

"Fiscal Chicanery" Key to Dishonest Sales Pitch

RETURN OF THE NO-TAX CORPORATIONS

The Republican "Contract With America" tax plan now pending in the House Ways and Means Committee would turn many giant corporations into tax freeloaders—and add tens of billions of dollars a year to the budget deficit. The GOP plan would achieve these dubious results through huge new corporate "depreciation" loopholes and by repealing the corporate "alternative minimum tax."

The corporate minimum tax was enacted in 1986 to assure that profitable companies have to pay some reasonable amount in federal income taxes no matter how many loopholes they find in the regular tax law. Studies by Citizens for Tax Justice had found that prior to the 1986 reforms more than half of the nation's largest and most profitable corporations were able to pay no federal income tax despite billions of dollars in U.S. profits. The public demanded an end to this outrageous corporate tax avoidance, and Congress and President Reagan agreed.

Under Ways and Means Chairman Bill Archer's version of the Republican "Contract," corporations would be granted a huge increase in their depreciation write-offs. This so-called "neutral cost recovery system" would be coupled with complete repeal of the corporate minimum tax. In fact, Texas Republican Archer's minimum tax repeal would essentially be retroactive to 1986, because companies would be allowed to use their previous minimum tax payments as credits against their future taxes.

"Spurred on by would-be corporate freeloaders in the oil industry, Rep. Archer wants to take us back to the bad old days when half of the biggest companies in America routinely thumbed their nose at the tax collector," said CTJ director Robert S. McIntyre. "This is not only fiscally irresponsible, it's an insult to hard-working average American taxpayers, who do not enjoy an escape hatch from their tax responsibilities."

To try to sell his egregious corporate loophole proposals, Rep. Archer offers revenue estimates asserting that the combination of expanded depreciation write-offs and repeal of the corporate minimum tax would have virtually no effect on federal revenues over the next 5 years.

Due to a quirk in the proposed depreciation changes, these estimates may be reasonable over a five-year period. But over the next five years, the two proposals would cost the Treasury almost \$125 billion.

“To imply that these huge corporate tax giveaways will be costless is nothing but fiscal chicanery,” said McIntyre.

CTJ’s July 1986 report, 130 Reasons Why We Need Tax Reform, found that 130 of the 250 giant, profitable corporations analyzed managed to pay no federal income tax in at least one year between 1981 and 1985. Total

U.S. profits for these corporations in their no-tax years were \$72.9 billion. Yet their total federal income tax bill for those same years was actually a negative \$6.1 billion! That is, rather than paying taxes, they received \$6.1 billion in outright tax rebates. Among the leading corporate freeloaders were:

- # AT&T, which received \$636 million in tax rebates from 1982 to 1985, despite \$24.9 billion in pretax profits.
- # DuPont, whose \$3.8 billion in 82-85 pretax profits were supplemented by \$179 million in tax rebates.
- # Boeing, which reported \$2.3 billion in U.S. profits to its shareholders, yet paid no tax at all in four of five years from 1981 to 1985, and received \$121 million in tax rebates between 1982 and 1985.
- # General Dynamics, also with four out of five no-tax years from 1981 to 1985 and whose \$2 billion in 1982-85 pretax profits from its defense contracting were augmented with \$91 million in tax rebates.
- # General Electric, which enjoyed 3 no-tax years out of five from 1981 to 1985.
- # Panhandle Eastern Corp., Mitchell Energy and Development, Comerica Transamerica, Union Camp, and Lockheed, each of which was able to pay no federal income tax in four out of five years from 1981 to 1985.

“Companies like these will once again be on the no-tax list if Rep. Archer’s version of the GOP Contract is enacted,” said McIntyre. “And we will again see companies chasing after tax shelters rather than investing productively. That’s bad for both the tax system and the economy.”

CTJ called on Congress to reject the GOP corporate loophole proposals. “Since 1986, we have seen that fairer taxes and free markets work,” McIntyre said. “After languishing during the the 1981-85 mega-loophole period, productive business investment boomed following tax reform. Congress should reject a rerun of the failed central-planning, loophole-based economic and tax policies of the past.”

A list of 130 corporate freeloaders over the 1981-85 period is attached.

GOP Corporate Tax Giveaways Depreciation Expansion & Alternative Minimum Tax Repeal	
First 5 years	
Corporate depreciation (NCRS)	\$ +16.7
Minimum Tax Repeal	-16.9
“Interaction”	+2.1
Total, first five years	
\$ +1.9	
Next 5 years	
Corporate depreciation (NCRS)	\$ -105.5
Minimum Tax Repeal*	-16.9
“Interaction”	—
Total, second five years	
\$-124.5	
Source: Joint Committee on Taxation; CTJ (*).	

