

FRANK CLEMENTE

How tax loopholes make the federal budget unfair



The recent federal budget agreement was a missed opportunity.

It is good news that conservative ideologues did not force another government shutdown and that some deep cuts to critical services were avoided. But our political leaders missed the chance to create a better budget and a fairer tax system by closing loopholes and using those new revenues to meet our pressing national needs.

For instance, this budget does not close a single tax loophole benefiting corporations or the wealthy. Closing corporate loopholes would not only force them to pay more of their fair share, but also provide revenue needed for new investments to improve education, repair crumbling roads and bridges and invest in research for new medical cures.

And new investments are desperately needed. Since 2010, Congress has approved \$2.7 trillion in spending cuts to reduce the deficit and just \$620 billion in new revenue from higher taxes on the wealthiest 1 percent. That's a ratio of spending cuts to revenue increases of more than 4-to-1.

Looking at the big picture, domestic spending as a share of the economy is now at its lowest level in 50 years. And all those cuts have taken toll. The Coalition on Human Needs documented some disturbing examples. For 2013 alone: 100,000 low-income families were denied rental vouchers; 57,000 kids were excluded from Head Start; hundreds of thousands of Meals on Wheels were not delivered to homebound seniors.

To create a budget that works for everyone – and not just wealthy special interests – Congress should have raised significant new revenue.

It's time for a more balanced approach to budgeting. There are scores of tax loopholes benefiting the wealthy and big corporations that could be closed, which could raise more than \$1 trillion over the next decade, as documented in an Americans for Tax Fairness report.

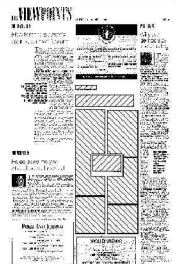
Let's look at just three reforms to our loophole-riddled tax code that could raise the money we need to avoid more painful service cuts and embark on an investment renaissance.

American multinational corporations have \$2.1 trillion in untaxed profits stashed offshore. They are avoiding paying up to \$600 billion in U.S. taxes on these profits, according to Citizens for Tax Justice. More than half of the money is sitting in tax havens virtually untaxed. Just 50 companies control three-quarters of these profits. Apple alone has nearly 10 percent of the offshore profits – \$181 billion – on which it owes about \$59 billion.

These companies have an army of lobbyists pressing Congress to let them bring the money back home at a fraction of what they owe. Instead, lawmakers should repeal the tax loophole that lets corporations dodge paying U.S. taxes on these offshore profits. That will take away any incentive to skip out on paying their fair share. Our country and communities will be a lot richer for it.

Exploding CEO pay is a contributor to our nation's destabilizing income inequality. Yet middle-class taxpayers subsidize outsized pay packages for America's corporate chieftains.

A CEO bonus pay loophole lets corporations deduct unlimited amounts from their income taxes for the cost of executive compensation, if it is in the form of stock options and other so-called "performance pay." This loophole serves as a massive



subsidy for excessive corporate executive compensation and leaves other taxpayers to pick up the tab.

Walmart reduced its federal tax bills by an estimated \$104 million over six years by exploiting this loophole. Eight

top executives pocketed \$300 million in “performance pay” that was fully tax deductible. That sum could have provided free school lunches for 33,000 children over those six years. Closing this loophole would raise \$50 billion over 10 years.

Another way America’s top 1 percent use the U.S. tax code to subsidize their huge salaries is by pretending they’re not salaries at all. Wall Street money managers mischaracterize a big chunk of their pay as investment income, qualifying it for a 20 percent tax rate, rather than the nearly 40 percent rate on salaries and wages. Shutting this “carried interest” loophole would raise \$16 billion over a decade.

Sen. Tammy Baldwin, D-Wis., has introduced legislation to do just that. Four Republican presidential candidates have expressed support for scrapping this camouflaging of multimillion-dollar salaries.

Budget math is tough enough without ignoring half the equation. Raising significant revenues from corporations and the wealthy should have been a central goal of the budget negotiations.

That would have been a big step towards a budget that is more balanced, fairer and works for all of us.

Frank Clemente is executive director of Americans for Tax Fairness, Washington, D.C.

There are scores of tax loopholes benefitting the wealthy and big corporations that could be closed, which could raise more than \$1 trillion over the next decade.