



THE HIGH PRICE OF TAX LOOPHOLES

The U.S. Congress faces major challenges and choices this Autumn: New spending bills have to be passed by September 30th to fund the government; the next round of nearly \$110 billion in budget cuts mandated by the “sequester” kicks in on October 1; and the debt ceiling will need to be raised sometime between late October to mid-November so that the government can continue to borrow money to keep operating.

In deciding how to address these critical issues, Congress has a major choice: Continue trudging down the austerity road of budget cuts and sluggish growth, or turn toward a prosperity built on investing in our people and everyone paying a fair share of taxes by closing tax loopholes.

Budgets are always about choices. How you raise and spend money reflects your priorities. Public budgets — the tax and spending decisions of governments — are no exception. We can afford to make vital public investments, from highways to health care to education; support a vibrant economy that works for all of us; and address our long-term fiscal challenges – but only if we get enough tax revenue from the right places.

But in two-and-a-half years of deficit-reduction deals, Congress has put in place [three times as much budget cutting \(\\$1.8 trillion\) as revenue boosting \(\\$620 billion\)](#). All of the tax increases have come from individuals. Corporations have so far contributed nothing to the effort.

The table below shows in a glance the cost of some current corporate tax loopholes compared with the budget cuts some benefits and services have experienced in 2013 from the sequester. A full report on [The High Cost of Tax Loopholes](#) is also available.

BUDGET CUT OR INVESTMENT	CORPORATE TAX LOOPHOLE
<p>MEDICAL RESEARCH</p> <p>The National Institutes of Health (NIH) fund research on cancer, Parkinson’s, Alzheimer’s and many other serious diseases. The across-the-board budget cuts, known as the “sequester,” have impaired NIH’s ability to foster hope and find cures.</p> <p>2013 Budget Cut: \$1.5 billion¹</p>	<p>TAX BREAKS FOR CEO PAY</p> <p>Big corporations shower their CEOs with stock options, which often make up the bulk of their millions of dollars of annual compensation. But because of a loophole in the law, companies get a tax windfall because they are allowed to deduct more from their taxes than these options are worth, according to normal accounting standards.</p> <p>Annual Tax Break: \$2.5 billion²</p>

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<p>UNEMPLOYMENT BENEFITS</p> <p>Thanks to across-the-board spending cuts known as the “sequester,” the long-term unemployed are facing a \$43 cut in their already austere average weekly benefit of \$289, according to the National Employment Law Project.</p> <p>2013 Budget Cut: \$2.4 billion³</p>	<p>TAX LOOPHOLES FOR WALL STREET TRADERS</p> <p>Wealthy speculators who trade risky investments called derivatives can avoid paying their fair share of taxes.⁴</p> <p>Normally, quick traders are denied the special low capital gains tax rate enjoyed by long-term investors – but investors in derivatives and certain other financial and insurance industry products can avoid, defer or reduce taxes on investment income.</p> <p>Annual Tax Break: \$2.9 billion⁵</p>
<p>HEAD START FOR KIDS</p> <p>Low-income children receive an early boost from Head Start, which gets them ready to learn and helps them stay healthy so they can succeed in school and beyond. Yet, the across-the-board federal budget cut known as the “sequester” is forcing Head Start to drop 57,000 children from the program this year.⁶</p> <p>2013 Budget Cut: \$400 million⁷</p>	<p>GIVEAWAYS FOR CORPORATE JETS</p> <p>As equipment ages, companies are allowed to deduct the annual loss in value from their taxable income. Commercial airlines have to wait seven years to write off their jumbo jets, but corporations that own private jets enjoy a loophole that allows them to “depreciate” their Cessnas, Gulfstreams and other luxury rides over just five years, even though the planes last for decades.⁸</p> <p>Annual Tax Break: \$370 million⁹</p>
<p>BETTER EDUCATION FOR OUR KIDS</p> <p>Cuts in funding from the 2013 budget sequester to elementary and secondary education, and to special education, have hit school districts hard across the country. They have taken away extra help for kids who come from low-income households or have learning challenges. From lost classroom aides and specialized instructors to reduced transportation,¹⁰ the most vulnerable kids are suffering most.</p> <p>2013 Budget Cut: \$1.7 billion¹¹</p>	<p>TAX BREAKS FOR HEDGE FUND MANAGERS</p> <p>The huge earnings of Wall Street private equity and hedge fund managers should be taxed the same way as earnings from all other jobs – at the maximum federal rate of 39.6 percent for the highest earners. But they are able to cap their tax rates at 20 percent – half of what it should be – by mischaracterizing part of the money they make as investment income called “carried interest.”¹²</p> <p>Annual Tax Break: \$1.7 billion¹³</p>
<p>HELP SENIORS GET SOCIAL SECURITY</p> <p>The Social Security Administration (SSA) will handle 5 million new applications for retirement benefits this year, and administer payments for over 60 million Americans.¹⁴ But the sequester cuts have forced the agency to close offices and limit hours, forcing seniors to wait in long lines or experience significant delays in receiving needed benefits.¹⁵</p> <p>2013 Budget Cut: \$286 million¹⁶</p>	<p>LOWER TAXES FOR MULTIMILLIONAIRES</p> <p>During the 2012 election, we learned that presidential candidate Mitt Romney had accumulated over \$100 million in his tax-favored retirement account.¹⁷ He was able to do this because the tax code encourages middle-class families to save money for retirement in IRA and 401(k) accounts. But some very wealthy individuals are using these retirement accounts to tax shelter tens of millions of dollars.</p> <p>Annual Tax Break: \$388 million¹⁸</p>

