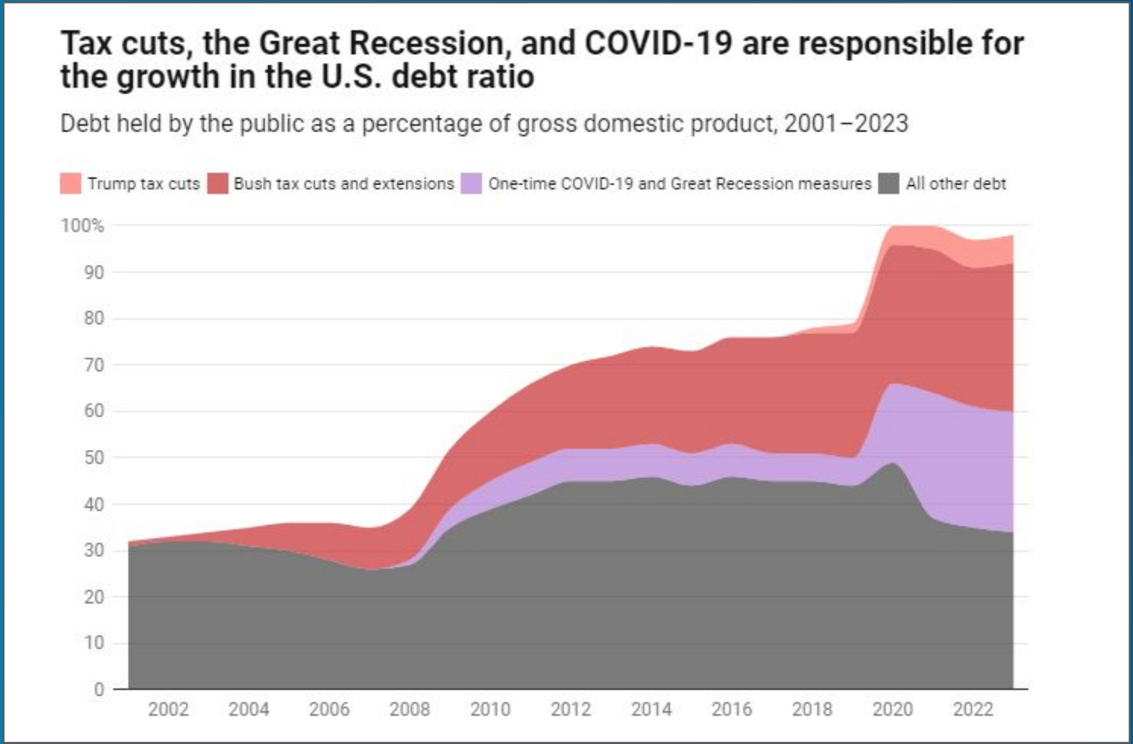
Corporate Tax Scam 2.0

Presentation by
Americans for Tax Fairness
Progressive Caucus Action Fund

June 2023

Tax Cuts for the Wealthy,
Spending Cuts for the Rest of Us



"Tax Cuts Are Primarily Responsible for the Increasing Debt Ratio." Center for American Progress, March 2023

