but Pays Less, The New York Times

Some corporations pay nothing in taxes

- General Electric, Boeing, Priceline.com, Verizon and 22 other profitable Fortune 500 firms paid no federal income taxes from 2008 through 2012, according to Citizens for Tax Justice.
- 111 profitable Fortune 500 firms paid zero federal taxes in at least one of those five years.
- General Electric, one of the most notorious corporate tax dodgers, got $3.1 billion in refunds on $27.5 billion in profits from 2008 to 2012. The company paid less in federal income taxes in five years than a single American family pays in one year.

Lower tax rates do not boost growth and jobs

Conservatives claim reducing the corporate tax rate will substantially grow the economy. But a cut in the statutory rate from 35% to 25% would increase economic output by less than two-tenths of one percent, according to CRS. Economic growth over the past 60 years has actually been *stronger* when corporate tax rates were higher, according to the Economic Policy Institute. U.S. corporate tax rates also are not hurting profits – before-tax and after-tax corporate profits as a percentage of national income are at post–World War II highs.

There is no relationship between cutting corporate tax rates and job growth, according to a recent study by the Center for Effective Government. Twenty-two of the 30 profitable Fortune 500 companies that paid the *highest* tax rates (30% or more) from 2008 to 2010 created almost 200,000 jobs between 2008 and 2012. The 30 profitable corporations that *paid little or no taxes* over the three years collectively shed 51,289 jobs between 2008 and 2012.

A corporate tax rate cut will blow a hole in the budget

Those who want to cut the corporate income tax rate from 35% to 25% ignore that it will cost $1.3 trillion over 10 years, according to the Joint Committee on Taxation. They say that rate cuts will be paid for by closing corporate tax loopholes, but this will be extremely difficult given the power of the corporate tax lobby. Even if it was possible, there would be no new revenue for investments or deficit reduction. America can't afford that.

Americans don't want to cut corporate taxes

Recent polling shows that the public feels strongly that corporations need to step up and contribute their fair share. For instance:

- By 79% to 17%, voters want to "Close tax loopholes to ensure that American corporations pay as much on foreign profits as they do on profits made in the United States."
- By 82% to 9%, voters believe that "reform[ing] the tax system by closing corporate loopholes and limiting deductions for the wealthy" should be used to "reduce the budget deficit and make new investments" rather than to "reduce tax rates on corporations and the wealthy."

Opinion

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No Replacement for Corporate Taxes, The New York Times

The Truth about Corporate Tax Rates, USA Today

Looking at Some Corporate Tax Loopholes Ordinary Citizens May Envy, The New York Times

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Corporate Income Tax: Effective Tax Rates Can Differ Significantly from the Statutory Rate, Government Accountability Office

Corporate Tax Rates And Economic Growth Since 1947, Economic Policy Institute

Lower Corporate Tax Rates Not Linked to Job Creation, Center for Effective Government

Americans for Tax Fairness

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Corporate Tax Inversions

Overview

In 2014, several major U.S. corporations – among them Burger King, Medtronic and AbbVie – renounced their U.S. corporate "citizenship" and moved their corporate address offshore by merging with a foreign company. The merged corporation will pay most of its taxes to a foreign government – usually a tax haven – with a low tax rate. This allows it to dodge paying its fair share of U.S. taxes. The process, known as an "inversion," takes place primarily on paper as most corporate operations remain here.

When Walgreens announced possible plans to invert in 2014, it raised issues about what it means to be an American company. Although the company later decided not to invert, in part because of fears of a potential "consumer backlash," the inversion story isn't over. In fact, with about a dozen major corporations planning inversions, the issue is very much alive.

Why is the issue important?

If corporations use inversions to dodge their tax obligations, American taxpayers have to pick up the tab even though the firms will continue to enjoy the enormous benefits of being headquartered here. Inversions are likely to become a central issue in the debate over corporate tax reform. Conservatives claim that corporations are forced to leave America because the corporate income tax rate is too high. Progressives argue that corporations are already avoiding paying their fair share of taxes due to many loopholes, including inversions.

How does an inversion work?

