PUBLIC CITIZEN

Tax Fact Sheet

Public Citizen supports a well-funded government with ample resources available for agencies to oversee public health programs, conduct drug safety studies, implement worker protections, enact financial regulation, prioritize consumer product safety, support education, build and maintain infrastructure, and create many other necessary community investments. However, the share of who is paying for what is critical to this conversation: those who can pay more-- profitable corporations, millionaires, and billionaires-- should be paying more for these shared investments. That's why activists around the country are urging their lawmakers to pledge that not one cent in tax cuts go to the one percent.

Budget Big Picture

Instead of looking at the tax code to see how to make Big Business, Wall Street, and the super wealthy pay their fair share, the current tax debate in Congress and in the Trump Administration is centered on passing a budget that slashes funding for programs like Medicare and Medicaid, Social Security disability programs, Meals on Wheels, and education in order to cut taxes for corporations, millionaires, and billionaires. That's the wrong direction for our nation's leaders. They should not be proposing to cut the government services families depend on to make ends meet when the U.S. could easily fund all of our public needs by closing tax loopholes and putting in place new taxes, like a speculation tax on Wall Street trades.

In Washington, DC, this debate is currently centered around using the same partisan gimmick that is being used to try to repeal the Affordable Care Act, called "**reconciliation**." This is a fast-track budget process that would allow tax changes to be made with a simple majority, when in the Senate 60 votes is usually required for policies to move forward.

Another major other issue at play with the upcoming budget vote is whether the tax proposals would be required to be **revenue neutral** or **deficit neutral**. (Or, the proposals could even add to the deficit over time.) A revenue neutral tax package would be the best since any reduction in rates would have to be paid for by closing loopholes or putting in place new taxes. However, a deficit neutral package could be financed by cutting government services rather than just closing loopholes. And, a deficit losing proposal would essentially guarantee cuts to the programs on which hardworking American families depend. There is zero rationale for cutting corporate taxes and zero reason to think that lower taxes will generate more investment. Trickle-down economics didn't work before and it won't work now.

Taxes on Businesses

American corporations are reporting record profits yet they are dodging taxes at outrageous levels. The percentage of our nation's taxes that come from corporations is half what it was during the 1950s, an extremely strong time for the nation's economy. Though our statutory rate is 35 percent, the amount that corporations actually pay ("**effective rates**") is much lower, with many profitable companies like General Electric, PG&E and Netflix paying no taxes at all in recent years, or even worse getting rebates from the government. Corporations utilize public services like our roads, our courts, and our educated workforce, so it is only reasonable to have them cover their portion of the tax responsibility for paying for these essential services.

One of the most obvious loopholes in need of closure that keeps corporate effective tax rates so low is so-called "**deferral**," which allows multinational companies to indefinitely avoid paying taxes on the profits that are characterized as made by foreign subsidiaries, until the point that they are "**repatriated**" to the U.S. and reinvested or paid out as dividends to shareholders. This system incentivizes "**profit shifting**," where multinational corporations use accounting gimmicks to make profits appear to be earned by foreign subsidiaries. An example of this would be if a corporation created a shell company in the Cayman Islands (even it is nothing more than a post office box) and sold a valuable asset, say a patent or trademark, to that subsidiary and then paid fees from the U.S. company to the foreign company to use that trademark or patent, artificially reducing U.S. profits and subsequently lowering the amount of tax that is due on the U.S.-booked profits. Right now, there is an estimated $2.6 trillion in profits booked offshore by American corporations, meaning corporations are avoiding an estimated $767 billion in taxes.

Some lawmakers have proposed to allow voluntary repatriation of these deferred foreign profits at a much lower tax rate than the 35 percent (less any taxes paid to foreign countries) that should be due, a so-called "**repatriation holiday**." But, this would reward companies who have been shirking their tax duty and would provide a huge incentive to continue to use profit shifting, knowing that a similar holiday is likely to come along in the future. When this approach was tried in 2004, it did not work and it was shown that instead of creating jobs, firms paid shareholders dividends or bought back stock and majority of the top repatriating firms actually cut jobs after utilizing the holiday.

If the U.S. were to unwisely move to a "**territorial system"** of taxation rather than keeping the hybrid global system we are currently under, it would mean multinational corporations would permanently pay zero taxes on the profits that they book to their offshore subsidiaries. This would create a huge incentive to offshore jobs and investments, eating away at our remaining tax base, leaving the rest of us taxpayers to pick up the pieces.

Some companies have received a special designation from the Internal Revenue Service (IRS) to be taxed not as a corporation, but so that the taxes "**pass-through,**" and are paid by the owners as individual income tax, using those tax brackets. The vast majority of *real* small businesses already pay a very low rate on their pass-through income, but proposals in Congress would slash the tax rate applicable to small businesses. What that means is that extremely wealthy individuals could start a pass-through company and recharacterize their income, and end up getting a huge windfall while sapping our country's tax revenues.

Taxes on Individuals

The tax debate taking place in Washington, D.C. right now also would affect the individual side of the tax code. For example, there is talk of eliminating the **estate tax**, which only applies to estates worth more than $5.49 million or $10.98 million per couple. Despite a well-worn myth that the estate tax harms family farmers or small businesses, there are only 50 of those types of estates in the entire country that would be subject to the estate tax in 2017. In reality, it is billionaires who have been lobbying to repeal the tax, which was put in place to keep wealth from being hoarded. Similarly, the **Alternative Minimum Tax** is intended to ensure that individuals pay at least some tax after taking into account deductions and credits, but that has been on the chopping block in some recently-floated tax proposals.

A threat to watch in the individual space is that tax plans may offer crumbs of middle-class tax "relief" such as increasing the standard deduction, improving the Child Tax Credit or Earned Income Tax Credit. However, these changes would be part of a larger plan that when looked at in total would slash funding for government programs that would put middle-class and working Americans in a worse position than before those changes were made. It is a classic example of We the People getting thrown a few crumbs while the rich few get the entire cake.

Real "Reform"

Tax "reform" cannot entail policies that will cause spending cuts that will hurt American families or policies that incentivize offshoring of profits and investment. Instead those who can pay more, should, like Wall Street, which still owes our country a massive debt after crashing the economy with its reckless practices. Lawmakers should be focused on closing loopholes that benefit the financial sector and on enacting new, progressive taxes that will require Wall Street to pay its fair share. For example, we should close the **CEO Bonus loophole** that would stop corporations from getting tax deductions for executives earning more than $1 million per year. Or, close the **carried interest loophole** so that investment fund managers' income would be taxed as wages instead of at the much lower rate for capital gains. Wall Street should also pay a **financial transaction tax**, a sales tax on stock, bond, and derivative trades—just as we all pay on our everyday purchases. This would calm our markets that are currently prone to wild swings called flash crashes, which are made worse by high-speed computer trading programs. Not only would a tax on financial transactions slow down these sorts of trades, it would create a robust amount of revenue to fund any number of government services.

Get Involved!

Please email Susan Harley (sharley@citizen.org) if you have any questions or would like to get more involved in the fight to make sure that not one penny in tax cuts goes to the rich or profitable corporations. Have your voice be heard!