Contact: Bob McIntyre

Congress Passes $210 Billion in New Corporate Tax Breaks

Corporate tax legislation approved by the House and Senate over the Columbus Day weekend will add $210 billion in new tax breaks, mostly for corporations, over the next decade. Many of the tax subsidies will further reward multinational corporate tax avoidance. The measure is expected to be signed soon by President Bush.

"The bill allegedly will help protect American manufacturing jobs, but it will almost certainly have the opposite effect," said Robert S. McIntyre, director of Citizens for Tax Justice. "Sadly, few of our lawmakers seem to understand—or care."

"Currently, every dollar we add to our budget shortfall is another dollar that we have to borrow from foreigners," McIntyre noted. "That in turn is another dollar that foreigners won't use to buy our exports. But rather than cutting deficits, our lawmakers have made things worse, by giving in to pressure from loophole lobbyists and passing a bill that will add even more to our huge budget and trade shortfalls."

In recent years, corporate taxes have fallen to their lowest sustained level as a share of the economy in six decades. A September **study** coauthored by CTJ found that large *Fortune 500* companies now report less than half their actual profits to the IRS, and that almost a third of such big companies paid no income tax in at least one of President Bush's first three years in office. One company, General Electric, which enjoyed $9.5 billion in tax subsidies over the three years analyzed in the study, is widely conceded to be the biggest beneficiary of the just-passed corporate-tax-subsidy bill.

The bill's $210 billion in new tax breaks include six dozen separately listed measures. Almost two dozen of those are targeted to benefit multinational corporations sheltering profits offshore. A spokeswoman for the National Association of Manufacturers called the bill "the largest business tax relief program in more than a decade."

The 2004 Corporate Tax Giveaway Bill
10-year revenue effects, $-billions

New tax breaks (without sunsets)	**$ –210**
Supposed offsets to new tax breaks:	
1. Comply with existing law (ruling that export tax subsidy is illegal)	+49
2. "Measures which in themselves should be good public policy and we should pass anyway"*	+82
3. Phony sunsets on tax breaks	+79
Bogus advertised net 10-year effect	0

Source: Joint Committee on Taxation; Citizens for Tax Justice

Phony "Offsets"

The bill's congressional backers assert that the cost of the new corporate tax breaks is "paid for" with offsetting tax increases. But this claim should not be taken seriously.

"The bill's so-called revenue offsets fall into three categories," McIntyre said. "First, there are things that Congress has to do; second, things that Congress ought to do anyway; and third, things that Congress won't do."

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■ In the **has-to-do** category is repeal of a foolish export tax subsidy that the World Trade Organization has ruled to be in violation of U.S. trade agreements. "It seems odd to call complying with the law of our land a $49 billion revenue offset," said McIntyre. Ending the illegal export tax subsidy will eliminate penalty duties on U.S. exports.

■ In the **ought-to-do-anyway** category are curbs on egregious corporate tax shelters that Congress never intended to allow—such as Bermuda reincorporations, tax-motivated "leasing" of public sewer systems, etc.—along with routine extensions of some expiring fees. Sen. Max Baucus (D-Mt.), co-sponsor of the Senate bill, accurately called these "measures which in themselves should be good public policy and we should pass anyway."

"Cracking down on corporate tax evasion and avoidance is a good thing," McIntyre said. "But it can't reasonably be used as an excuse for adopting $82 billion in new corproate loopholes. It's like the police catching a bank robber, but then donating the stolen money to the Bank Robbers' Retirement Fund—and calling the whole thing 'revenue neutral.' "

■ Finally, the **won't-do** category consists of phony sunsets on many of the tax breaks in the bills, which supposedly will offset $79 billion of the bill's 10-year cost. "If you want to be assured just how bogus those sunsets are," said McIntyre, "note that only a few weeks ago the Congress blithely voted to extend some of the supposedly 'sunsetted' Bush tax cuts, at a cost of $146 billion over the upcoming decade, with no revenue offsets."

On NPR's *Morning Edition* on Oct. 13, 2004, Senate Finance Committee Chairman Charles Grassley (R-IA), chief Senate sponsor of the bill, attempted to defend it against charges that it is a special-interest bonanza. According to Sen. Grassley: "For all of the unfair carping about this bill being a special-interest bill, nearly every member raised narrow-interest provisions. So, if there's some fault about different provisions coming up, we all share that. We all do it."

"As Senator Grassley's feeble attempt to defend his bill makes clear, this legislation is indefensible," McIntyre said.

Some of the many notable special-interest beneficiaries of the bill include:

General Electric (?): "Extended placed in service date for bonus depreciation for certain aircraft (excluding aircraft used in the transportation industry)." Applies only to aircraft placed in service (leased out) on Sept. 10, 2001. Effect: $1.4 billion cost right away, paid back gradually with no interest over the next five years.

GE, auto companies, banks: Weakening of the interest allocation rules to allow interest costs used to support foreign operations to reduce U.S. (rather than foreign) taxable income. Effect: $14.4 billion revenue loss from 2009 through 2014.

GE, banks & others: Allow foreign tax credits to shelter tax-haven profits using taxes paid to other countries (on other income). Effect: costs $7.9 billion over 10 years.

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Oracle, drug cos. & others: Allow repatriation of foreign profits at 5.25% tax rate, one year only. Effect: Said to cost $3.3 billion over 10 years. The provision could save Oracle alone as much as $650 million. Oracle want to repatriate profits to help finance its attempted hostile takeover of PeopleSoft. At the end of 2003, Oracle had $4.8 billion in unrepatriated foreign profits, which it says it would owe a 18.9% U.S. tax on (after foreign tax credits) if repatriated.

ExxonMobil, ConocoPhillips & British Petroleum: "Treat certain Alaska pipeline property as 7-year property." Applies only to such property placed in service on December 31, 2013. Effect: cost $150 million in fiscal 2014, much more thereafter. Apparently affects only one project. ExxonMobil, Conoco Phillips and BP are the partners in it.

CSX, other railroads: "Provide a 50% tax credit for certain expenditures for maintaining railroad tracks." Effect: said to cost $501 million over 10 years because it is supposedly sunsetted after 2007. Without the sunset, the 10-year cost would exceed $800 million.

Disney, TimeWarner, etc.: "Special rules for certain film and television production (sunset taxable years beginning after 12/31/08)." Gives much bigger write-offs ($15 million per production right away, then 3 years for the rest of the costs). Effect: Officially, only $42 million over 10 years ($335 over the first four), but could be close to $590 million over 10 years without the sunset.

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