A corporate inversion occurs when a U.S. company merges with a foreign one, dissolves its U.S. corporate status and reincorporates in the foreign country. The U.S. company becomes a subsidiary of the foreign one, but the foreign firm is controlled by the original U.S. firm.

A U.S. corporation can invert if after a merger the owners of the U.S. corporation retain less than 80% of outstanding stock of the new merged company, or if after the merger the new company has "substantial business activities" in the foreign country equaling at least 25% of operations. So, with just a 20% change in ownership, a company can become "foreign" even if it largely operates in and is controlled from America.

What is the tax advantage of an inversion?

Corporations undergo inversions to take advantage of much lower tax rates, usually in tax-haven countries. Once inverted, a company no longer pays U.S. taxes on its global income. Instead, it is only responsible for paying taxes on income generated in the U.S. For example, Walgreens, which had $72 billion in U.S. sales last year,

Key Facts

Inversions largely occur on paper. Corporations typically do not move their executives or operations overseas.

Corporations that invert continue to enjoy the benefits of operating here – they just dodge a lot of taxes.

A dozen U.S. firms are currently considering doing a corporate inversion.

Walgreens could dodge up to $4 billion in U.S. taxes over five years if it inverts. One-quarter of its sales are from Medicare and Medicaid.

Medtronic plans to move its corporate address to Ireland, a tax haven, to avoid paying U.S. taxes on $20.5 billion in offshore profits.

U.S. corporations already dodge $90 billion a year in income taxes by shifting profits to subsidiaries—often no more than post office boxes—in tax havens.

U.S. corporations hold $2.1 trillion in profits offshore – much of it in tax havens – that have not yet been taxed here. An inversion can let firms dodge paying taxes on those profits.

News Coverage

Burger King's Controversial Tax Savings, CNN Money

Burger King on Hortons Deal: It's Not About the Taxes. Experts: That's a Whopper, Bloomberg News

Burger King in Talks to Buy Tim Hortons and Move to Canada, The New York Times

Obama Seeks to Close Loophole That Firms Use to Shield Profits Abroad, The New York Times

Tax Inversion -- How U.S. Companies Buy Tax Breaks, Bloomberg News

At Walgreen, Renouncing Corporate Citizenship, The New York Times would likely have avoided $4 billion in U.S income taxes over five years if it had gone through with plans to merge with a Swiss company. It is estimated that Burger King and its leading shareholders will dodge an estimated $400 million to $1.2 billion between 2015 and 2018 as a result of its inversion with a Canadian company.

Why inversions are unfair

Companies that invert will continue to take advantage of the things that make the U.S. the best place in the world to do business – our educated workforce, legal and transportation systems, and federally-funded research. And they will continue to be able to get government contracts and to sell products to millions of American consumers.

But they will pay far less than their fair share for these services, passing on the cost to American taxpayers and to other companies.

What is President Obama's position?

Obama's 2015 budget proposed to make inversions very difficult for companies that have the majority of their operations and ownership in the U.S. He would prevent them from reincorporating abroad if they are owned by at least 50% of the former U.S. parent's stockholders (the current threshold is 80%). He would also require that the new foreign corporation be primarily managed and controlled from abroad. Blocked in getting legislation passed, Obama had the IRS and the Treasury Department craft new rules that put up a series of roadblocks making it difficult for a company to be able to use an inversion to avoid paying taxes on its profits booked offshore that have avoided U.S. taxation because of deferral, taking away a major incentive to invert.

What is happening in Congress?

Key lawmakers have proposed legislation to end corporate inversions. Senators Richard Durbin (D-IL) and Jack Reed (D-RI) have introduced the Stop Corporate Inversions Act of 2015 (S. 198). Rep. Sander Levin (D-MI) and Lloyd Doggett (D-TX) have introduced companion legislation (H.R. 415). The bills would raise $34 billion over 10 years.

Talking points

- Corporations that renounce their U.S. "citizenship" and shift their address offshore are deserters. They are unpatriotic. They want all the benefits of being an American company without paying their fair share of taxes. That makes the rest of us pick up the tab.
- Congress must close tax loopholes that make it easy for corporations to shift profits and jobs offshore. Congress needs to level the playing field so that big corporations have to play by the same rules as Main Street businesses that are doing their part.
- Big corporations say that the 35% U.S. corporate income tax rate is too high. But many companies pay much less because of loopholes in our tax code – many pay at a rate of less than 20%.
- 26 corporations paid no U.S. income taxes from 2008 to 2012, including General Electric, Boeing and Verizon. 111 companies paid no income taxes in at least one of those five years.

