

# Would ending corporate tax breaks make dent in deficit?

By Tony Pugh

WASHINGTON — As a liberal tax-code activist, Robert McIntyre shocked Washington in 1984 when he revealed that General Electric was one of 17 companies that paid no U.S. corporate taxes for three straight years.

The finding by McIntyre's organization, Citizens for Tax Justice, sparked national outrage that helped pave the way for The Tax Reform Act of 1986. That landmark legislation eliminated tax loopholes to broaden the tax base while also lowering the corporate tax rate.

It also increased corporate tax revenue flowing into the Treasury by 34 percent.

As the Obama administration readies a proposal to overhaul the nation's corporate tax structure once again, some of the same tax-code giveaways that prompted the 1986 overhaul have reappeared. GE's low U.S. corporate tax burden is still ruffling populist feathers, lobbyists and legislators have padded the tax code with hundreds of new loopholes and McIntyre is again agitating for change.

This time around, he's joined by dozens of national and state organizations that want corporations to pay down a larger share of this year's \$1.5 trillion federal deficit. They're urging Congress and the Obama administration to make it happen.

To simplify the tax system, President Barack Obama wants to close a host of corporate tax breaks and use the extra revenue that would generate to offset a reduction in the corporate tax rate. America's top corporate tax rate of 35 percent is one of the highest in the world, but most companies pay a much lower effective tax rate because the system is riddled with tax breaks.

"Get rid of the loopholes. Level the playing field. And use the savings to lower the corporate tax rate for the first time in 25 years — without adding to our deficit. It can be done," Obama said to applause during his State of the Union address.

But Obama's approach wouldn't take the revenue gained by ending loopholes to pay down the deficit, as



Robert McIntyre of Citizens for Tax Justice. | Olivier Douliery/Abaca Press/MCT  
the liberals propose; he'd use it all as a tradeoff for the lower corporate tax rate.

Obama's stand is rooted in political reality: Any plan to end corporate tax breaks and steer the revenues to the Treasury would be considered a tax increase by business and Republicans — and would be dead on arrival in the GOP-led House of Representatives. So instead, Obama backs a budget-neutral plan that would make the tax code more efficient and promote U.S. economic competitiveness — and that makes it hard for Republicans to reject his proposal outright.

His approach meets the terms of a tax pledge signed by more than 230 GOP House members and 41 Republican senators. In signing the pledge, sponsored by Americans for Tax Reform, a conservative lobby, lawmakers agree to fight any efforts to cut or eliminate tax breaks unless they're matched by identical cuts in the tax rate — which is exactly what the Obama plan calls for.

But McIntyre and his fellow liberal tax activists don't like it. They question why savings from a reduction in corporate tax subsidies should go right back to businesses in the form of a tax cut. Shouldn't some, even most, of the billions in new revenue go toward reducing the deficit, they ask? After all, that would provide some relief to ordinary citizens who otherwise will bear most of the deficit-reduction burden through cuts in government services.

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Business lobbyists see things differently.

Caroline Harris, chief tax counsel for the U.S. Chamber of Commerce, said the federal deficit is due to overspending, not under-taxing (although that's highly debatable, as statistics show the overall federal tax burden is well below historic norms.)

"If you have a spending problem, you need to fix it with spending cuts," Harris said. "If Congress can't show fiscal austerity and make spending cuts, then taxing or putting the weight of deficit reduction on the backs of businesses that create jobs is not a good idea."

Republicans in Congress agree. However, an April Gallup poll found that 2 out of 3 Americans think corporations pay too little in taxes, while only 1 in 5 said businesses pay their fair share.

In a letter to Congress, McIntyre's group and a host of labor and liberal allies say that lawmakers, in their zeal to cut the federal budget, have ignored corporate tax subsidies, which deny the Treasury revenues and thus increase budget deficits the same as direct program spending. Why, they ask, aren't those breaks on the table in all the deficit-reduction talks?

The 10 largest corporate tax breaks will cost the federal government more than \$351 billion from 2010 to 2014, according to the non-partisan Joint Committee on Taxation.

"It makes no sense for Congress to debate cuts in public services that working families rely on while ignoring the public spending that benefits corporations and is hidden in the tax code," the letter reads. "We strongly believe most, if not all, of the revenue saved from eliminating corporate tax subsidies should go towards deficit reduction and towards creating the healthy, educated workforce and sound infrastructure that will make our nation more competitive."

The sentiment has struck a note with liberal lawmakers such as Sen. Barbara Boxer, D-Calif., who says it's time for revenue-raising tax overhauls.

"It's an opportunity to put into place some fair tax policies that, in fact, produce revenue from the richest



Robert McIntyre of Citizens for Tax Justice. | Olivier Douliery/Abaca Press/MCT

people in this country and the richest corporations that should be paying," Boxer said.

But getting any kind of tax-code clean-up through Congress is never easy, and in the polarized politics of Obama's Washington, it's harder than ever. Democratic Sen. Ron Wyden of Oregon and former Republican Sen. Judd Gregg of New Hampshire sponsored the Bipartisan Tax Fairness and Simplification Act of 2010. It would have coupled a corporate tax cut with the rollback of tax breaks for individuals and corporations.

The measure died in committee.

Until more details of President Obama's tax plan are released, it's unclear how much support it could receive from Republicans and the corporate sector.

What is clear is that there's little chance of passing legislation aimed at increasing corporate tax revenue, said Senate Budget Committee Chairman Kent Conrad, D-N.D.

"It's very hard to be revenue-neutral and reduce the (tax) rate, so going even further than that is a hard thing to do," Conrad said. "Hard in terms of the substance. Hard in terms of the politics. Hard to do."

Even McIntyre concedes that the fight will probably take several years. For inspiration, he remembers the years of work it took to pass the 1986 tax overhaul under President Ronald Reagan, a Democratic House and a Republican Senate.

"It was kind of a miracle, and the stars had to be aligned. But we can do it again," McIntyre said.

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