130 Companies That Beat the Tax System In At Least One Year Between 1981 and 1985 (Out of a Sample of 250 Corporations)

Company:	Number of No-Tax Years	Company:	Number of No-Tax Years
Aetna Life & Casualty	1	First Union Corp.	1
Air Products and Chemicals	1	Foster Wheeler Corp.	1
American Cyanamid Co.	3	FPL Group (Fla. Power & Light)	1
American Standard	2	General Dynamics	4
AMP	1	General Electric	3
Anheuser-Busch	1	General Mills	3
Archer Daniels Midland Co.	1	General Public Utilities Corp.	1
Armstrong World Industries	1	Georgia-Pacific Corp.	2
Ashland Oil	3	Goodyear Tire & Rubber Co.	1
AT&T	2	Grace (W.R.) & Co.	2
AZP Group (Arizona Pub. Serv.)	1	Great Northern Nekoosa	3
Bankers Trust	3	Greyhound Corp.	5
Barnett Banks of Florida	1	Grumman Corp.	4
Baxter Travenol Laboratories	1	Gulf States Utilities Co.	1
Boeing Co.	4	Gulf+Western Industries	1
Borden	1	Harris Bankcorp	1
Burlington Industries	2	Harris Corp.	2
Burlington Northern	2	Harsco Corp.	1
Carolina Power & Light Co.	2	Hewlett-Packard Co.	1
Carpenter Technology Corp.	1	HNG InterNorth	1
Centex Corp.	3	Hormel (Geo. A.) & Co.	1
Central and South West Corp.	2	Household International	1
Champion International Corp.	3	Houston Industries	1
Citizens and Southern Ga. Corp	2	IC Industries	1
Cleveland Electric Illum. Co.	1	Illinois Power Co.	1
Combined International Corp.	1	International Multifoods	2
Comerica	4	International Paper Co.	2
Commonwealth Edison Co.	1	Internat'l Minerals & Chemical	2
Continental Telecom	1	Jim Walter Corp.	2
Coors (Adolph) Co.	1	Leaseway Transportation Corp.	2
Corning Glass Works	2	Lockheed Corp.	4
CSX Corp.	2	MAPCO	1
Cubic Corp.	1	Martin Marietta Corp.	2
Dun & Bradstreet Corp.	2	McDonnell Douglas Corp.	1
DuPont	3	Media General	1
Englehard Corp.	2	Mellon Bank Corp.	1
Federal Paper Board Co.	3	Middle South Utilities	4
First Executive Corp.	2	Mitchell Energy & Dev. Corp.	4
First Interstate Bancorp	2	Mobil Corp.	1

**130 Companies Beating the Tax System
In At Least One Year, 1981-85, cont.:**

Company:	Number of No-Tax Years	Company:	Number of No-Tax Years
Morgan (J.P.) & Co.	1	SCM Corp.	1
M/A-COM	2	Scott Paper Co.	2
Niagara Mohawk Power Corp.	2	Sears, Roebuck & Co.	1
Northern Indiana PSC	2	Singer Co.	3
Northern States Power Co.	2	Southeast Banking Corp.	2
Northrop Corp.	2	Southern California Edison Co.	1
Ohio Edison Co.	2	Southwest Airlines Co.	2
Overseas Shipholding Group	2	Sperry Corp.	1
Owens-Corning Fiberglas Corp.	1	Sun Chemical Corp.	2
Owens-Illinois	1	Sundstrand Corp.	2
Pacific Gas and Electric Co.	1	Tektronix	2
Pacific Lighting Corp.	2	Tenneco	2
PacifiCorp (Pac.Power & Light)	1	Texaco	3
Panhandle Eastern Corp.	4	Transamerica Corp.	4
Pennsylvania Power & Light Co.	2	Tribune Co.	2
Pennzoil Co.	1	TRW	1
Pepsico	3	Tyson Foods	3
Philadelphia Electric Co.	2	Union Camp Corp.	4
Phillips Petroleum Co.	1	Union Electric	2
Piedmont Aviation	2	Unocal Corp.	1
Pittway Corp.	1	USG Corp. (U.S. Gypsum)	1
Prime Computer	1	U.S. Bancorp	3
RCA	2	Westinghouse Electric Corp.	2
Rockwell International	1	Westvaco Corp.	1
Rohm and Haas	1	Weyerhaeuser Co.	2
Santa Fe South'n Pacific Corp.	2	Xerox	3

TOTALS

**Number of companies paying
zero or less in taxes in at
least one year, 1981-1985:**

130 out of 250 companies

Profits in the no-tax years:

\$72.9 billion

Total tax *rebates* in the no-tax years:

\$6.1 billion

Average tax rate in the no-tax years:

-8.3%