The Levin Brothers Want to End Tax Inversion, but the GOP Refuses, The New Republic

Move to Switzerland to dodge IRS may give Walgreen blues, The New York Post

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Positively un-American Tax Dodges, Fortune

Corporate Artful Dodgers, The New York Times

An Open Letter to Medtronic on What it Means to Be an American company, The Washington Post

Companies Take U.S. Benefits, but Flee US Taxes, The Raleigh News and Observer

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Editorial Board Memo, Americans for Tax Fairness

Offshoring America's Drugstore – Americans for Tax Fairness and Change to Win Retail Initiatives

Much of What You've Heard about Corporate "Inversions" Is Wrong, Citizens for Tax Justice

Corporate Expatriation, Inversions, and Mergers: Tax Issues, Congressional Research Service

47 Corporate Inversions in Last Decade**,** Congressional Research Service

Why Does Pfizer Want to Renounce Its Citizenship? Citizens for Tax Justice

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Tax Subsidies for CEO Pay

Overview

Most American taxpayers would be shocked to learn that they subsidize CEO bonuses. A tax loophole allows corporations to deduct from their taxable income any amount paid to CEOs and their executives, as long as the pay is "performance-based." This means that the more they pay their executives, the less they pay in federal taxes.

Why does this tax loophole exist?

The CEO pay loophole defies common sense, but Congress thought was doing the right thing when it passed legislation in 1993 that capped the tax deductibility of executive pay at $1 million. But there was a huge loophole – the cap doesn't apply to "performance-based" pay, which includes stock options. Incentive bonuses were supposed to make CEOs better stewards of shareholders' money. This theory has proved false, with the 2008 financial crisis being only the most severe example of how huge performance bonuses can encourage risky activities that endanger single companies and the broader economy.

How much does this loophole cost taxpayers?

Closing the CEO pay loophole would save taxpayers $50 billion over 10 years, according to the non-partisan Joint Committee on Taxation.

What could $50 billion buy?

Rather than subsidize corporate executive pay, other pressing needs could be funded such as:

- Two-thirds of the $75 billion cost of President Obama's plan to provide all low- and moderate-income 4-year-olds with high-quality publicly funded preschool over 10 years.
- Food and Drug Administration funding over 10 years to ensure that our food, prescription drugs and many other products are safe.
- Eliminating the highway and mass transit trust fund shortfalls for the next 2½ years.

What are other benefits of closing the loophole?

Eliminating the loophole would give corporations less incentive to shower executives with lavish bonuses – money that could be used to increase pay for average workers. It would also reduce incentives for CEOs to take wild risks with their companies in order to get multi-million dollar "performance-based" bonuses.

Executive compensation experts found that pay arrangements relying heavily on "performance pay" are leading managers to focus excessively on the short term, motivating them to boost short-term results at the expense of long-term value.

Key Facts

Closing the CEO pay loophole would save taxpayers $50 billion over 10 years.

Walmart dodged $104 million in federal taxes over the past six years by exploiting the CEO pay loophole.

Voters strongly oppose the CEO pay loophole. By nearly 2 to 1 (63%-34%) they want to "Prevent corporations from avoiding taxes when they award their executives millions of dollars in stock options." Hart Research, Q. 12

CEOs of major corporations earn nearly 300 times more than an average worker. This is 10 times more than the CEO to worker pay ratio in 1978 when CEOs earned 30 times more.

CEOs often get their "performance-based" bonuses even when they don't reach performance goals.