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<p>FOOD FOR LOW-INCOME FAMILIES</p> <p>The Supplemental Nutrition Assistance Program (SNAP), commonly known as Food Stamps, helps provide food for millions of struggling American families. The program has been a lifesaver in the aftermath of the Great Recession, as poverty and unemployment remain high and wages have stagnated. Yet, Republicans in the U.S. House of Representatives have announced a plan to click 4 million to 6 million more low-income people off the SNAP program.¹⁹</p> <p>10-Year Budget Cut: \$40 billion²⁰</p>	<p>TAX SUBSIDIES FOR CEO BONUSES</p> <p>Our tax system subsidizes corporations by giving them a tax break for what they pay their top executives. The law limits the tax deduction to \$1 million – more than 20 times the income of the typical household²¹ – but there is a loophole for so-called “performance-based” pay.²² This loophole provides an unlimited tax deduction that costs billions. It also provides incentives for CEOs to take huge risks with their company’s money in order to boost short-term gains. Even when those risks lead their companies to the brink of collapse, executives are often still rewarded richly for their performance.</p> <p>10-Year Tax Break: \$50 billion²³</p>
<p>PROTECT THE ENVIRONMENT</p> <p>Environmental, energy and science programs are spread throughout the government, but are particularly concentrated in the Energy and Interior Departments, EPA, NASA, National Oceanic Atmospheric Association and the National Science Foundation. The sequester budget cuts to those agencies threaten the quality of the air we breathe and the water we drink, delay our energy independence and make it harder to be good stewards of our planet.</p> <p>2013 Budget Cuts: \$4.6 billion²⁴</p>	<p>GIVE TAX BREAKS TO OIL & GAS COMPANIES</p> <p>For the past century, we’ve been subsidizing oil and gas companies with special rules and tax loopholes, nurturing the industry as though it were a fragile newcomer. But with gas prices averaging over \$3.60 a gallon nationwide²⁵ and with Big 5 oil companies having earned over a trillion dollars in profits in the past dozen years,²⁶ it’s time to stop the coddling.</p> <p>Annual Tax Break: \$4.6 billion²⁷</p>
<p>MODERNIZE OUR INFRASTRUCTURE</p> <p>Rundown classrooms, collapsing bridges, overflowing wastewater: America’s neglected infrastructure is a menace to our health and safety, a heavy drag on our economy, and an insult to our pride as a great nation.²⁸ An accelerated program of infrastructure investment in schools, transportation, energy and water, would create over 2.6 million new jobs per year²⁹ over the next five years to put Americans back to work and create an even stronger foundation for growth for decades to come.</p> <p>5-Year Investment: \$464 billion³⁰</p>	<p>GIVE TAX BREAKS TO SEND JOBS OVERSEAS</p> <p>A huge loophole that allows multinational corporations like Apple³¹ to dodge billions of dollars in U.S. taxes each year is called “deferral.” It allows companies to avoid indefinitely U.S. taxes on profits they’ve made overseas – or claim to have made overseas – as long as those profits remain offshore. This encourages companies to shift profits to foreign tax havens, where they are lightly taxed, if at all, and promotes moving production and jobs offshore.</p> <p>10-Year Tax Break: \$606 billion³²</p>

