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Raising revenues must be central goal of budget talks

By Frank Clemente

Budgets are made up of spending and revenue. But budget negotiators in Washington are talking only about what spending to cut, not what revenue to raise — even though there are gaping tax loopholes to close. Closing them would eliminate the need to cut critical services that benefit tens of millions of Americans and would provide the resources needed for major new investments.

The White House and congressional leaders must work out a budget deal before a temporary spending measure expires Dec. 11. Progressives want to avoid $37 billion worth of across-the-board cuts to services slated to kick in. Senate Majority Leader Mitch McConnell opened the current round of budget negotiations with Democrats by demanding cuts to Social Security and Medicare.

Budgeting focused almost exclusively on cutting services has been the rule for years. Since 2010, Congress has approved $2.7 trillion in spending cuts to reduce the deficit, and just $600 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 a 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 needs to raise significant revenue instead of cutting services. It's time for a more balanced approach to budgeting. 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, 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.

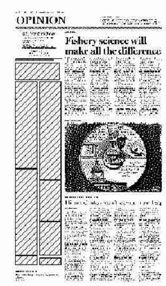
American multinational corporations have $2.1 trillion in untaxed profits stashed offshore. They are avoiding paying up to $600 billion in U.S. taxes on these profits, according to Citizens for Tax Justice. More than half of the money is sitting in tax havens virtually untaxed. Just 50 companies control 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 outsize 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



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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.

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

Budget math is tough enough without ignoring half the equation. Let's make raising significant revenues from corporations and the wealthy a central goal of the current budget negotiations. Then we will have a budget that is more balanced and fairer and that works for all of us.

—Frank Clemente is executive director of Americans for Tax Fairness. Distributed by American Forum.