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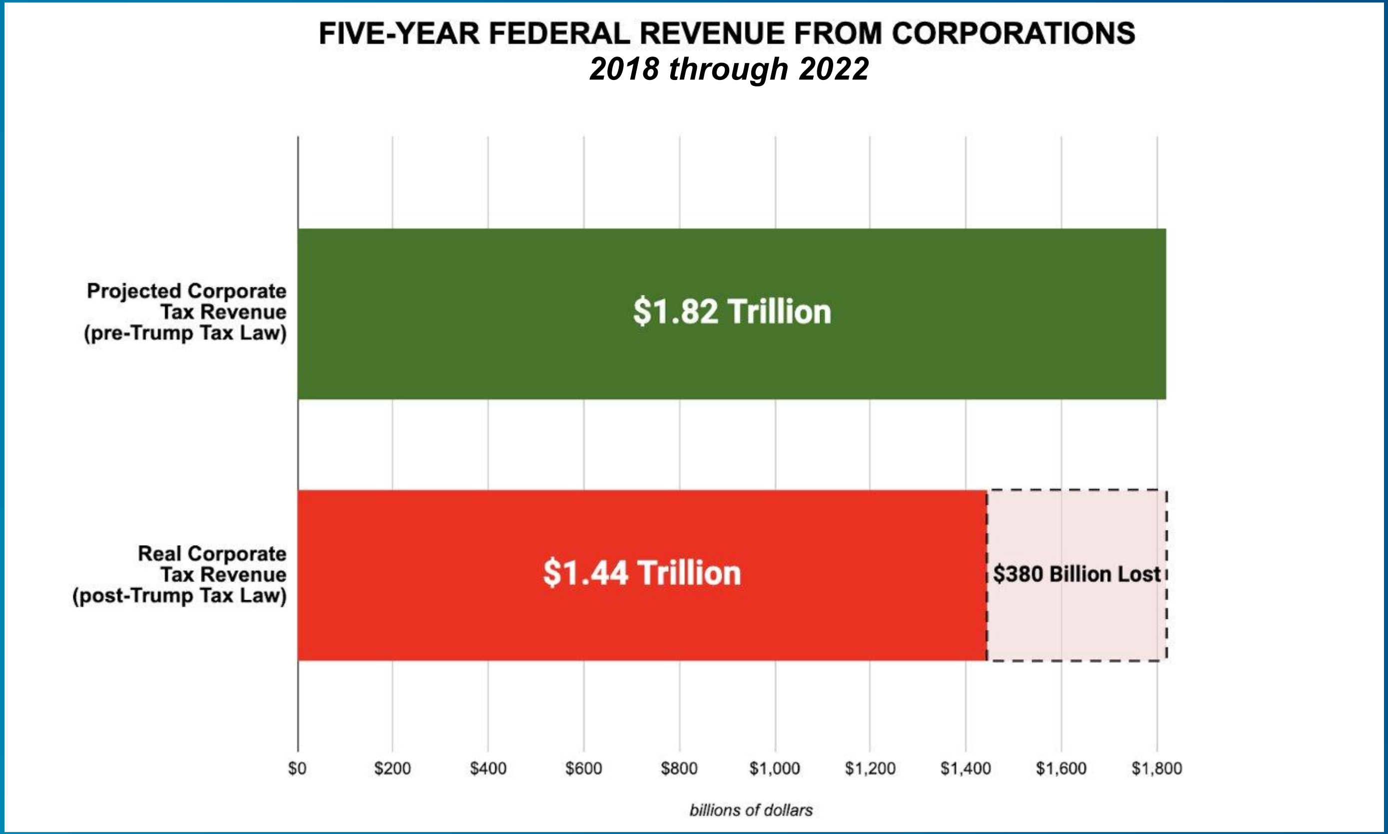
Doubling Down on Failed Corporate Tax Cuts

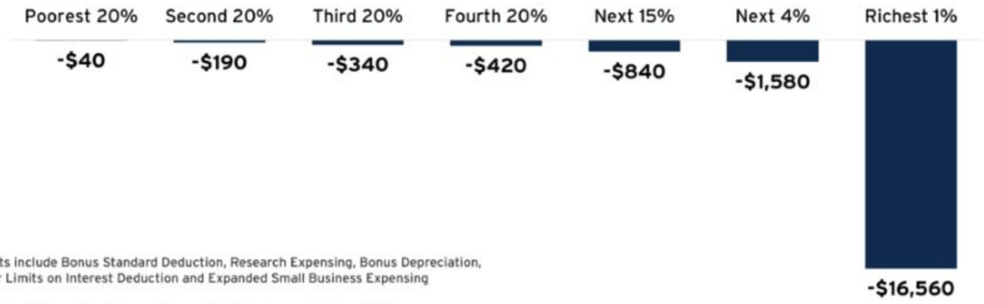


Tax Cuts for the Wealthy,
Spending Cuts for the Rest of Us

The House Republican Two-Step: Program Cuts for the Poor, Then Tax Cuts for the Rich

Having just slashed domestic spending, now McCarthy & Co. want to turn around and give money to rich corporations. And Democrats might just let them.

FIGURE 2. **Average Tax Change in 2024 from Proposed House Tax Bills**



Tax cuts include Bonus Standard Deduction, Research Expensing, Bonus Depreciation, Looser Limits on Interest Deduction and Expanded Small Business Expensing

Source: Institute on Taxation and Economic Policy tax model, June 2023

[“Trio of GOP Tax Bills Would Expand Corporate Tax Breaks While Doing Little for Americans Who Most Need Help,”](#) ITEP, June 2023

Ways & Means Republican Tax Package

Paper Cost vs Real Cost

Policy	Official Cost	Permanent Cost
Expand the Standard Deduction by $2,000/$4,000 through 2025	$95 billion	~$500 billion
Reinstate R&E expensing through 2025	$25 billion	$277 billion
Delay tighter limit on interest deductibility through 2025	$19 billion	~$50 billion
Extend 100% bonus depreciation (full expensing) through 2025	$3 billion	$325 billion
Increase pass-through 179 cap from $1 million to $2.5 million	$44 billion	$44 billion
Loosen certain tax reporting rules	$24 billion	$24 billion
Expand tax break for Opportunity Zones small business stock sales	$13 billion	$13 billion
End Superfund tax & enact other supply chain security measures	$12 billion	$12 billion
Repeal clean electricity tax credits scheduled to take effect in 2025	-$116 billion	-$116 billion
Repeal expansion of clean vehicle tax credits	-$100 billion	-$100 billion
Subtotal, Cost of House GOP Tax Package, Excluding Interest	**$19 billion**	**>$1 trillion**
Interest Costs	$61 billion	~$180 billion
Total, Cost of House GOP Tax Package, Including Interest	**$80 billion**	**>$1.2 trillion**

