35 National Organizations Say Oppose Offshore Corporate Tax Loopholes in Tax-Extenders Legislation

March 31, 2014

Dear Senate Finance Committee Member:

We are writing to urge you **to not renew two big corporate tax loopholes worth $80 billion over 10 years** that give tax breaks to companies that ship profits and jobs offshore. These two temporary loopholes – known as the Active Financing Exception and the CFC Look-Through Rule – are expired tax-extenders that primarily benefit a small number of multinational corporations. **We also urge you to pay for any other corporate tax breaks that may be renewed in the tax extenders bill by closing other corporate tax loopholes.** Those Senators who demand that the costs of emergency unemployment benefits be offset to promote deficit reduction should also offset the costs of corporate tax extenders to avoid worsening the deficit.

More than 50 temporary tax breaks – known as tax extenders – expired at the end of 2013. The cost of renewing these tax breaks, assuming Congress will continue its tradition of extending them every couple of years, is a staggering $410 billion over 10 years, according to the Congressional Budget Office (CBO), or about $40 billion a year. (If bonus depreciation is renewed the costs balloon to $691 billion over 10 years, or $70 billion a year.) About 90 percent of the total costs benefit corporations.

Every year or two Congress rubber-stamps these tax breaks without evaluating whether they are worth the cost, some of them should be discontinued or the revenue devoted to these tax breaks would be better spent in other ways, such as improving our schools, rebuilding roads and bridges, researching new medical cures – or reducing the deficit. [See Economic Policy Institute Issue Brief]

These spending provisions in the tax code have gotten a free ride, while conservatives in Congress have demanded that other vital investments be paid for. Providing federal unemployment insurance benefits when long-term unemployment rates are high is an emergency measure that strengthens the economy; yet the recent Senate deal to restore these benefits requires that the cost be fully offset. Moreover, conservatives in Congress demanded that $40 billion be cut from Food Stamps to reduce the deficit, and that any increase in spending under the recent adjustments to the budget sequester be paid for by equal cuts in other spending. If this is the standard to be applied to these vital services and benefits, surely the same standard should be applied to a tax-extenders package that includes huge special-interest tax breaks, by requiring that they be paid for by closing other corporate loopholes.

There are two tax loopholes that have been included in past tax-extenders legislation that allow companies to stash profits offshore where they avoid U.S. taxation:

Subpart F Active Financing Exception (Cost: $62.5 billion over 10 years or $6 billion a year). This loophole lets corporations (primarily financial institutions such as GE Capital, Wall Street banks and insurance companies) avoid paying taxes to any nation on their financial income they earn (or claim to earn) in foreign countries, so long as those profits remain officially offshore. [See Citizens for Tax Justice and Americans for Tax Fairness fact sheets] This is part of the reason that GE, which made $27.5 billion in profits from 2008-2012, got a total of $3.1 billion in federal tax refunds and paid an effective tax rate of minus 11.1 percent over that period, according to Citizens for Tax Justice.

Controlled Foreign Corporations (CFC) Look Through Rules (Cost: $17.5 billion over 10 years or $2 billion a year): This loophole allows multinationals to create transactions purely for "earnings stripping" – to create dividends, interest, rents, and royalties to strip active income out of high-tax countries and move it into low-tax or no-tax countries without incurring any U.S. tax liability (or any tax liability anywhere). The rules also allow U.S. multinationals to create "stateless income," which is treated, for tax purposes, as earned in a low-tax (or no-tax) country, where the company's operations may consist only of renting a mailbox, instead of in the countries where the employees and assets are located. [See Citizens for Tax Justice and Sen. Carl Levin Section 304]

Everyone has tax extenders they like. The tax deduction for certain school expenses incurred by teachers. Tax breaks for employees who ride mass transit to work. Tax relief for people who are taking a loss by selling their homes that have underwater mortgages. The costs of some of these tax breaks are relatively very small. Other tax breaks – especially those benefiting corporations – cost far more and may be of little or of questionable benefit.

It's time to eliminate some of these corporate tax breaks – and pay for others. Tax breaks are not free. Every dollar given away to extend corporate tax breaks – for businesses, including wealthy NASCAR race track owners, thoroughbred breeders in Kentucky, large profitable corporations, and Wall Street banks – is a dollar not available to feed the hungry, educate our children, invest in jobs for the future or reduce the deficit.

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

1) Do not renew the two tax loopholes that allow companies to ship profits and jobs offshore and dodge $80 billion in taxes over 10 years.
2) Do not renew other corporate tax extenders unless the costs are offset by closing other corporate tax breaks.

Big corporations need to start paying their fair share of taxes. A good place to start is with tax-extenders legislation.

Sincerely,

9to5
AFL-CIO
Alliance for a Just Society
American Federation of Government Employees

American Federation of State, County and Municipal Employees
American Federation of Teachers
Americans for Democratic Action
Americans for Tax Fairness
Campaign for America's Future
Center for Effective Government
Citizens for Tax Justice
Coalition on Human Needs
Community Action Partnership
Economic Policy Institute
Every Child Matters
Fair Share
Financial Accountability and Corporate Transparency (FACT) Coalition
Franciscan Action Network
International Association of Machinists and Aerospace Workers
Jobs with Justice
Main Street Alliance
National Employment Law Project
National Low Income Housing Coalition
National People's Action
National Priorities Project
National Women's Law Center
NETWORK, A National Catholic Social Justice Lobby
Pax Christi USA
Public Citizen
Promise the Children
Service Employees International Union
United for a Fair Economy
USAction
Voices for Progress
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