EDITORIAL BOARD MEMO

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U.S. House Poised to Add $310 Billion to Federal Budget Deficit by Making Six Corporate Tax Breaks Permanent

Fiscal Conservatives Proclaim Deficits are OK if done for Corporate Tax Cuts

WASHINGTON – On May 7, the U.S. House of Representatives will vote on one of six tax bills, known inside the Beltway as "tax extenders," which were recently approved by the tax-writing committee. The cost of the first bill is $156 billion over 10 years, and the costs of all six bills will add $310 billion to the federal budget deficit over 10 years. The tax breaks overwhelmingly benefit large corporations. Two of them are loopholes that enable companies to shift their profits to subsidiaries in other countries in order to avoid paying federal income taxes.

Fiscal conservatives who have blocked an extension of emergency unemployment benefits because of expressed concern for the deficit are aggressively pushing these corporate tax breaks that are not paid for and will blast a hole in the federal budget. And they want to make these changes **permanent**.

Because of the accelerated timeline for this legislation – May 7 for the first bill in the House, the week of May 12 in the U.S. Senate -- it is important that those concerned about this issue express their opinions now. (The remaining five bills in the House are expected to be voted on later in May.)

Organizations on both ends of the political spectrum have been harshly critical of the tax extender bills. The conservative Club for Growth called the Senate package a "special-interest orgy" in *The Wall Street Journal*. The center-right Committee for a Responsible Federal Budget wrote that the Senate bill would "squander" the savings from the "fiscal cliff" budget deal at the end of 2012. The liberal Center on Budget and Policy Priorities called the House legislation a "fiscal double standard." Fifty-four public-interest organizations and labor unions, led by Americans for Tax Fairness, wrote a letter to members of the House Ways and Means

Committee decrying the double standard by which other government spending must be "paid for" but corporate tax breaks can be bought on credit.

Major papers have also taken strong stands. *The Washington Post* called on Congress to pay for the tax breaks. *The New York Times* described Senate supporters of the bill as "hypocritical." *Bloomberg News* called some of the tax breaks "stupid" and "ridiculous."

The House Ways and Means Committee passed all six tax bills on April 29 on a party line vote. Democrats rejected the bills because of the long-term cost; Republicans said that the cost doesn't matter because the same provisions had been passed on a temporary basis in the past. In effect, the argument in favor of passing the tax breaks and adding the full cost to the deficit is "because that's the way we've always done it."

The Senate Finance Committee passed all six House tax breaks as part of a larger tax extender bill on April 2. The Senate bill would provide a **two-year extension** for 55 tax breaks at a cost of $85 billion; the costs would balloon to more than $800 billion over 10 years. Because neither party plans to offset these costs, the entire amount will be added to the budget deficit.

The Senate bill is a hodgepodge of arguably good and demonstrably bad tax breaks. There is a tax deduction for schoolteachers who pay for supplies out of their own pockets and a deduction for commuters that use public transportation. There is tax relief for homeowners who have "underwater" mortgages and lose money on the sale of their homes, and tax credits for wind energy production. But there are also egregious special-interest tax breaks for wealthy owners of thoroughbred horses or NASCAR racetracks – these have already been the subject of ridicule in the press.

Both the House and Senate legislation contain three very expensive corporate tax breaks that have already suffered some criticism. The "**Active Financing Exception**" is a loophole that allows financial institutions to avoid paying federal income taxes on financial income that they can claim was earned in foreign countries, as long as that income remains overseas. The House bill that would make the provision permanent will cost $59 billion between 2014 and 2024, according to the Joint Committee on Taxation. This loophole is part of the reason that General Electric, which made $27.5 billion in profits from 2008-2012, got $3.1 billion in federal tax refunds over that period, according to Citizens for Tax Justice.

The "**CFC Look-Through Rule**" allows corporations to easily move profits on royalties, interest, rents and dividends from the United States to low-tax or no-tax countries. The provision is one of the methods by which Apple has managed to move profits to countries like Ireland and the Netherlands in order to avoid paying any taxes whatsoever on billions in profits. It will cost $20 billion over 10 years according to official estimates.

The "**Research and Experimentation Tax Credit**," which will be voted on in the House on May 7, both encourages corporate investment in new technologies and contains a gaping loophole that enables corporations to lower their taxes by applying the credit to frivolous activities or to investments they would make in their normal operations. If the bill (H.R. 4438) becomes law, it will increase the deficit by $156 billion over 10 years, according to figures from the Joint Committee on Taxation. The measure is extremely popular with businesses, and legislators are under heavy pressure to ignore the loophole and pass the bill.

The effort to make corporate tax breaks permanent without regard to the long-term cost is particularly shocking in light of the fact that some major corporations already use various tax avoidance methods to completely avoid paying federal income taxes. A recent report by the watchdog organization Citizens for Tax Justice found that 111 profitable Fortune 500 companies paid zero federal income taxes in one or more of five years from 2008 to 2012. What's worse – 26 of them, including Boeing, General Electric and Verizon, paid nothing over the entire five-years. Astoundingly, they got tax refunds instead. Overall, the report found that the effective corporate tax rate paid by the 288 Fortune 500 companies studied, which were profitable all five years, was just 19.4 percent – about half the effective U.S. corporate tax rate of 35 percent.

There is substantial pressure on members of Congress to pass the tax extender bills, since these 55 tax breaks expired at the end of 2013. Between January 2011 and September 2013, more than 1,300 lobbyists representing 373 corporations and trade associations pressed members of Congress or their staff about tax extenders, according to a recent report by Americans for Tax Fairness and Public Campaign.

Americans on the left, right and center of the political spectrum would be outraged to find out that, after several years of deep budget cuts, corporate tax breaks are considered "off the books." And so even while a $10 billion extension of emergency unemployment benefits remains stalled because of the budget impact, the House is poised to pass $310 billion in corporate tax breaks – deficit be damned.

Americans for Tax Fairness and its 400 member organizations strongly urges you to editorialize about this very important issue. Specifically, we ask you to:

1) Decry the hypocrisy inherent in passing corporate tax breaks that will add $310 billion to the deficit, while demanding that other spending, including $10 billion for emergency unemployment benefits, not be passed unless offsetting cuts are identified.

2) Oppose the Active Financing Exception, which allows financial firms to launder profits offshore to avoid U.S. taxation. Oppose the CFC Look-Through Rule, which enables corporations with royalty, rent and interest income to move profits offshore to avoid U.S. taxes.

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

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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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