Congress of the United States

U.S. House of Representatives

COMMITTEE ON WAYS AND MEANS

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November 5, 2003

MESSAGE OPPORTUNITY:

GOP LEADERSHIP PUTS BIG CORPORATE TAX BREAKS AHEAD OF AMERICAN JOBS

Dear Democratic Colleague:

Last week, the Committee on Ways and Means marked up a bill (H.R. 2896) which raises the deficits over the next ten years by $60 billion, includes $40 in tax incentives to multi-national companies to hire more of their workers overseas, and includes the kind of special interest tax breaks that make network news reporters scramble for footage of tackle box makers, arrow producers, and foreign oil wells.

Even if this bill never comes before the full House of Representatives, we must spread the word that the Republican leadership's decision to get behind this bill shows they lack any credibility when they talk about preserving jobs.

To provide guidance, I have enclosed a one-pager of talking points, a side-by-side comparing our approach to the one promoted by Chairman Bill Thomas and House Republican leaders, and an article from last Thursday's *New York Times* that details the kind of unrelated provisions that have been loaded onto this bill. If you need any additional information, please call the Committee Ways and Means Democratic office at x5-4021.

Sincerely,

Charles B. Rangel

Charles Rangel
Ranking Member

The New York Times

 THURSDAY, OCTOBER 30, 2003

CORPORATE PLEA FOR TAX BREAKS: OURS COME FIRST

LOBBYING SCRUM OVER BILL

Industries Vie as Congress Considers Replacement for Export Subsidy

By EDMUND L. ANDREWS

WASHINGTON, Oct. 29 — It has been promoted as a bill to create jobs, to enhance American competitiveness and to level the playing field for companies overseas.

But as House lawmakers pushed ahead this week with the biggest overhaul of corporate taxes in two decades, they found themselves briefly fixated on bows and arrows.

"U.S. manufacturers of bows and arrows are fleeing in droves for Korea and China," said Representative Paul D. Ryan, Republican of Wisconsin. The problem, he told members of the House Ways and Means Committee, is that American arrows are hit with a 12.4 percent excise tax, but imported arrows are not.

So it was that members of the tax-writing committee agreed to drop the excise tax on arrows, along with excise taxes for fishing tackle boxes and fish-finding devices that use sonar. Liquor and wine distributors were given a four-year tax break worth $234 million and movie studios received a break on foreign royalties worth $600 million over 10 years.

These and other special-interest nuggets were little more than pocket change in a bill that would offer corporations $128 billion in new tax relief over the next decade.

But they are indicative of the trade-offs that have been necessary to win support for what began as a fairly modest goal last year: to repeal a long-standing tax subsidy for exporters, worth about $55 billion, which has been declared illegal under international law, and replace it with new tax breaks of comparable value.

The bill that passed the House tax-writing committee would fulfill that goal, to the satisfaction of manufacturing companies, oil and gas refineries, farmers, movie studios and engineering conglomerates like the Bechtel Corporation and Halliburton.

Scores of competing business groups have been pushing for their own piece of the pie, and the conflicts among between them became so intense that it looked for months as though lawmakers would never be able to reach agreement.

But now they seem to be getting closer, and they are doing it in the most politically popular way, by giving something to almost everybody.

The lobbying rush is far from over. The bill moving through the House

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Corporate Plea for Tax Breaks: Ours Comes First

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will have to be reconciled with a similar but more modest bill in the Senate. The Senate bill aims at paying for itself, by offsetting the cost of $70 billion in new tax breaks with money from repealing the old export subsidy and an assortment of other measures.

Though House and Senate leaders are determined to pass a bill of some kind, lawmakers say the fight may well drag into next year.

At least four large and well-financed business coalitions are each lobbying for a separate agenda.

One group consists mainly of companies that benefited most directly from the old export tax break and want to hold on to as much of their old relief as possible.

Led by Boeing, Microsoft and Caterpillar, that group has banded together as the Coalition for U.S.-Based Employment and has hired the Alexander Strategy Group to lobby its cause. The Alexander Group's lead lobbyist is Karl Gallant, the former executive director of a fund-raising group called Americans for a Republican Majority.

The Boeing-led group has been pushing to replace the subsidy with a basic tax reduction for manufacturing done in the United States. And it has been successful: both the House and Senate bills would gradually reduce the corporate tax rate for domestic manufacturing to 32 percent from 35 percent — a move worth about $61 billion over 10 years.

A rival business coalition consists of multinational corporations that range from General Electric and Electronic Data Systems to Time Warner. That group, known as the Coalition for Fair International Taxation, is pushing for tax relief on the profits that companies earn outside the United States.

Among this group's top lobbyists is Kenneth Kies, a former staff director of the Congressional Joint Committee on Taxation. Mr. Kies has been among the most vocal champions of measures that would reduce what companies contend is the double taxation of foreign earnings by foreign governments and then by the United States as well.