¹ Office of Management and Budget (OMB), “OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013” (March 1, 2013), p. 24. http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy13ombjcsequestrationreport.pdf

² U.S. Sen. Carl Levin, “Levin-Brown Would End Corporate Stock Option Tax Break, Reduce Deficit by \$25 Billion” (July 15, 2011). Figure equals the average cost of this tax break over 10 years. <http://www.levin.senate.gov/newsroom/press/release/levin-brown-bill-would-end-corporate-stock-option-tax-break-reduce-deficit-by-25-billion>

³ National Employment Law Project (NELP), “Sequester Takes a Big Bite Out of Federal Benefits for the Long-Term Unemployed” (July 2, 2013), p. 1. <http://www.nelp.org/page/-/Press%20Releases/2013/Sequester-Takes-A-Big-Bite-Out-of-Federal-Benefits.pdf?nocdn=1>

⁴ Citizens for Tax Justice (CTJ), “Derivatives Proposal from Top House Tax-Writer Could Improve Tax Code -- if the Revenue Is Not Used for Rate Cuts” (February 4, 2013). http://ctj.org/ctjreports/2013/02/derivatives_proposal_from_top_house_tax-writer_could_improve_tax_code_-_if_the_revenue_is_not_used.php#Ufvt540sn-l

⁵ Joint Committee on Taxation (JCT), “Estimated Budget Effects of the Revenue Provisions Contained in the President’s Fiscal Year 2014 Budget Proposal” (JCX-11-13) (May 10, 2013), p. 3, Section VI.A-D. Figure equals the average cost of these tax breaks over 10 years. <https://www.jct.gov/publications.html?func=startdown&id=4520>