News Coverage

How Taxpayers Subsidize Millions in CEO Pay, CBS News Moneywatch

Walmart Slashed Tax Bill By Giving Top Execs Big Bonuses, Forbes

Restaurant chains slash tax bill with executive pay deduction, The Hill

Tax Benefits From Options as Windfall for Businesses, The New York Times

Tax Breaks for CEOs Pay for Million-dollar Salaries, The Guardian

Executive Pay Of Austerity Advocates Saves Companies More Than $1 Billion Via Tax Loophole, The Huffington Post

Retailer's Executive Pay Plan Exploits Tax Break, Study Says, Bloomberg

You're Secretly Subsidizing A Fast Food CEO's Million-Dollar Salary, The Huffington Post

The CEO pay loophole debate

Corporate lobby groups often try to confuse the debate by arguing that Congress shouldn't tell corporations how much they can pay their CEOs. Under proposed reforms in Congress, corporations will still be free to shower their CEOs with huge bonuses. It's just that taxpayers won't have to pick up the tab.

Some conservatives say corporations should face no limits whatsoever on the deductibility of CEO pay since the executives also pay individual income taxes on this compensation. This is not a matter of "double taxation." Corporations and their employees are separate entities and it is the norm to tax money when it changes hands. For example, individuals pay taxes on their earnings and when they spend money at a store that business pays taxes on the income.

What is happening in Congress?

Sen. Jack Reed (D-RI) and Sen. Richard Blumenthal (D-CT) introduced the Stop Subsidizing Multimillion Dollar Corporate Bonuses Act (S. 1476) in the 113th Congress. Rep. Lloyd Doggett (D-TX) introduced a companion bill (H.R. 3970) in the U.S. House of Representatives. Both bills would save taxpayers $50 billion.

Rep. Dave Camp (R-MI), former Chairman of the House Ways & Means Committee, produced a tax reform plan that would stop taxpayer subsidies for a company's top five executive officers. It would generate $12 billion over 10 years (Sec. 3802).

These bills would build on precedents in the Troubled Assets Relief Program (TARP) and the Affordable Care Act that set a $500,000 deductibility cap on pay for bailout recipients and health insurers.

Talking points

- Under the CEO pay tax loophole, the bigger the bonuses corporations give to their executives the less the company pays in taxes. That means average taxpayers have to pick up the tab.
- Corporate profits are soaring, CEO pay is skyrocketing, but workers' wages are standing still. It's outrageous that average Americans are subsidizing the lavish bonuses of their bosses.
- Tax loopholes like this make voters feel that the system is rigged against them. And they are right. We need a tax system where everyone plays by the same set of rules.
- When giant corporations don't pay their fair share, small businesses and working families have to make up the difference. The $50 billion cost of this loophole could pay for a lot of things we need – educating our kids, rebuilding roads and bridges and finding new cures for diseases.
- The CEO pay loophole encourages the reckless risk-taking that helped cause the 2008 financial crash. The more CEO bonuses are linked to stock prices and other short-term measures of "performance," the more incentive CEOs have to take giant risks.

Taxpayers Subsidize CEO Pay, Report Says, ABC News

Senators Seek To End Taxpayer Subsidy For Exorbitant CEO Pay, ThinkProgress

Opinion

Ending the Taxpayer Subsidy for Exorbitant Executive Bonuses, The Austin American-Statesman

The CEO Aristocracy: Big Bucks for the Big Boss, The Washington Post

Pro-austerity CEOS rake in millions in taxpayer-subsidized 'performance' pay, The Raleigh News and Observer

Walmart's Top-to-Bottom Taxpayer Subsidies, Common Dreams

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Restaurant Industry Pay: Taxpayers' Double Burden, Institute for Policy Studies

'Fix the Debt' CEOs Enjoy Taxpayer-Subsidized Pay, Institute for Policy Studies

CEO Pay Continues to Rise as Typical Workers Are Paid Less, Economic Policy Institute

Taxes and Executive Compensation, Economic Policy Institute

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Taxing Wealthy Americans

Overview

The federal income tax is designed to be progressive – tax rates increase in steps as income rises. For decades this helped restrain disparities in income and helped provide revenue to make public services available to all Americans. Today the system has badly eroded – many multi-millionaires and billionaires pay a lower tax rate than average American families.

Ironically, this has happened while the gap between the wealthy and everyone else has grown wider than ever. The extremely rich aren't only earning and owning more – many are also passing wealth to their heirs tax-free, creating a new American aristocracy with vast fortunes.