Mr. Kies has gone to bat for shipping companies, winning support from House Republicans for a provision in the bill that would let shippers defer taxes on profits they earn outside the United States. Representing Disney, Viacom and Time Warner, he also helped persuade the House lawmakers to let movie studios exclude a part of their foreign royalty income from taxation.

As a group, the far-flung multinationals are not as successful as manufacturers based in the United States. The House bill would give them almost $30 billion in tax breaks on foreign profits over the next 10 years, but the Senate bill is much more limited.

Yet another coalition of companies, led by Hewlett-Packard, is pushing for a special one-year tax holiday on foreign earnings. This coalition is seeking a provision that would let companies bring up to $400 billion in untaxed foreign profits back into the United States at about one-seventh of the 35 percent corporate tax rate.

Known as the Homeland Reinvestment Coalition, this group's lobbying is being led by Bill Archer, formerly the Republican chairman of the House Ways and Means Committee.

Earlier this month, the Senate Finance Committee voted to include a "repatriation" provision in its tax bill. House Republicans dropped the provision from their bill, but they have also let it be known they are willing to go along with the Senate provision in a House-Senate conference committee.

Supporters of the rapidly expanding tax package say it will provide the first significant reform in four decades of the tax law on foreign corporate earnings. And they say the tax cuts aimed directly at manufacturers will help create jobs. American manufacturers have shed more than two million jobs in the last three years.

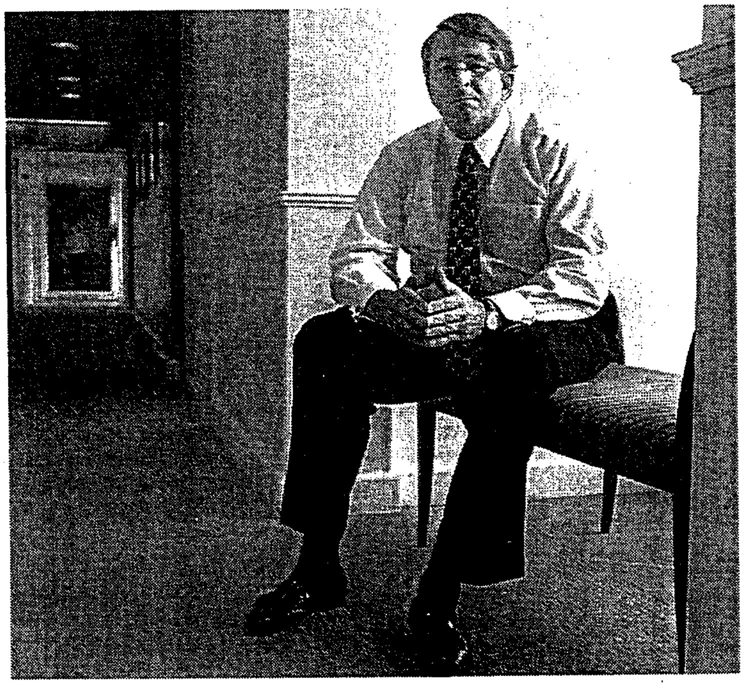
The net cost of the bill after repealing the old subsidy and raising money from higher customs duties and other measures would be about $60 billion. "Everybody is wringing their hands about $60 billion in tax cuts over 10 years, but that is not something I would take too seriously," Mr. Kies said. "When you look at a tax system that collects $2.3 trillion in revenue a year, this gets almost to the point of being modest."

As with all tax legislation, the fine points can be worth a lot of money. House Republicans included language that would extend their tax cut for manufacturers to oil and gas drillers, loggers and engineering companies. As originally drafted last week, the law would have given tax breaks even on construction work and movies made overseas — a provision hastily trimmed back after protests from the committee's ranking Democrat, Representative Charles Rangel of New York.

Another provision, supported by Exxon Mobil, would offer about $160 million in tax relief on profits from oil and gas pipelines.

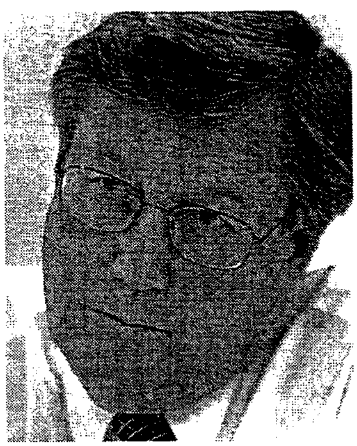
"It's hard to believe that this started out as a potential $4 billion problem," said Mr. Rangel, referring to the current annual value of the old export subsidy that is being repealed. "How in the hell do you reach $128 billion from $4 billion?"

