Four Ways to End Wall Street's Free Ride

If the following actions were taken, much of the inequity in our tax system, which is part of what's driving the Occupy Wall Street and other affiliated protests, would be eliminated.

1. Make Profitable Corporations Pay Their Fair Share in Taxes

Some profitable corporations enjoy so many tax loopholes that they pay no federal corporate income taxes. Over the last three years, General Electric made $10.5 billion in profits, but had an effective corporate income tax rate of *negative* 45.3 percent. That means that instead of paying taxes, GE *received* $4.7 billion from the IRS.[1] It's outrageous for Congress to discuss cutting public investments and services for working people while ignoring these corporate tax loopholes.

Corporate leaders complain about the 35 percent federal 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.[2] In fact, the U.S. has the second lowest corporate taxes, measured as a percentage of the economy, in the industrialized world.[3]

Unfortunately, lawmakers of both parties say that if these corporate tax loopholes are removed, the resulting revenue savings should be given back to corporations through a reduction in their tax rate. Hundreds of organizations have urged Congress to take a different approach by ending these loopholes and using the revenue saved for public investments that benefit working people.[4]

2. Repeal the Tax Break for Corporations Sending Jobs and Profits Overseas

Our tax system encourages U.S. corporations to shift jobs and profits overseas. U.S. corporations are allowed to "defer" paying 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 an incentive to move operations and jobs offshore or just disguise their U.S. profits as "foreign" profits by shifting them to offshore tax havens. Congress should address this by repealing "deferral."[5]

Unfortunately, lawmakers of both parties are considering *expanding* this tax break into a full tax exemption for offshore corporate profits (often called a "territorial" tax system) or a temporary tax amnesty for repatriated offshore corporate profits. Either of these would simply encourage U.S. corporations to shift even more jobs and profits overseas.

3. Implement the Buffett Rule

The "Buffett Rule" is the principle that wealthy taxpayers should not pay a lower percentage of their incomes in federal taxes than middle-class workers pay.[6] The problem is that, under the federal personal income tax, certain types of income that disproportionately go to the wealthy (capital gains and stock dividends) are taxed at lower rates than the wages most of us live on. Making matters worse, capital gains and stock dividends are not subject to the Social Security payroll taxes that apply to most wages.

As a result, the super-successful investor Warren Buffett receives millions in capital gains and stock dividends and only pays around 17 percent of his income in federal taxes while his secretary earns $60,000 a year in wages and pays 30 percent of this income in federal taxes.

Several proposals could implement the Buffett Rule and reduce this unfairness. Congress could eliminate the breaks allowing capital gains and stock dividends to be taxed at lower rates under the personal income tax. [7] Some of these breaks were enacted as part of the Bush tax cuts, so allowing the Bush tax cuts to expire would partially implement the Buffett Rule.[8]

Other proposals could help by repealing the loopholes that allow wealthy investment managers and speculators to disguise their income as "capital gains" in order to enjoy the lower tax rate. (For example, Congress could repeal the "carried interest" and "60/40" loopholes.)

4. Enact a Bank Tax

The "too-big-to-fail" financial firms now enjoy an implicit guarantee that the federal government will bail them out when needed, a guarantee that is underwritten by all U.S. taxpayers. For these firms, this benefit is far greater than the cash they actually received during the recent bailouts. Congress should make the big financial firms themselves pay for this benefit by enacting the sort of "bank tax" initially proposed by the Obama administration.[9]

The President's initial proposal was a fee of 0.15 percent on the riskier assets held by the roughly 50 financial institutions that have more than $50 billion in holdings. The problem is that the fee is not big enough. The original version of the proposal would raise just $90 billion over a decade, which is insignificant for an industry that has hundreds of billions in revenue each year. [10] Sadly, the most recent version of the bank tax proposed by the Obama administration is even smaller.

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[1] Citizens for Tax Justice, "Analysis: 12 Corporations Pay Effective Tax Rate of Negative 1.4% on $175 Billion in Profits; Reap $63.7 Billion in Tax Subsidies," updated October 21, 2011, http://www.ctj.org/pdf/12corps060111.pdf

[2] Citizens for Tax Justice, "Why Congress Can and Should Raise Revenue through Corporate Tax Reform," September 20, 2011, http://www.ctj.org/pdf/corporatefactsheet.pdf

[3] Citizens for Tax Justice, "U.S. Is One of the Least Taxed Developed Countries," June 30, 2011, http://www.ctj.org/pdf/oecd201106.pdf

[4] Letter from 250 organizations urging Congress to enact revenue-positive corporate tax reform, May 18, 2011, http://www.ctj.org/pdf/corptaxletter.pdf

[5] Citizens for Tax Justice, "Congress Should End 'Deferral' Rather than Adopt a 'Territorial' Tax System," March 23, 2011, http://www.ctj.org/pdf/internationalcorptax2011.pdf

[6] Citizens for Tax Justice, "The Need for the 'Buffett Rule': How Millionaire Investors Pay a Lower Rate than Middle-Class Workers," September 27, 2011, http://www.ctj.org/pdf/buffettrulereport.pdf

[7] Citizens for Tax Justice, "Capital Gains and Dividends Tax Cuts Offer Almost No Benefit to Middle-Income Americans and Add to the Nation's Fiscal Problems," May 13, 2008, http://www.ctj.org/pdf/capgainsdivtaxcuts.pdf

[8] The Bush tax cuts will expire at the end of 2012 if Congress does not extend them. CTJ estimates that if they are extended through 2013, 47.2 percent of the tax cuts would go to the richest five percent of taxpayers while just 13.4 of the tax cuts would to the poorest three-fifths of taxpayers. Citizens for Tax Justice, "The Bush Tax Cuts After Ten Years," June 2, 2011. http://www.ctj.org/bushtaxcuts10yrs/us.pdf

[9] Citizens for Tax Justice, "Administration Proposes Fee on Risk-Taking by Largest Banks," January 13, 2010, http://www.ctj.org/taxjusticedigest/archive/2010/01/administration_proposes_fee_on.php

[10] Citizens for Tax Justice, "Why Financial Institutions Should Pay a Fee as President Obama Proposes," May 13, 2010, http://www.ctj.org/taxjusticedigest/archive/2010/05/why_financial_institutions_sho.php