AMERICANS FOR TaxFairness

GOP WANTS TO GIVE CORPORATIONS A HUGE TAX CUT BY WEAKENING INTEREST-DEDUCTION RULE

Big Winners: Wall Street Raiders Who Burden Target Firms With Too Much Debt

House Republicans want to reverse a provision of the [2017 Trump-GOP tax law] that limits the ability of corporations to cut their taxes by deducting interest payments from their taxable income. This expanded loophole would cost up to [$200 billion in lost revenue] over 10 years and boost the fortunes of Wall Street raiders who often sink purchased companies by piling on too much debt. Congress should reject this attempt to reverse one of the few parts of the 2017 law that actually raised taxes on America's profitable corporations while also curbing the destabilizing strategies of Wall Street's corporate raiders.

The 2017 Trump-GOP Tax Law Restricted Interest Deductions

Corporations subtract (deduct) costs from revenues to determine the profits they're taxed on. The more they can deduct, the lower their taxable income, the less they pay in taxes. Among those costs are interest payments on borrowed money.

To discourage corporations from excessive borrowing and to partially pay for other corporate handouts in their 2017 tax law—most prominently, a 40% corporate tax rate cut—Republicans limited the business interest deduction to no more than 30% of a company's income generally referred to as EBITDA *(earnings before interest, taxes, depreciation, and amortization*). The law also provided that beginning in 2022, this interest-deduction limit would be further restricted by applying it to a smaller version of profits called EBIT (*earnings before interest and taxes*) that excludes amortization and depreciation.

Now House Republicans Want to Weaken the Rules on Interest Deductions

While maintaining the big corporate rate cut and other expensive handouts to corporations in the 2017 law, House Republicans want to loosen the tighter interest-deductions rules that helped pay for them. They want to return to the pre-2022 definition of profits that allowed bigger interest deductions and therefore lower corporate taxes. The Committee for a Responsible Federal Budget estimates this change will cost [up to $200 billion in lost revenue over 10 years.] That's about how much money President Biden has proposed spending to [make community college tuition-free] and make other investments in higher education.

Corporate Raiders Would Be Big Winners from Weakened Interest-Deduction Rule

Wall Street's corporate-raider funds—also known as "private equity" funds—are big pools of rich people's money that buy up companies in the hopes of turning a quick profit. Private equity is a [major beneficiary] of weaker interest-deduction rules because their business model usually relies on loading up acquired companies with new debt. For instance, when three private equity firms bought Toys "R" Us in 2005, they burdened it with so much debt that within a few years interest payments ate up 97% of its profits. The toy retailer eventually went bankrupt at the cost of 30,000 jobs.

Private Equity is Leading the Lobbying Efforts to Weaken Interest Deduction Rules

Led by the so-called "American Innovation Council" (AIC), which represents firms such as Blackstone, Carlyle, and Bain Capital, private equity has been relentlessly pushing to weaken interest rules, spending $9.7 million lobbying Congress over the past four years. AIC's 3rd most lobbied bill in 2022 was the *Permanently Preserving America's Investment in Manufacturing Act* (S.1077/H.R.5371), a single-page piece of legislation weakening interest deduction rules.

Wealthy Corporate Raiders Are Notoriously Successful at Preserving Loopholes

Fighting to weaken corporate-interest deduction rules is just another case of private equity trying to avoid paying its fair share of taxes. Private equity successfully defeated Democrats' attempt last year to close the widely opposed carried-interest loophole, which lets money managers pay the 20% investment-income tax rate on income that is really wages instead of the higher rate for wages. They also managed to exclude themselves from paying the new 15% corporate minimum tax passed by Democrats last year.

Instead of Weakening Interest-Deduction Rules, Congress Should Strengthen Them

President Biden has called for tighter interest expensing limitations in his most recent budget. A similar proposal received support from all but a single House Democrat as part of the Build Back Better Act in 2021.