

October 26, 2011

The Honorable Jeb Hensarling, Co-Chair
Joint Select Committee on Deficit Reduction

The Honorable Patty Murray, Co-Chair
Joint Select Committee on Deficit Reduction

The Honorable Max Baucus
The Honorable Dave Camp
The Honorable John Kerry
The Honorable Rob Portman
The Honorable Fred Upton

The Honorable Xavier Becerra
The Honorable James Clyburn
The Honorable John Kyl
The Honorable Pat Toomey
The Honorable Chris Van Hollen

We are writing to urge members of the Joint Select Committee on Deficit Reduction to address in their recommendations to Congress serious inequities created by the U.S. corporate income tax code. Many profitable Fortune 500 companies pay no federal income tax at all – yet some members of Congress are pushing for further cuts to corporate income taxes. The Joint Select Committee should:

- Reject any proposal to effectively exempt U.S. corporations' offshore profits from U.S. taxes either temporarily (with a repatriation tax holiday) or permanently (with a territorial tax system).
- Recommend a corporate tax overhaul that raises significant federal revenue.
- Reject calls for controversial alternative revenue scoring methods.

Congress should focus on creating jobs in the U.S. Unfortunately many corporate tax proposals discussed today would actually reduce U.S. employment by increasing incentives to move jobs offshore and by limiting the amount of federal revenue available to make vital public investments.

A “territorial” tax system would reduce revenue and jobs because it would increase the incentives for U.S. corporations to shift profits and jobs overseas.

U.S. corporations are allowed to “defer” U.S. taxes on their foreign profits until those profits are brought to the U.S. (until those profits are “repatriated”). As a result, U.S. corporations have a powerful incentive to move operations and jobs offshore or just disguise their U.S. earnings as “foreign” profits by shifting them to an offshore tax haven. Under a territorial tax system, U.S. corporations would *never* pay U.S. taxes on their foreign profits, which would further encourage these abuses.

The sensible alternative is for Congress to repeal “deferral” so that corporations are not rewarded for shifting jobs and profits offshore.

A repatriation amnesty for offshore corporate profits would also reduce revenue and jobs by encouraging U.S. corporations to shift more profits and jobs overseas.

Some corporations argue that if they cannot convince Congress to exempt their offshore profits from U.S. taxes on a permanent basis (through adoption of a “territorial” system) then Congress should instead eliminate most U.S. taxes on their offshore profits on a temporary basis by enacting a tax holiday for repatriated offshore profits.

Congress enacted a repatriation amnesty in 2004, and the benefits went to dividend payments for corporate shareholders rather than job creation, according to the non-partisan Congressional Research Service. Many of the corporations that benefited actually reduced their U.S. workforce. The repatriation amnesty proposals being discussed now are very similar to the 2004 measure.

The Joint Committee on Taxation recently concluded that a repeat of the 2004 measure would cost \$79 billion over ten years. One reason for the projected revenue loss is that Congress will have signaled its willingness to eliminate most U.S. taxes on offshore corporate profits every seven years or so. This will encourage U.S. multinational corporations to shift even more profits and investments offshore and then simply wait for the next repatriation amnesty before bringing the profits back to the U.S.

Any overhaul of the corporate income tax must be “revenue-positive” because revenues are needed to create jobs, rebuild our infrastructure and reduce the deficit over the long term without hurting our economy or slashing vital services.

It makes no sense for Congress to debate cuts to federal spending for public services and investments that businesses and working families rely on while ignoring the tax loopholes that allow profitable corporations to avoid federal taxes. Nor would it make sense for Congress to close corporate tax loopholes only to give most of the resulting revenue savings back to corporations in the form of a reduction in their tax rate.

Some corporate leaders complain about the 35 percent corporate income tax rate but fail to mention that the percentage of profits their companies actually pay in taxes is much lower because of the loopholes they enjoy. In fact, a 2007 report from the Treasury Department found “the United States takes a below-average share of corporate income in taxes” compared to other developed countries.

Corporate tax reform must be “revenue-positive” under traditional revenue scoring procedures.

Some lawmakers are advocating that Congress replace its traditional, widely-accepted methods for estimating revenue impacts with controversial alternative methods claiming to account for impacts on economic growth (often called “dynamic” scoring). Those new methods would assume that tax rate reductions will increase economic growth and therefore federal revenue.

There is no consensus on how to model such macroeconomic effects of tax laws. The existing widespread trust in the revenue estimating process will therefore collapse if Congress or the Joint Select Committee alters the long-standing process to use this alternative method.

Further, any attempt by the Joint Select Committee to rely on alternative scoring of tax changes while relying on traditional scoring of spending cuts would be wildly unbalanced and manipulative. The Joint Select Committee should not use a method that assumes alleged economic benefits of reducing the corporate tax rate while entirely ignoring the serious economic costs of cutting federal spending on transportation, health and safety, energy, research, education and other vital public investments.

Sincerely,

AFL-CIO

Alliance for a Just Society

American Federation of Government Employees

American Federation of State, County, and Municipal Employees

American Sustainable Business Council

Bakery, Confectionery, Tobacco Workers, and Grain Millers (BCTGM) International Union

Business for Shared Prosperity

Campaign for America's Future

Citizens for Responsibility and Ethics in Washington

Citizens for Tax Justice

Coalition on Human Needs

Communication Workers of America

Community Action Partnership

Financial Accountability and Corporate Transparency (FACT) Coalition

Friends of the Earth

Global Financial Integrity

Government Accountability Project

Green America

Institute for Policy Studies – Program on Inequality and the Common Good

International Association of Machinists and Aerospace Workers

International Union, UAW

Main Street Alliance

National Council of Jewish Women

National Employment Law Project

National Priorities Project

National Women's Law Center

New Rules for Global Finance Coalition

New Voice of Business

OMB Watch

Responsible Wealth

Service Employees International Union (SEIU)

South Carolina Small Business Chamber of Commerce

Sugar Law Center for Economic and Social Justice

Tax Justice Network USA

United for a Fair Economy

United Steelworkers

U.S. Labor Against the War

Wealth for the Common Good