TAX BILL CONFERENCE REPORT

Exports Jobs *– Flawed Manufacturing Benefit – Increases Deficits – Complex – Myriad Special Interest Provisions*

STILL Exports Jobs

When fully effective, the final version of the corporate tax bill would provide $6 billion per year in new tax breaks for the offshore operations of multi-national companies. Under the Bush Administration, nearly 2.7 million manufacturing jobs have been lost. This bill would increase the tax incentives for big companies to move additional manufacturing jobs overseas.

- It contains 24 separate provisions that reduce taxes for the overseas operations of U.S. companies.

- The conference report contains greater benefits for offshore operations of U.S. multinationals than either the Senate or House bill contained.

- The benefits cost $42 billion over ten years. The cost is understated because of phase-ins – when 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 already enjoy the benefits of a tax subsidy for their off-shore operations (i.e., they receive substantial tax credits in addition to paying no tax on their foreign income – resulting in a subsidy for off-shoring).

- One of the largest benefits ($8 billion over ten years) is narrowly targeted for only those multi-nationals with both large manufacturing and large financial services overseas. Under this provision, some of the company's foreign taxes paid in high tax countries (i.e. Sweden or Japan) are not paid by the company, but by the U.S. government – in the form of tax credits.

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Flawed Manufacturing Benefit

The original House legislation authored by Chairman Thomas offered corporate tax benefits almost exclusively to the overseas operations of U.S. multi-nations. In contrast, this bill has a manufacturing benefit that is similar in many ways to the bipartisan Crane-Rangel-Manzullo-Levin legislation. However, it is deeply flawed because it spreads benefits to far more companies that received benefits under the domestic production tax incentives (FSC/ETI) it replaces.

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

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

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Dramatically Increases Deficits

The sponsors of the Thomas bill claim it is "revenue neutral" because the Joint Committee on Taxation estimate says it will not have a net revenue effect over the first 10 years. However, the conference report legislation 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.

- For these and other reasons, the legislation will lead to much larger deficits in the second ten years, thus endangering Social Security and Medicare which are likely to face fiscal challenges in those years.

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A Complex Solution to a Simple Problem

Instead of pulling the tax code up by the roots, the conference bill adds hundreds of pages of complex rules and loopholes. All the U.S. had to do to rid itself of sanctions imposed by Europe was to repeal the old tax break for domestic manufactures (called FSC or ETI) which Europe contended was an illegal export subsidy, and replace it with a benefit for manufacturers that clearly is not a subsidy. This is what the bipartisan Crane-Rangel-Manzullo-Levin bill would have done.

Instead, the conference bill contains roughly $140 billion in gross tax breaks in order to solve a $4 billion per year problem posed by European trade sanctions. Christmas will come before November 2nd this year since this legislation contains so many unrelated tax breaks. Earlier this week, Bush Administration 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.

It has even become the vehicle for the tobacco buy-out, a completely unrelated issue, that was added to the bill because it could not be passed without it.

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Exports Jobs – Flawed Manufacturing Benefit – Increases Deficits – Complex – ***Myriad Special Interest Provisions***

List of Special Interest Provisions

- Protection for four Houston-based companies – Cooper Industries, Weatherford International Limited, Noble Corporation, and Nabors Industry – that on paper left the U.S. and reincorporated in a foreign tax haven to avoid U.S. taxes. These companies announced their plans well after the issue had recieved major publicity and even AFTER March of 2002 when Senate Finance Committee Chairman Grassley insisted no company would be allowed to use the unpatriotic shelter again.

- Authorization of private collection of Federal taxes allowing private collection agencies to get up to a 25% kick-back for the taxes they collect.

- Revision of excise tax treatment of bows and arrows, fishing tackle boxes, and sonar fish-finding devices.

- A suspension of the duty on foreign-made ceiling fans, nuclear steam generators, and nuclear reactor vessel heads.

- Deduction for gifts to native whaling tribes.

- Exemption from tax of foreigners' horse racing and dog racing gambling winnings.

- A short-term tax increase on pro sports team owners that becomes a large permanent tax break.

- A shortening of the depreciation period for car race tracks.

- A special tax benefit for the tiny portion of single family-controlled corporations in which the "single family" goes back at least six generations.

- Controversial limitations on charitable contributions of patents and motor vehicles that could reduce resources available to charities.