How the rich avoid paying taxes – and what to do about it

- **Tax income from investments like income from work.** Billionaires like Warren Buffett pay a lower tax rate than millions of Americans because federal taxes on investment income *(unearned income)* are lower than the taxes many Americans pay on salary and wage income *(earned income.)* Because Buffett gets a high percentage of his total income from investments, he pays a lower income tax rate than his secretary. Currently, the top *statutory* tax rate on investment income is just 23.8%, but it's 43.4% on income from work. To reduce this inequity, *we should raise tax rates on capital gains and dividends* so they match the tax rates on salaries and wages. These loopholes lose $1.3 trillion over 10 years.
- **Cap tax deductions at 28% for the wealthiest Americans.** The rich are able to get much bigger tax breaks for the same tax deductions taken by the middle class. For example, a wealthy family living in a McMansion gets a much bigger tax deduction on the interest on their large mortgage than a middle-class family gets on the interest on their small mortgage on a two-bedroom house. *President Obama* has proposed to *limit the tax break on deductions that the richest 3% can take to 28 cents on the dollar*. In other words, the rich would get the same tax benefit per dollar of deductions as a household in the 28% tax bracket, but not more (as they do now) at the higher 39.6% bracket. This would raise $500 billion over 10 years.
- **Strengthen the estate tax.** Some of the ultra-rich are able to take advantage of loopholes so they pay almost nothing in inheritance taxes. Others take advantage of the fact that the exemption levels for the estate tax are very high – $5.3 million per individual ($10.6 million per couple.) *President Obama proposes to restore the exemptions to their 2009 levels* – $3.5 million for an individual ($7 million for a couple) taxed at a 45% top rate. This and other reforms would raise $131 billion over 10 years. Only three estates for every 1,000 deaths would be affected.

Key Facts

The richest 1% of Americans own 35% of the nation's wealth. The bottom 80% own just 11% of the nation's wealth.

In the 1950s and 1960s, when the economy was booming, the wealthiest Americans paid a top income tax rate of 91%. Today, the top rate is 43.4%.

The richest 1% pay an effective federal income tax rate of 24.7% in 2014; someone making an average of $75,000 is paying a 19.7% rate.

The average federal income tax rate of the richest 400 Americans was just 20 percent in 2009.

Taxing investment income at a much lower rate than salaries and wages are taxed loses $1.3 trillion over 10 years.

1,470 households reported income of more than $1 million in 2009 but paid zero federal income taxes on it.

CEOs of major corporations earn nearly 300 times more than an average worker.

30 percent of income inequality is due to unfair taxes and budget cuts to services and benefits.

The largest contributor to increasing income inequality has been changes in income from capital gains and dividends.

News Coverage

Republican's Tax Plan Awkwardly Aims at Rich, The New York Times

Accidental Tax Break Saves Wealthiest Americans $100 billion," Bloomberg News

A Family's Billions, Artfully Sheltered, The New York Times

Report: Quarter of Millionaires Pay Lower Tax Rate than some in Middle Class, The Washington Post

Carried Interest Tax Break Comes Under Fire Again, The New York Times

Another way to ensure that large inheritances are taxed is to close the income tax loophole that lets wealthy people avoid capital gains taxes by holding their assets until they die. Their heirs then escape paying taxes on these gains. This would raise about $650 billion over 10 years. We should also end specialized trusts that allow families, such as the Waltons who own more than half of Walmart, to completely avoid paying estate and gift taxes.

Other ways to close tax loopholes for the wealthy

- **Pass the Buffett Rule.** The Buffett rule, inspired by billionaire Warren Buffett, would require millionaires to pay a minimum tax rate of 30%. This will guarantee that the wealthy will not pay a smaller share of their income in taxes than a middle-class family pays. It would raise $72 billion over 10 years.
- **Close the Wall Street carried interest loophole.** Wealthy private equity managers use a loophole to pay the lower 23.8% capital gains tax rate on the compensation they receive for managing other people's money. We should close this loophole so that they pay the same rate as others at their income level who receive their compensation as salary. This would raise $17 billion over 10 years.
- **Eliminate the payroll tax loophole for S corporations.** This loophole allows many self-employed people to use "S corporations" to avoid payroll taxes. Used by Newt Gingrich and John Edwards to avoid taxes, closing this loophole would require treating this income as salary rather than profit, making it subject to payroll taxes. This would raise $25 billion over 10 years.

