

Corporate Welfare Rides Again: Business Giveaways in the 1999 Tax Bill

The huge tax cut bill passed by both houses of Congress on August 5 and expected to be sent to President Clinton's desk in September is officially projected to reduce federal tax collections by \$792 billion over the next ten years. More than a tenth of the tax cuts—\$82 billion over ten years—are new tax subsidies for corporations. In fact, over the next five years, when many of the personal tax reductions have yet to phase in, corporate loopholes amount to a fifth of the tax bill's total estimated cost.

“What do General Motors, Lockheed, Microsoft, Norfolk Southern, Tyson Foods, Enron Corp. and Weyerhaeuser all have in common?” said CTJ director Robert S. McIntyre. “They are among the multitude of companies that persuaded Congress to give them lucrative special tax subsidies in the 1999 GOP tax bill.”

Using information provided by the Joint Committee on Taxation and other sources, Citizens for Tax Justice has compiled a summary of the new corporate welfare provisions in the House-Senate tax bill. Among other items, these include:

- # **\$36.8 billion** over ten years in new foreign tax-haven shelters for multinational banks, insurance companies, automakers, oil companies, weapons makers and others. One loophole lets multinationals such as **General Motors** reduce their taxes on their U.S. profits by deducting some of their foreign interest expenses from their U.S. taxable income. Another gives defense contractors such as **Lockheed Martin** a tax exemption for a portion of the profits they make selling weapons to foreigners.
- # **\$13.1 billion** to extend the corporate research and development tax credit through 2004. This credit has the effect of making the effective tax rate on research investments less than zero (that is, such investments are more profitable after tax than before tax). Because the research credit will probably be extended again before it expires, the actual 10-year cost of retaining it will almost certainly be much larger than the official estimate. This provision would be especially lucrative for highly profitable technology companies such as **Microsoft**.
- # **\$8.0 billion** in tax relief for profitable but low-tax companies that now pay only the corporate Alternative Minimum Tax.
- # **\$780 million** in tax relief to railroads and inland waterway barge companies. Among the principal beneficiaries of this tax cut would be **Norfolk Southern**.

- # **\$7.4 billion** in new real-estate tax shelters, including a provision that would turn some public highways into corporate tax shelters.
- # **\$3.9 billion** to increase the write-off for business meals and drinks to 60% (from 50% now). This expansion of the “martini lunch” write-off doesn’t start phasing in until after 2005. By 2009, it is expected to cost \$1.3 billion a year.
- # **\$2.6 billion** in new tax breaks for oil and gas companies. Besides \$1.8 billion in added multinational tax breaks (also included in the total multinational figure above), these include even bigger tax breaks for exploration costs and expanded tax refunds if the tax “losses” generated by these and other special write-offs make a company’s taxable income less than zero. Another provision, apparently targeted primarily (or solely) to **Enron Corp.**, would exempt tax-haven profits from foreign oil and gas pipelines.
- # **\$1.2 billion** in new tax shelters for life insurance companies. The bill would make it easier to offset taxes on life insurance profits with tax “losses” from non-life-insurance affiliates.
- # **\$1.1 billion** worth of new write-offs for utilities’ nuclear decommissioning costs.
- # **\$534 million** in tax breaks for producing energy from wind, chicken excrement and other biomass. Large agricultural producers such as **Tyson Foods** and **Perdue Farms** would be among the primary beneficiaries of this tax break, which would provide a tax credit for producing energy by burning (among other things) chicken manure.
- # **\$277 million** in tax breaks for timber companies. This provision would allow major timber companies such as **Weyerhaeuser** and **Georgia-Pacific** to claim expanded tax credits and deductions for investments in clearing land and planting trees for the production of timber.
- # **\$248 million** in tax breaks for drug companies, including a 50 percent tax credit for expenses related to human clinical testing of certain drugs.

“The vast majority of these corporate welfare provisions have little or no rationale except that they were heavily lobbied for by corporate interests,” said McIntyre. “Obviously, companies don’t lobby to persuade Congress to tell them what to do. They lobby and make political contributions in order to get subsidies for doing what they would have done anyway.”

“In other words, most of these so-called ‘incentives’ are pure waste,” McIntyre said. “But in a few cases, notably the multinational subsidies, the bill’s new tax loopholes will actually encourage *bad* corporate behavior—such as moving profits, investments and jobs offshore.”

A table showing the estimated 10-year cost of the corporate welfare items included in the 1999 House-Senate tax bill follows. (The third column in the table shows the *annual* cost of the provisions when each is fully effective, in today’s dollars.)

**Corporate Welfare Items Included in the 1999 GOP Tax Plan
As Passed by the House and Senate (\$-millions)**

	2000-09 Cost	Fully effective annual cost in 1999 dollars
Foreign tax-haven shelters for multinational banks, insurance companies, automakers, oil companies, weapons makers, etc.	\$ -36,938	\$ -5,526
Reduce the tax rate on profits from corporate research to less than zero (R&E tax credit)	-13,115	-2,169
Tax relief for low-tax corporations (corporate AMT reductions for multinationals, etc.)	-7,952	-943
Real estate tax shelters (including tax shelters for privately-owned public highways)	-7,422	-1,153
Martini lunches: business meals and drinks made 60% deductible (from 50% now)	-3,867	-904
Expand eligibility for zero tax rate on certain capital investments (Sec. 179 expensing)	-2,533	-267
Tax-favored zones (zero capital gains rate, zero tax rate on profits from certain investments, etc. in 20 areas)	-2,151	-310
Tax credits for low-wage employers (e.g., Burger King, McDonalds, etc.)	-1,354	-368
Life insurance company tax shelters	-1,189	-156
Utilities' nuclear write-offs	-1,075	-108
Tax-sheltered accounts for farms, etc.	-895	-178
Still more tax loopholes for oil & gas	-835	-98
Railroads & barge cos. fuel tax cut	-780	-96
Tax breaks for electricity produced from wind, chicken excrement & other biomass	-534	-52
Timber company tax breaks	-277	-25
Drug company tax breaks	-248	-38
Miscellaneous corporate tax breaks	-755	-69
TOTAL	\$ -81,920	\$ -12,457
ADDENDUM 1: Offsets (business tax increases)	+5,535	+354
Total after Offsets	\$ -76,385	\$ -12,103
ADDENDUM 2:		
Oil & gas included in multinational above	-1,803	-865
Total oil & gas including multinational	\$ -2,638	\$ -963