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Sources: CRFB: W&M Tax Bill Would Cost Over $1 Trillion if Made Permanent (all dollar figures, except R&E)
JCT: Overview of Research and Experimental Expenditures Section 174 (R&E dollar figure)

Interest Expensing Deduction

~$50 billion corporate tax cut

- The private equity industry would be one of the major beneficiaries of weaker interest deduction rules because their business model often relies on loading up acquired companies with new debt.
- The Trump tax law originally limited how much interest a corporation could deduct from their federal taxes to 30% of that corporation's EBITDA (earnings before interest, taxes, depreciation & amortization).
- Starting in 2022 this calculation shifted to 30% of a corporation's EBIT (earnings before interest & taxes). The exclusion of depreciation and amortization leads to a smaller earnings figure and therefore a smaller amount of deductible interest.
- Half of the interest expensing tax benefit goes to corporations with over $1 billion in revenue, and 85% go to corporations with over $100 million in revenue.
- Congress should leave in place the current limitations and enact President Biden's proposal to bar this tax loophole for multinational corporation which load up their Americans subsidiaries with a disproportionate share of debt, raising $41 billion.

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Case Study:
How Private Equity Exploits Interest Expensing

- In 2019, Instant Brands—maker of Instant Pot cookers—was acquired by the private equity firm Cornell Capital

- In 2021, Cornell forced Instant Brands to take out a $450 million loan to refinance debt from the 2019 acquisition and a $245 million divided payout to shareholders, of which Cornell Capital received 70%. "Essentially none of the debt supported investment in the business" — Crain's Chicago Business

- In 2022, Instant Brands EBITDA was a little over $57 million which means under Republicans' proposal they would be able to deduct up to $17 million from their federal tax bill last year in interest expense, subsidizing Cornell Capital's debt-financed payout to itself at taxpayers' expense.

- In 2023, laden with a interest payments that were likely to out pace their revenue, Instant Brands filed for bankruptcy, throwing into jeopardy the lives of their 1,800 North America employees.

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Bonus Depreciation

$325 billion corporate tax cut

- Federal tax law has long permitted accelerated depreciation, which allows businesses to deduct the costs of equipment more quickly than it wears out. But the 2017 Trump-Republican tax law created the most extreme version of this tax break, allowing businesses to write off the entire cost of long-term property and assets in the year they were purchased.

- Bonus Depreciation has already lost over $120 billion in the last five years, with 66% of the tax benefit going to corporations with over $250 million in annual revenue

- This tax provision began phasing out at the end of 2022 and will fully expire in 2026, but the House GOP package would extend 100% bonus depreciation through 2025 with the long-term goal of making it permanent.

- The last five years of Trump-Republican depreciation rules have given mega-corporations huge tax windfalls, especially for Big Tech companies like Facebook, Amazon, & Google.

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Under First Five Years Of Trump Tax Law
25 Corporations Saved $67 Billion From Depreciation Tax Breaks

Company	Effect of Accelerated Depreciation on Income Tax ($ millions)	US Profits ($ millions)	Current Federal Income Tax ($ millions)	Current Federal Effective Income Tax Rate
Verizon	$6,621	$114,070	$8,856	7.8%
Amazon	$6,471	$69,254	$6,172	8.9%
Google	$6,056	$205,189	$33,969	16.6%
Facebook	$5,674	$109,908	$20,430	18.6%
Walt Disney	$4,499	$38,731	$2,979	7.7%
United Parcel Service	$2,531	$35,323	$4,892	13.8%
TOP 25 CORPORATIONS	**$66,713**	**$876,188**	**$106,493**	**12.2%**

Sources: Data provided by Institute on Taxation and Economic Policy

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Research & Experimentation Deduction

$277 billion corporate tax cut

- Corporate research costs traditionally have been deductible in the year incurred. After the 40% cut to the corporate tax rate under Trump, the R&E deduction shifted to a 5-year schedule for domestic research and 15-year schedule for foreign research starting in 2022.
- Some of the largest users of the R&E deduction (Amazon, Google, Facebook, Apple, Microsoft) all increased their spending on research in 2022 even under the less favorable tax laws, throwing into question the real benefit of retroactively rolling back these new rules.
- There is very little oversight over what qualifies as research. Galaxy Gaming which makes electronic casino games is one of the corporations pushing for retroactive R&E extension. Should American tax dollars be used to subsidize improved gambling technology?
- President Biden has proposed returning to the single-year expensing for research BUT PAID FOR through additional corporate tax revenue by repealing the Foreign-Derived Intangible Income (FDII) deduction.

