Conference Report on the Replacement of FSC/ETI Export Subsidies

Prepared by the Democratic Staff of
the Committee on Ways and Means
Congressman Charles B. Rangel,
Ranking Member
October 7, 2004

Conference report contains additional tax incentives for moving jobs overseas.

Present Law

According to the Congressional Research Service, economic theory is relatively clear on the impact of our current international tax system: "It encourages U.S. firms to invest more capital than they otherwise would in overseas locations." More capital invested overseas means fewer jobs in the United States.

The Congressional Research Service is not alone. An economist with the American Enterprise Institute stated, "The U.S. tax code definitely provides a strong incentive for sending jobs overseas."

Recent studies by independent tax experts have shown that U.S. corporations are using the current tax system to shift jobs and profits out of the United States at record rates. The total amount of profits reported by U.S. multinationals in tax havens has increased by 69%, from $88.4 billion in 1999 to $148.687 billion in 2002 (the last year for which data are available). Drug companies have more than doubled their overseas profits in tax havens, even as they argue that high drug prices in the United States are necessary to maintain their profits.

Those tax incentives for moving jobs overseas undoubtedly have contributed to the poor Bush jobs record.

- Total non-farm jobs lost under Bush now stands at **913,000**.

- Total private-sector jobs lost is **1.65 million**.

- Total manufacturing jobs lost remains at **nearly 2.7 million**.

- Increase in working age population (ages 20-64) during Bush Presidency – about 7 million people.

- The Labor Department's *broadest measure of unemployment* (which takes into account discouraged workers and part-time workers seeking full-time jobs) has remained at *around 10% throughout the Bush Administration* (still at 9.5% in August), despite the fact that the economic recovery officially began in November of 2001.

<u>The Conference Report</u>

The conference report increases the incentives for moving jobs overseas:

- It contains <u>24 separate provisions</u> that liberalize overseas tax rules.

- The conference report contains greater benefits for offshore operations of U.S. multinationals than either the Senate or House bill contained. The benefits cost <u>$42 billion over ten years</u>. The cost is understated because of phase-ins. When the international tax benefits are fully phased in, they would cost over $6 billion per year.

- Our current international tax rules provide benefits greater than a total exemption from U.S. tax for income from overseas activities. Our multinationals enjoy the benefits of a negative tax, i.e., they receive substantial tax credits in addition to paying no tax on their foreign income — resulting in a subsidy for offshoring.

- Even corporate executives are willing to concede that they are moving assets and operations overseas. One corporate tax official said, "You only have to look at the way we tighten our belts in the United States through layoffs," to understand what is happening.

The manufacturing benefit in the conference report is deeply flawed.

The manufacturing benefit in the conference report differs from the benefit contained in the Senate-passed version and Rep. Rangel's House substitute in important ways:

- The conference report omits the provision that was contained both in the Rangel substitute and in the Senate-passed version that rewards companies for keeping operations in the United States.

- The oil and gas extraction and refining industries never were eligible for the FSC/ETI benefit, but they are eligible for the new manufacturing benefit, even though oil prices are at historic levels.

- Corporate farms, but not family farms, will be eligible for the manufacturing benefit.

- Electric generation will receive the new manufacturing benefit, even though it was not a beneficiary of FSC/ETI.

- Engineering firms like Bechtel and Halliburton will be eligible for the new benefit.

- Private water utilities will be eligible for the new benefit.

The conference report uses budget gimmicks to be revenue neutral.

The conference report uses a large number of gimmicks, such as long phase-ins, sunsets, and changes in scoring rules, to reach budget neutrality.

- The conference report contains an extension of small business expensing and two depreciation benefits that are temporary, costing approximately $3 billion over ten years. If those three benefits were made permanent, they would total over $44 billion over ten years.

- The conference report changes the budget scoring for certain excise tax reductions, nominally raising approximately $6 billion.

- The conference report includes a two year deduction for State retail sales tax at a cost of approximately $5 billion over ten years. Permanent extension of that benefit would cost over $20 billion over ten years.

- The largest international tax benefit does not take effect until 2009, and costs approximately $14 billion. If that single benefit were not delayed, it would cost over $23 billion over ten years.

The conference report will worsen the long-term budget situation. Already, we have seen record deficits, $422 billion for FY 2004.

The conference report contains "a myriad of special interest tax provisions."

Treasury Secretary John Snow criticized both the House- and Senate-passed bills as containing, "a myriad of special interest tax provisions that benefit few taxpayers and increase the complexity of the tax code." The conference report retains many of those provisions.

- The House bill contained a benefit for corporations controlled by a single family, defining a single family by looking back through three generations. The conference report expands the definition of family, by looking back through six generations. Clearly, a very limited number of family-controlled corporations would benefit from this broader definition of family.

- Four Houston-based companies, Cooper Industries, Weatherford International Limited, Noble Corporation, and Nabors Industry, reincorporated in a foreign tax haven after the Senate Finance Committee announced their intention to stop future corporate expatriations. Those four corporations were grandfathered in the conference report.

- The conference report contains revision of excise tax treatment of bows and arrows, fishing tackle boxes, and sonar fish-finding devices.

- The conference report exempts horse racing and dog racing gambling winnings of foreign individuals from tax.

- The conference report would shorten the depreciation period for car race tracks.

- The conference report suspends the duty on ceiling fans, nuclear steam generators, and nuclear reactor vessel heads.

The conference report omits needed corporate tax shelter limitation provisions, but includes other controversial offsets.

- It authorizes private collection of Federal taxes.

- It includes controversial limitations on charitable contributions of patents and motor vehicles.

- It includes provisions that would harm U.S. possessions.