- ⁶ Dept. of Health and Human Services, Administration for Children & Families, “The Numbers Are In: Sequestration Cuts 57,000 Kids from Head Start” (August 19, 2013). <http://www.acf.hhs.gov/blog/2013/08/the-numbers-are-in>
- ⁷ Dept. of Health and Human Services, Administration for Children & Families, “Final FY 2013 Funding Level ACF-PI-HS-13-03” (accessed Aug. 12, 2013). Figure is based on a 5.27% cut on \$7.573 billion. http://eclkc.ohs.acf.hhs.gov/hslc/standards/Pls/2013/resour_pri_003_042613.html
- ⁸ JCT, “Description of Revenue Provisions Contained in the President’s Fiscal Year 2013 Budget Proposal” (JCS-2-12) (June 2012), pp. 523-524. <http://www.gpo.gov/fdsys/pkg/CPRT-112JPRT74512/pdf/CPRT-112JPRT74512.pdf>
- ⁹ JCT, JCX-11-13, p. 4, Section VIII.D, *supra* note 5. Figure equals the average cost of this tax break over 10 years.
- ¹⁰ National Education Association (NEA) Education Votes, “At school year’s end, students and schools already feeling sequester cuts” (June 4, 2013). <http://educationvotes.nea.org/2013/06/04/at-school-years-end-students-and-schools-already-feeling-sequester-cuts/>
- ¹¹ OMB Sequestration Report (March 1, 2013), p. 20, *supra* note 1.
- ¹² CTJ, “Will the ‘Carried Interest’ Loophole Finally Be Closed?” (May 12, 2010). <http://ctj.org/pdf/carriedinterest2010.pdf>
- ¹³ JCT, JCX-11-13, p. 7, Section XV.I, *supra* note 5. Figure equals the average cost of this tax break over 10 years.
- ¹⁴ Strengthen Social Security Coalition, “Transition Report for the New Commissioner of Social Security: How to Ensure the World-Class Service the American People Deserve” (Mar. 2013), p. 3. http://www.strengthensocialsecurity.org/sites/default/files/Transition_Report_for_the_New_Commissioner_of_Social_Security.pdf
- ¹⁵ Statement of Carolyn W. Colvin, Acting Commissioner, Social Security Administration, before the House Committee on Appropriations Subcommittee on Labor, Health and Human Services, Education, and Related Agencies (March 14, 2013). http://www.socialsecurity.gov/legislation/testimony_031413.html
- ¹⁶ OMB Sequestration Report (March 1, 2013), p. 60, *supra* note 1.
- ¹⁷ Richard Rubin and Margaret Collins, “Obama’s Budget Would Cap Romney-Sized Retirement Accounts,” *Bloomberg Business Week* (April 5, 2013). <http://www.businessweek.com/news/2013-04-05/obama-budget-calls-for-cap-on-romney-sized-iras>
- ¹⁸ JCT, JCX-11-13, p. 8, Section XV.M, *supra* note 5. Figure equals the average cost of this tax break over 10 years.
- ¹⁹ Center on Budget and Policy Priorities, “Statement of Robert Greenstein on the House Republican Leadership’s New SNAP Proposal” (Aug. 2, 2013). <http://www.cbpp.org/cms/index.cfm?fa=view&id=4000>
- ²⁰ Politico, “House GOP takes another cut at food stamp bill” (Aug. 1, 2013). <http://www.politico.com/story/2013/08/food-stamps-bill-house-gop-95084.html>
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- ²¹ U.S. Census Bureau, “Income, Poverty, and Health Insurance Coverage in the United States: 2011” (Sept. 2012), p. 5. <http://www.census.gov/prod/2012pubs/p60-243.pdf>
- ²² Steven Balsam, Economic Policy Institute Briefing Paper #344, “Taxes and Executive Compensation” (Aug. 14, 2012). <http://www.epi.org/publication/taxes-executive-compensation/>
- ²³ Sen. Jack Reed, “Reed-Blumenthal Introduce the Stop Subsidizing Multimillion Dollar Corporate Bonuses Act” (Aug. 2, 2013). The unpublished Joint Committee on Taxation figure has been made available to Sen. Reed’s office. <http://www.reed.senate.gov/news/release/reed-blumenthal-introduce-the-stop-subsidizing-multimillion-dollar-corporate-bonuses-act>
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- ²⁴ OMB Sequestration Report (March 13, 2013), *supra* note 1. Figure excludes the defense and nuclear energy functions of the Energy Department, but, in addition to the agencies named, includes conservation programs of the Agriculture Department and transit funding by the Transportation Department.
- ²⁵ U.S. Energy Information Administration, “Gasoline and Diesel Fuel Update” (accessed Aug. 12, 2013). <http://www.eia.gov/petroleum/gasdiesel/>
- ²⁶ Daniel J. Weiss, CAP, “Meet the New Oil Tax Breaks, Same as the Old Oil Tax Breaks” (March 12, 2013). <http://www.americanprogress.org/issues/green/news/2013/03/12/56240/meet-the-new-oil-tax-breaks-same-as-the-old-oil-tax-breaks/>
- ²⁷ JCT, JCX-11-13, pp. 3-4, Section VII.A., *supra* note 5. Figure excludes Section VII.B. Eliminate Coal Preferences. Figure equals the average cost of this tax break over 10 years.
- ²⁸ American Society of Civil Engineers, “2013 Report Card for America’s Infrastructure” (accessed Aug. 12, 2013). <http://www.infrastructurereportcard.org/a/#p/overview/executive-summary>
- ²⁹ Political Economy Research Institute, University of Massachusetts, “How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth” (January 2009), p. 31. http://www.peri.umass.edu/fileadmin/pdf/other_publication_types/green_economics/PERI_Infrastructure_Investments. This includes jobs created directly and indirectly, and induced job creation, under the “high-end” investment scenario.
- ³⁰ *Id.* at p. 28. This is the cost to the public sector under the “high-end” investment scenario.
- ³¹ Sen. Carl Levin, “Subcommittee to Examine Offshore Profit Shifting and Tax Avoidance by Apple Inc.” (May 20, 2013). <http://www.levin.senate.gov/newsroom/press/release/subcommittee-to-examine-offshore-profit-shifting-and-tax-avoidance-by-apple-inc-/?section=alltypes>
- ³² CTJ, “Working Paper on Tax Reform Options” (Feb. 4, 2013), pp. 7-9. <http://ctj.org/pdf/workingpapertaxreform.pdf>