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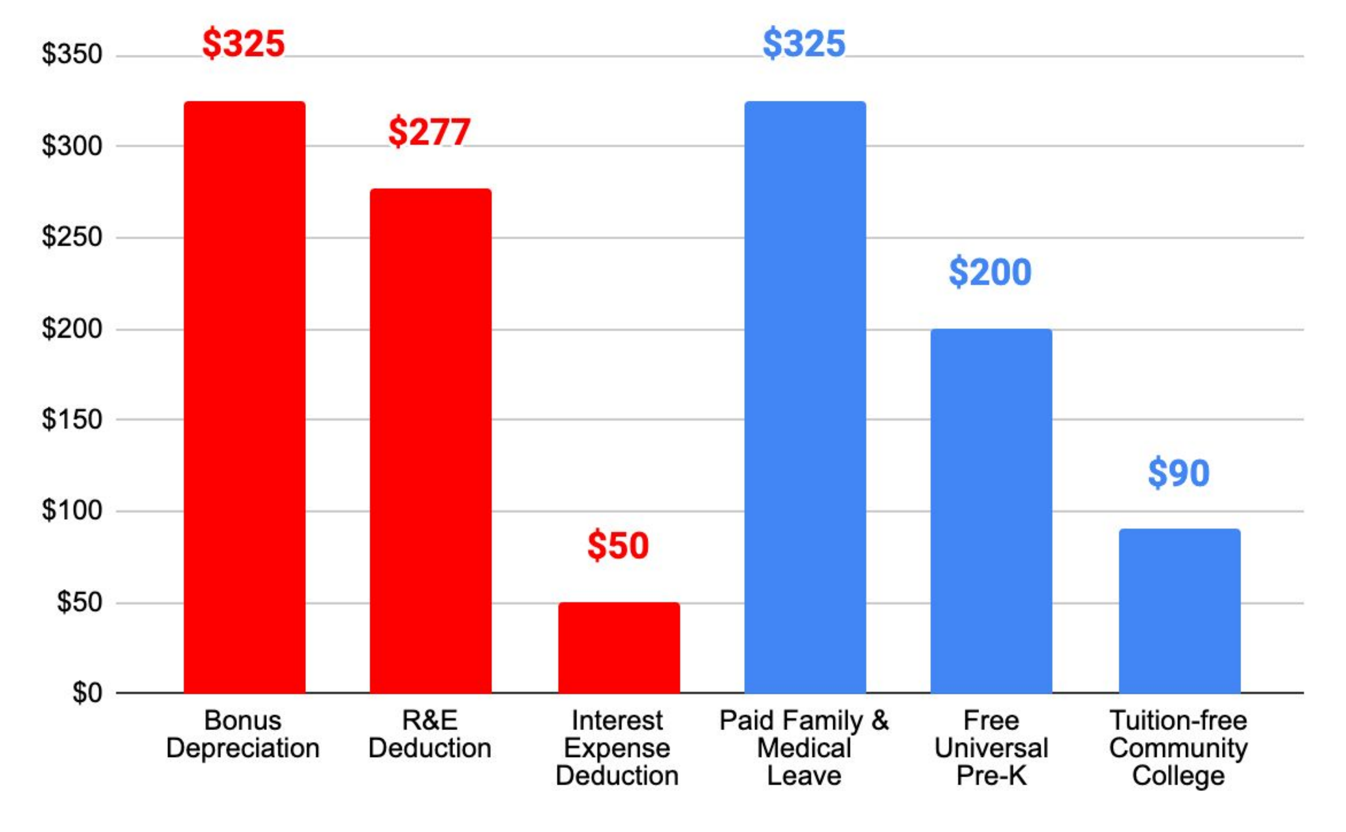
More Handouts for Corporations Means
Less Funding for Families



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What Republicans Have Planned Next

- The House GOP package is designed to create a large fiscal cliff at the end of 2025 when key parts of the Trump tax law expire—along with key Democratic priorities such as the IRA's expansion of the ACA's premium tax credits.

- The combined cost of making the provisions in the Ways & Means-reported package and the Trump tax law permanent would exceed $4 trillion over 10 years—a massive transfer of public resources away from families and workers to the ultra-wealthy and billion-dollar corporations.