What conservatives say – and why it's wrong

Conservatives claim the wealthy are overtaxed. But the overall share of taxes paid by the top 1% and the top 5% is about their share of total income. This shows that the tax system is not progressive when it comes to the wealthy. The richest 1% pay an effective federal income tax rate of 24.7%. That is a little more than the 19.3% rate paid by someone making an average of $75,000. And 1 out of 5 millionaires pays a lower rate than someone making $50,000 to $100,000.

Conservatives claim that the estate tax is a "death tax," wrongly implying that the tax is paid when every American dies. In fact, the tax primarily is paid by estates of multi-millionaires and billionaires. The vast majority of deaths – 99.9% – do not trigger estate taxes today.

Talking points

- It's time for the wealthiest Americans and big corporations to pay their fair share of taxes. When they take unfair advantage of the many loopholes in the tax code the rest of us pick up the tab.
- Instead of cutting education funding for our children, we should ask millionaires to pay a tax rate at least as high their secretary's.
- Instead of cutting Social Security and Medicare, we should ask the wealthy to give up a few tax loopholes so that we can make sure everyone has a secure retirement.

Opinion

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Changing the Tax Code Could Help Curb Inequality, The Washington Post

Failure of the Anti-tax Philosophy, Star-Ledger NJ.com

Wealth Over Work, The New York Times

There's No Such Thing as a Free Tax Cut, The New York Times

A Costly and Unjust Perk for Financiers, The New York Times

Yup, the Buffett-and-his-Secretary Analogy is Completely Accurate, The Washington Post

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How the Government Subsidizes Wealth Inequality, Center for American Progress

Tax Expenditure Reform: An Essential Ingredient of Needed Deficit Reduction, Center on Budget & Policy Priorities

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Rising Income Inequality and the Role of Shifting Market-Income Distribution, Tax Burdens, and Tax Rates, Economic Policy Institute

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The Estate (Inheritance) Tax

Overview

The federal estate tax, also known as the inheritance tax, is primarily paid by the estates of multi-millionaires and billionaires before their assets are passed to their heirs. It was created nearly 100 years ago to raise revenue from those with the greatest ability to pay, encourage charitable giving and put a brake on the concentration of wealth and power. Conservatives call it the "death tax" in order to mislead people to believe that all Americans pay the tax. But the truth is the vast majority of deaths – 99.9% – will not trigger estate taxes in 2014.

Who pays the estate tax and how much do they pay?

Currently, the tax is assessed only on estates with assets exceeding $5.3 million ($10.6 million per married couple). Families with an estate worth less than those amounts pay nothing. Most families with estates worth $10.6 million or more do careful planning to avoid the tax. Tax loopholes let many wealthy families greatly reduce what they pay or pay no taxes at all. The estate tax is graduated – like the income tax – with a top rate of 40%. However, the average effective tax rate is 17% for those 1 out of 700 deaths that result in paying an estate tax.

Why is the estate tax important?

Very wealthy Americans have many ways to avoid paying their fair share in taxes. Some billionaires pay a lower federal tax rate than an average worker. Large portions of the incomes of the very rich are never taxed at all.

American society is rapidly becoming divided between the extremely rich – the top 1% – and everyone else. Huge family fortunes are passed down from generation to generation, creating a new American aristocracy. The estate tax is a small step toward levelling the playing field. And revenues generated by the estate tax – $14 billion in 2013 from 2,667 deaths – help fund essential services enjoyed by all.

Correcting misinformation about the estate tax

Conservatives misleadingly imply that every American will have to pay the estate tax when he or she dies. But this is pure propaganda – only 1 out of every 700 deaths results in paying estate taxes.

Conservatives claim that many small, family-owned farms and businesses must be sold to pay estate taxes. But in the entire country just 20 small, family-owned farms and businesses owe any estate tax a year. Virtually none of them get sold to pay the estate tax.

