THE TAXONOMIST

Sam's Amazing $5,000 Dream Coat

By Robert S. McIntyre

In recent months, you can hardly pick up the newspaper without reading about some freshly discovered corporate tax shelter scam or accounting fraud engineered by America's once-respected big accounting firms. On the tax front, the odious schemes range from Enron's hundreds of tax-haven subsidiaries to plans by Stanley Works and other well-known companies to slash taxes on their U.S. profits by setting up shell companies in Bermuda.

The Bush administration and House Republicans, who generally support these kinds of tax abuses, have been in full stall mode, hoping to ride out the storm of public outrage without having to take serious action. In May, for example, the Bush Treasury issued a report on the Bermuda tax dodge, conceding that it's a "serious issue," but counseling delay in addressing it. Meanwhile, the *New York Times* reports that "Republican leaders in Congress are using procedural tactics like walking out of committee hearings to keep Congress from voting on measures to close the so-called Bermuda loophole, measures that would almost certainly pass overwhelmingly if given the chance."

The House Tax Shelter Committee (formerly the Ways and Means Committee) has been killing time by holding a series of subcommittee hearings on various international tax questions, featuring witnesses from tax-avoiding companies and their trade associations, accounting firms and Republican-oriented "think tanks." One of those hearings, which might have been titled "Lies from Former Chairmen," led off with testimony from former Representatives Sam Gibbons (D-Fla.) and Bill Archer (R-Tex.).

Gibbons, who briefly served as acting committee chairman in 1994, has long argued that the U.S. should scrap the corporate income tax in favor of a value-added tax, a complicated sales tax used extensively in Europe. Sam mistakenly believes that sales taxes encourage exports because they apply only to domestic consumption. To over-illustrate his point, he told the following story.

"I first ran into TVA [the French value-added tax] when I found myself without an overcoat in Paris . . . sometime in the late 1960s or early 1970s. I had to go buy an overcoat. . . . Well, the fellow from the embassy who was with me jabbered off in French to the clerk there something about TVA. I didn't know what the heck they were talking about. Well, two months later I was sitting in my office in the Rayburn Building and in comes a check from a bank in New York for about 200 bucks. . . . I called the bank. I said, why did you send me $200? They said, well, that is the rebate on the French TVA tax that I had paid on the overcoat."

Consider, for a moment, that the French sales tax rate back when Gibbons says he bought his coat averaged 22 percent. So if Gibbons really paid a $200 tax, then the coat must have cost him $1,100 before the rebate. In today's dollars, that would be a $5,000 overcoat!

Surprisingly, Mark Foley (R-Fla.) noticed the implausibility of Gibbons's arithmetic. "I can't get my mind off this coat you bought . . . where you got a $200 refund," said Foley to Gibbons. "I hope you still have that coat." Not realizing he'd been caught in an obvious fib, Gibbons replied genially, "That was a good French overcoat. I wore it for years." But Foley pressed on: "I want to see that coat." Flustered, Gibbons dug himself a deeper hole. "That was just the rebate. They kept most of the money over in France. But it was—you know, prices have changed a lot since the late 1960s."

Gibbon's silly fibbery was merely amusing. In contrast, the whoppers spouted by his co-panelist, Bill Archer, who chaired the committee from 1995 through 2000 and is now a Senior Policy Adviser at PricewaterhouseCoopers, were sinister. Archer began by oddly—and as it turns out disingenuously—averring that "I testify on my own behalf and not as the representative of any organization," and then launched into a familiar message about the need to cut taxes on our poor overtaxed companies.

"What I have ascertained," Archer intoned, "is that, on average, our corporations pay an effective tax rate of around 39 percent." Given that the top U.S. corporate tax rate is 35 percent and that it's well known that virtually all companies pay far less (sometimes nothing at all), you'd think such nonsense would have surprised the subcommittee members. But instead, the Republican majority simply nodded in happy agreement with Archer's fabrication.

When Rep. John Lewis (D-Ga.) pointed out that Archer has "been a big advocate of a national sales tax and in doing away with the income tax," Archer denied this well-known fact: "I have not spoken out in favor of a vehicle that is a retail sales tax."

Eventually, Archer got to his central message, again making a liar of himself. Contradicting his earlier claim that his testimony was personal only, he promised: "I would add also that all of the technical expertise of PricewaterhouseCoopers is also available to you should you wish to draw on it."

What? Blatantly propose at an open hearing that one of the leading promoters of abusive tax shelters should help write tax legislation! Even the brazen Bush administration has tried to cover up the oil industry's intimate role in writing its energy bill. But did the subcommittee even feign shock? Well, no. "Thank you very much for your testimony," responded subcommittee chairman Dave McCrery (R-La.). "We appreciate again your willingness to work with us to try to get through this problem that we have got with our Tax Code."

So much for truth. So much for shame.

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