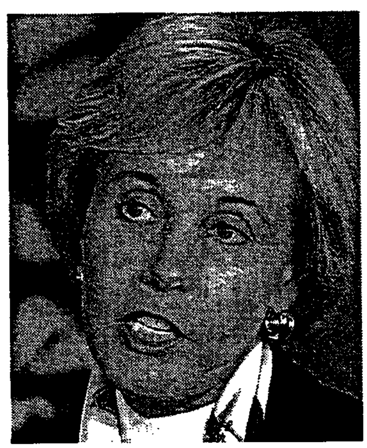
Senate Republicans may force House Republicans to trim back their generosity. But even so, many business lobbyists are betting their clients will end up with more than they had before.



Justin Lane for The New York Times

Kenneth Kies is pushing measures that would reduce what companies assert is the double taxation of foreign earnings.





Ruby Washington/The New York Times; Associated Press

Bill Thomas, chairman of the House Ways and Means Committee, had trouble winning support from some Republicans for the tax bill, including Representative Jennifer Dunn, Republican of Washington.

INTERNATIONAL TAX BILL TALKING POINTS
Tuesday, November 3, 2003

- **We must preserve American manufacturing jobs.** Republicans in Congress and President Bush have failed to do so. 2.5 million manufacturing jobs have been lost since Bush took office – the worst record since the Great Depression.

- The European Union challenged our export-related tax benefits. To comply with World Trade Organization (WTO) rulings and avoid up to $4 billion in threatened tariffs, the U.S. must repeal a tax law that favors U.S. manufacturing companies.

- **Democrats would replace the current-law benefit with a new law that would broaden benefits to all domestic producers** thus preserving and promoting U.S. jobs without adding to the deficit. A bipartisan bill to do this, co-authored by Reps. Charles Rangel and Sandy Levin, had almost 150 co-sponsors.

- However, some Republicans want to use the U.S. loss in the WTO trade dispute as an opportunity to make headway on a previous political agenda of eliminating taxes on off-shore operations of big multi-national companies.

- The Center for Responsive Politics found that a coalition of 35 of multi-nationals (including Bank of America, GE, Time Warner and Wal-Mart) spent $460,000 to lobby Congress in the first half of 2003. They want legislation addressing the trade dispute to be a vehicle for tax breaks for their off-shore operations.

- **Rep. Bill Thomas' bill spends $140 billion on tax breaks to solve a $4 billion problem.** The Thomas bill adds $60 billion to deficits over the next ten years. The true cost of the tax breaks – hidden by phase-outs, sunsets, and other gimmicks – eventually will add $12 billion to deficits every year.

- **The Thomas bill repeals a tax law encouraging the export of goods with tax breaks encouraging the export of jobs**. The Thomas bill is entitled the "American Jobs Creation Act" If truth in labeling laws applied to Congress, it would have to be renamed the "American Jobs Exporting Act."

- A letter signed by 11 House Republicans, including Small Business Committee Chairman Don Manzullo, states that the Thomas bill "will encourage American companies to move more American jobs offshore to China and other locations."

- By pushing the Thomas bill, **the House GOP Leadership is holding hostage tax relief to preserve U.S. manufacturing jobs to billions and billions in corporate special interest tax breaks that do not preserve American jobs.**

- **The Thomas bill gives no benefit to 8 out of 10 profitable companies.** While Democrats propose lowering the corporate tax rate for ALL U.S. producers including small businesses and farmers, the Thomas bill does not give rate reductions to farms and small businesses not currently taxed as corporations.

- Ultimately, the total cost of the provisions favoring off-shore operations in the Thomas bill is almost $8 billion per year, an amount which may exceed the total amount paid by U.S. companies on their overseas operations. In effect, **the Thomas bill would PAY companies to move Americans' jobs off-shore.**

- In addition, **the Thomas bill is "sweat shop friendly."** Its tax breaks for domestic manufacturing have a loophole which mean they would apply to most of the value of a product even if most of the work was done in another country.

- Corporations on the whole pay less tax now than they have in six decades, both as a share of total tax receipts and as a share of the economy. Even the Bush Administration did not ask for more net tax cuts for corporate America. But the House GOP Leadership could not resist pandering to corporate contributors.

- **The Thomas bill has become the feeding trough for lobbyists looking to attach special interest tax breaks.** Some examples of beneficiaries:
  - Engineering/construction companies like Bechtel and Halliburton.
  - Big oil and gas companies like Exxon-Mobil get new tax breaks that even cover income from foreign production if it is refined the U.S.
  - Big entertainment companies such as Time-Warner.
  - The Plano tackle box maker based in Speaker Hastert's district.
  - Bow and arrow makers who want a new tariff on their competitors.
  - Landowners who sell timber from their land.
  - Ranchers wanting more time for weather-related sale of livestock.