Conservatives claim that the estate tax constitutes "double taxation" because it applies to assets that already have been taxed once as income. But large estates consist mostly of "unrealized" capital gains that have never been taxed, like income from Wall Street investments and from real estate.

Key Facts

The estate tax raised $8.5 billion in 2012 – less than 1% of the $1.2 trillion inherited that year.

Only 1 out of every 700 deaths results in paying the federal estate tax today. The vast majority of estates – 99.9% – do not pay federal estate taxes.

While the top estate tax rate is 40%, the average tax rate paid is just 17%.

The estate tax is only paid on assets greater than $5.3 million per individual ($10.6 million couple). Even billionaires pay nothing on the first $5.3 million left to their heirs.

Only 20 small business and family farm estates nationwide will owe any estate tax in 2013.

The estate tax will raise $225 billion over the next 10 years. This is more than the $164 billion 10-year shortfall in the highway and mass transit trust funds.

The Walton family – which owns half of Walmart – has exploited a loophole in the estate tax to avoid paying $3 billion in estate taxes. This could increase by tens of billions in the future.

Casino magnate Sheldon Adelson has exploited a loophole that allowed him to pass $8 billion to family members and avoid $2.8 billion in estate taxes.

News Coverage

Accidental tax break saves wealthiest Americans $100 billion," Bloomberg News

How Wal-Mart's Waltons Maintain Their Billionaire Fortune, Bloomberg News

Cook Couple Passed $6 Billion Fortune to Son to Avoid Tax, Bloomberg News

A Family's Billions, Artfully Sheltered, The New York Times

President Obama wants to strengthen the estate tax

The estate tax will currently raise about $225 billion over 10 years. President Obama wants to restore its parameters to 2009 levels – a $3.5 million exemption for an individual ($7 million couple) and a 45% top rate. This reform and others he proposed will raise $131 billion more over 10 years, and affect three estates for every 1,000 deaths.

Other stronger reform options

- **Restore the estate tax to what it was under President Clinton** – a $2.6 million exemption per couple with a 55% top tax rate. This would generate an additional $249 billion over 10 years – money that could be used to support popular public services and reduce the deficit. Even with this smaller exemption, the tax would affect fewer than 2 out of 100 estates. Rep. Jim McDermott (D-WA) proposed such legislation (H.R. 3467) in 2011.
- **Close the inherited capital gains tax loophole.** Wealthy people avoid capital gains taxes by holding onto their assets until they die and bequeathing them to heirs. The increase in value is not taxable when they are sold. This loophole will allow the wealthy to dodge about $650 billion in taxes over the next 10 years.
- **Close an estate tax loophole used by the super-rich, known as the "Walton" grantor retained annuity trust, or GRAT.** These specialized trusts allow families like the Waltons to completely avoid paying estate and gift taxes. This loophole may have cost the U.S. Treasury $100 billion since 2000.

Conservatives want to repeal the estate tax

There is a significant effort among conservatives to repeal the estate tax – with no plans to replace the $225 billion in revenue that would be lost over a decade. A bill (H.R. 2429) to do that, authored by Rep. Kevin Brady (R-CA), has a majority in the U.S. House cosponsoring it.

Talking points

- The estate tax is paid by billionaires and millionaires – it is not a tax on the middle class. An estate needs to be worth more than $5 million before a dime of it gets taxed. Only 1 estate out of every 700 deaths pays any estate tax.
- A strong estate tax is needed to make sure the wealthy pay their fair share. It is not a tax on small businesses and family farmers – just 20 of them across the country pay U.S. estate taxes each year.
- The richest Americans are amassing huge fortunes, passing them to their heirs and creating a new aristocracy. The rest of us are barely keeping our heads above water. We need a strong estate tax to help restore the promise of America to everyone.
- Repealing the estate tax would blow a $225 billion hole in the federal budget over 10 years. It would give huge tax breaks to those who need them the least – the wealthiest Americans.

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Look How Easy It Is to Game Estate Taxes, Bloomberg View

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Wealth and Our Commonwealth: Why Americans Should Tax Accumulated Fortunes, Bill Gates Sr. and Chuck Collins

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