

Rep. Peter Welch called on Congress this week to close a loophole that allowed Verizon to avoid hundreds of millions of dollars in taxes when it sold its northern New England landline operations to FairPoint Communications.

In a letter to House Ways and Means Chairman Charles Rangel, Welch and representatives from New Hampshire and Maine said that Verizon's use of the Reverse Morris Trust (RMT) provision in the federal tax code cost taxpayers without delivering any corresponding public benefit.

As Verizon prepares to spin-off other landline operations throughout the country using the RMT loophole, Welch and his House colleagues warned that other regions could face problems similar to those experienced by FairPoint's northern New England customers since the sale.

"Recently, we have learned that other states across the country face similar threats to service and employment as Verizon, once again, seeks to avoid taxes through the use of RMT in its proposed transaction with Frontier Communications," the House members wrote, referring to Verizon's pending sale of landlines in 14 states to Frontier Communications.

Under the Reverse Morris Trust, a parent company can spin-off a subsidiary that merges into an unrelated company tax-free, if the shareholders of the parent company control more than 50 percent of the voting rights and value of the resulting merged company. In northern New England, Verizon was able to avoid hundreds of millions in taxes when it spun-off its landline operations to FairPoint, after which Fairpoint was saddled with debt.

"The resulting operations can end up starved for capital as a result of the transaction and the federal treasury ends up losing hundreds of millions of dollars," the House members wrote.

The northern New England delegation raised similar concerns in 2007 before the Verizon sale was completed. In July 2007, the delegation said in a letter to Chairman Rangel that the RMT loophole "appears to be a tax avoidance scheme without a clear public policy rationale."

“We have strong concerns about whether the use of the Reverse Morris Trust mechanism by companies that provide public goods is in the best interests of the public,” they wrote at the time.

Following the delegation’s 2007 letter, the House Ways and Means Committee took up but did not pass the Tax Reduction and Reform Act, which would have closed the RMT loophole.