- These provisions will not do much to protect American workers but they do show that at least there are still jobs for Washington lobbyists.

- The U.S. does not need to add to deficits or provide off-shore tax breaks to comply with WTO decisions. **Democrats oppose legislation that encourages more job losses under the pretext of complying with world trade rules.**

Comparison of International Tax Bills

compiled by Democratic Staff of the Committee on Ways and Means, Charles. B. Rangel, Ranking Member

	Democratic Proposal	Thomas Bill
Amount that proposal would add to future deficits over ten years?	**$0.**	**$60 billion.** And the long-term cost of bill is far higher. Phase-ins, sunsets, and other gimmicks hide the true cost of approximately $12 billion per year. This is three times more than the total cost of the EU's threatened sanctions.
Affect if Enacted?	**Provides incentives for maintaining U.S. workforce.** All tax relief in Democratic proposal is targeted toward domestic production by businesses of all sizes and farms. Rate reductions are structured to provide the greatest tax cuts to businesses with more of their operations in the U.S.	**Provides incentives for moving jobs overseas.** Thomas bill contains an additional $40 billion of tax benefits for the offshore operations of U.S. multinationals. In effect, Thomas bill provides tax credits that encourage businesses to move business operations offshore. In addition, Thomas bill encourages "outsourcing" work off-shore because companies can apply the tax rate reductions to almost all income they get from importing cheap, foreign goods or services, so long as some "significant part" of the work, such as final assembly, was done in the U.S.
Rate reductions for manufacturing activities of taxable corporations?	**Provides a ten percent across-the-board corporate rate reduction for income from U.S. manufacturing activities.** Large corporations' rates go from 35% to 31.5%. Smaller corporations' rates go from 34% to 30.6%.	**Less than ten percent.** For large corporations, rate reduction is about 8½ percent (from 35% to 32%). For smaller corporations, rate reduction is about six percent (from 34% to 32%). The Thomas bill phases-in benefits for large corporations much more rapidly than benefits for smaller corporations. It takes back benefits for smaller corporations through the imposition of new corporate surtax.
Are all small businesses with U.S. production eligible for rate cut?	**YES.** 3½ point rate cut applies to all subchapter S corporations, partnerships, farms, and proprietorships involved in the production of tangible goods.	**NO.** 8 out of 10 profitable corporations will get no tax benefit from the Thomas bill because they are too small.
2-year extension of small business expensing benefits included?	**YES.**	**YES.**

<table>
<tr><td>Farmers eligible for rate cut?</td><td>YES. Farmers get the same 3½ point reduction as other producers. Farm co-ops receive benefits consistent with treatment under ETI.</td><td>NO. Thomas bill provides no rate reduction for farmers and no benefits for farm co-ops other than a small $14 million provision.</td></tr>
<tr><td>Bill full of narrow special interest provisions?</td><td>NO. Democratic alternative <u>broadens</u> tax relief from exporters (beneficiaries of current FSC/ETI law) to all domestic producers including small businesses and farmers co-ops.</td><td>YES. Here is a partial list of special interest tax breaks in Thomas bill:
• Rate reduction for engineering and architectural services companies like Halliburton and Bechtel. No other service companies are eligible.
• Rate cut for big oil & gas companies like Exxon-Mobil even though oil & gas were not eligible for FSC-ETI. Even income from foreign oil & gas would be eligible if refined in the U.S.
• A separate tax break for fishing tackle box makers such as Plano in Speaker Hastert's district, and a tax break for sonar devices used for fishing.
• A tax break to benefit landowners who sell timber from their land.
• An extension of the time allowed for ranchers to utilize a tax break for the weather-related sale of livestock.
• A tariff to protect bow & arrow makers.</td></tr>
<tr><td>WTO Legal?</td><td>YES. Democratic proposal repeals FSC/ETI to comply with WTO decisions. It includes binding contract transition rules and 3-year "transition relief" structured to be WTO compatible because it is not based on current or future exports.</td><td>?. Thomas bill repeals FSC/ETI to comply with WTO decisions. It includes binding contract transition rules and 3-year "transition relief" that is based on the current exports of a company and thus is <u>not</u> structured to be WTO compatible.</td></tr>
<tr><td>Will EU officials publically complain about transition?</td><td colspan="2">They already have, but that should not deter U.S. Congress from enacting a proposal fair to U.S. workers and businesses. Despite assurances that they would not "take sides" in the American debate on how to fulfil WTO obligations, the European Trade Commissioner has declared that a three-year transition would be unacceptable but a two-year transition used in an earlier Thomas bill would be acceptable. But EU officials are not the final arbiter of what is WTO legal and, in past cases decided against the EU, Europe has been allowed even greater periods of time to come into compliance with WTO decisions.</td></tr>
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