CORPORATE LOBBYING ON TAX EXTENDERS AND THE “GE LOOPHOLE”

Executive Summary

Washington lobbyists are quietly laying the groundwork for passage of a mammoth package of 55 tax breaks – known as tax extenders – that could cost $46 billion in 2014 and about $700 billion over 10 years, according to Congressional Budget Office data.

Some of the tax breaks are clearly boondoggles, like special tax breaks for owners of thoroughbred racehorses and NASCAR race tracks.

Some help middle-class families, like a deduction for schoolteachers who pay for supplies out of their own pockets, tax breaks for employees who ride mass transit to work, and a deduction for “underwater” homeowners who receive help when they lose money on the sale of their homes. But 90 percent of the cost of the tax package benefits businesses, especially large corporations. These tax breaks are far more expensive – some would cost tens of billions of dollars over ten years – and they may be of little benefit to anyone but the large corporations that receive them.

One of the largest giveaways is a special tax break that enables multinational corporations to avoid paying federal income taxes on financial income that can be claimed to have been generated offshore. Known as the Active Financing Exception (AFE), it will cost American taxpayers $62.5 billion over ten years.

General Electric is one of the biggest beneficiaries of this tax break. GE claimed tax refunds of $3.1 billion between 2008 and 2012 on $27.5 billion in profits, according to Citizens for Tax Justice (CTJ), for a federal income tax rate of negative 11.1%. A significant reason was the AFE loophole.

This report reveals that corporate America is lobbying hard to pass the tax extender package. An army of 1,359 individual lobbyists swarmed Capitol Hill to press members of Congress on the issue between January 2011 and September 2013, the period covered in this report. This represents more than 1 in 10 of the federal lobbyists registered in Washington in 2013.

The intensity of lobbying on tax extenders is startling. These lobbyists appeared 12,378 times in quarterly lobbying reports in the period studied – each report representing from one to dozens of contacts with members of Congress and their staffs during the quarter it was filed.

Although this study looks broadly at lobbying on tax extenders, it focuses on the Active Financing Exception loophole, one of the most expensive tax breaks in the package. The AFE enables some large corporations to escape paying federal taxes on interest and dividend income “earned” offshore. The report shows that lobbying on the AFE is far more concentrated than on the overall tax extender package – 30 large corporations and industry associations do 98 percent of all lobbying on the issue.

No company has lobbied more aggressively on the AFE or benefits more handsomely than General Electric, which is why the report refers to this tax break as the “GE Loophole.”
Key Findings

- **The size of the “tax extenders” lobby:** Overall, 1,359 individual lobbyists representing 373 companies and trade associations reported lobbying on the broad topic of “tax extenders” between January 2011 and September 2013. That is more than 1 out of 10 of the more than 12,000 lobbyists registered in Washington in 2013, according to Center for Responsive Politics data. There are more than 2.5 lobbyists on tax extenders for every member of Congress. There are more than 21 lobbyists on tax extenders for every member of the two tax-writing committees in Congress, the House Ways and Means Committee and the Senate Finance Committee.

- **Access to Members of Congress:** 58 percent of the lobbyists who worked on tax extenders have passed through the revolving door – they have worked for Congress or the executive branch, or both. They include two powerful former Senators – John Breaux (D-LA), a former senior member of the Senate Finance Committee, and Trent Lott (R-MS), the former Senate Majority Leader.

- **Dominant industries lobbying on tax extenders:** The industries that lobbied most heavily on tax extenders were miscellaneous manufacturing and distributing, computer and internet, securities and investment, and the pharmaceuticals and health products industries. The companies and trade associations that lobby on tax extenders spent $2.9 billion lobbying Congress on all issues combined in the period covered by the study.

- **Wall Street industries and companies dominate Active Financing Exception lobbying:** General Electric, lobbying to advance the interests of its financing arm GE Capital, employs more lobbyists and is more active than any other institution on AFE and tax extender issues in general. The other big players are financial firms, banks and insurers including Citigroup, Prudential Financial, Bank of New York Mellon, Morgan Stanley, Goldman Sachs, Principal Financial Group, State Street Corp. and American Express.

- **The size and intensity of the lobby on the GE Loophole (Active Financing Exception):** A total of 292 individual lobbyists representing 41 companies and trade associations lobbied specifically on the AFE. These firms spent $643.6 million lobbying on tax extenders and all other issues combined during the report period. Individual lobbyists appeared 4,352 times overall in quarterly reports documenting that they lobbied on the GE Loophole. Each appearance could represent from one to dozens of contacts.

- **General Electric is a lobbying powerhouse on the AFE:** GE employed 48 lobbyists to work on tax extenders and worked on the AFE. That’s more than any other corporation or trade association in both cases. GE’s lobbyists included 14 in-house employees and 34 lobbyists from Washington’s premier lobbying firms. GE’s lobbyists appeared 16.5 percent of the time in lobbying reports on the AFE – more than twice as often as the next most active company, Citigroup at 7.5 percent.
• **General Electric employs the cream of the crop on the AFE:** Of the top 50 lobbyists working on the AFE, 32 have lobbied on behalf of GE. **Twenty-eight** of them are “revolvers” – former members of Congress, congressional staffers or executive branch officials. Remarkably, all of the 10 top AFE lobbyists are on contract to GE.

• **Impact of the AFE on General Electric’s bottom line:** In its 2012 Annual Report, GE states: “If this provision [AFE] is not extended, we expect our effective tax rate to increase significantly after 2014.” It is not possible to know how much the AFE saves GE, but its lobbying operation is undoubtedly very cost effective. Overall, for every $1 GE spends lobbying it gets $24 in tax refunds, based on its $130 million in lobbying expenses and tax refunds of $3.1 billion from 2008 to 2012. While GE was busy making $27.5 billion in profits over those five years, it paid less federal income taxes than an average American family pays in just one year.

• **Heavy lobbying for the AFE is associated with much lower corporate tax rates:** Twenty-two of the top 30 entities lobbying on the AFE are corporations – the rest are trade associations. Profit and tax data is available for 11 of those companies for 2008 to 2012. The average U.S. corporate income tax rate for those 11 corporations was just **10.4 percent** in that time period – less than **one-third** the statutory corporate income tax rate of 35 percent. These 11 companies made $213.8 billion in profits over those five years and received a tax subsidy of **$46.4 billion** – the taxes they saved by not paying the full 35 percent rate.

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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.

**Public Campaign** is a national nonpartisan organization that fights to raise the voices of everyday people in our democracy through changing our campaign finance laws and through holding elected officials accountable.

The lobbying disclosure data used in this report is unique to the **Center for Responsive Politics** (CRP). The methodology section of this report explains how the data was derived.