

THE TAXONOMIST

Gimme Shelters

By Robert S. McIntyre

If you thought President Bush was done with tax cutting for the rest of his term—as Bush’s budget director promised last June—you’ve got another think coming. Pending in Congress this fall, with Bush’s avid backing, is still another round of huge tax cuts. This time our lawmakers are planning their third major corporate tax reduction in the past two years.

In light of the government’s dire budget straits, more tax cuts might seem pretty reckless. After all, in the just completed fiscal year, combined federal personal and corporate income taxes fell to only 8.4 percent of the economy, their lowest level since before World War II and a third lower than in fiscal 2000—with no relief in sight.

A lot of that shortfall, of course, reflects the Bush cuts in personal income taxes, which have fallen to their lowest level as a share of the economy in more than 50 years. But corporate taxes have plummeted even more than personal taxes. In fact, at only 1.2 percent of the economy over the past two fiscal years, corporate taxes are at their lowest level since the 1930s, except for one year during Ronald Reagan’s first term.

Some of the corporate tax shortfall reflects the weak economy, but most of it stems in about equal parts from Bush’s big corporate tax cuts enacted in 2002 and 2003 and the huge amount of offshore tax sheltering that corporations now engage in. Together, these recently created loopholes have slashed corporate tax payments by \$100 billion or more annually—more than a 40 percent reduction since 2000. Counting tax breaks that have been on the books for longer, corporations now pay considerably less than half of what they should.

So are our leaders appalled at all this egregious corporate tax avoidance? Hardly. Instead, they’d like to see just as much if not more of it—as companion measures pending in the Senate and House illustrate.

In the Senate, Finance Committee Chairman Chuck Grassley (R-Iowa) has expressed deep outrage over the past year about rampant corporate tax sheltering, particularly offshore abuses. But Grassley’s latest bill makes clear that he doesn’t understand that corporate tax avoidance is wrong not only because it’s underhanded, but also because it drains the Treasury of needed revenue and shifts the burden onto ordinary Americans.

To be sure, Grassley does include some useful curbs on corporate shelters in his bill. But those reforms would raise a total of only \$39 billion over the next decade, when 10 or 15 times that amount would be more serious. Even worse,

Grassley wants to use the revenue raised from his modest reforms to open even more corporate loopholes, at a ten-year cost of \$103 billion, including \$37 billion to facilitate offshore tax avoidance!

Grassley actually asserts that his bill is “revenue-neutral”—as if that were the goal of corporate tax reform—by taking credit for maintaining \$18 billion in customs fees that everyone agrees will be extended anyway and by asserting that complying with a World Trade Organization ruling against a foolish U.S. corporate export subsidy ought to be counted as a \$45 billion revenue-increasing offset, too.

Grassley’s approach of closing loopholes that ought to be closed, but then using the money to create new tax breaks is a lot like a bank forcing a would-be robber to put down his gun, but then giving him the money anyway so long as he asks nicely. A triumph of form over substance, you might say.

Unfortunately, in the House, things are much worse. Republican Rep. Bill Thomas of California is such a terrible chairman of the Ways and Means Committee that you almost wish his state would replace him with an actor who could at least pretend to be competent. Rather than fulfill his committee’s mandate to find the ways and means to pay for the United States government, Thomas, working hand in glove with President Bush, has been on a mission to destroy the United States as we know it, by failing to provide the money to pay for what we do as a nation.

At the end of last July, Thomas, with Bush’s blessing, introduced a bill to provide companies with a staggering \$259 billion in new loopholes over the next decade. Among the items on this corporate wish list are \$79 billion worth of expanded tax shelters for multinational corporations.

Thomas doesn’t even give lip service to covering the enormous cost of his bill. He grudgingly offers a few minor reforms, but they raise a mere \$9 billion over a decade. And like Grassley, he takes credit for extending existing customs fees and complying with the WTO ruling. But even if you mistakenly count those so-called offsets, Thomas’s bill still costs a net of \$186 billion over ten years.

Corporate pressure to gain still more tax concessions is so high that it seems very likely something will pass Congress this year. And while the details of the final bill are still up in the air, one can be sadly sure that whatever’s left out will be back in the future so long as the current management remains in charge.

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