The $212 Billion Special-Interest Love Feast

Special-interest zeal to co-opt the national crisis as an excuse for huge new upper-income tax breaks continues unabated in Washington, D.C.

As I write this, the House is on the verge of approving a bloated "stimulus" tax-cut bill that makes a mockery of the previous bipartisan agreement between congressional leaders and the administration that additional stimulus measures should be temporary and limited to a total of $50-75 billion. Instead, House Republicans have put forward a laundry list of new tax breaks, some explicitly permanent, that are officially expected to cost a staggering $212 billion over the next three fiscal years—and who knows how much thereafter.

With typical dishonesty, the bill's backers are characterizing it as a $99 billion measure, by referring only to its first-year cost. Sadly, the press is going along with this charade.

Two-thirds of this latest round of GOP tax cuts would go to corporations. The individual tax changes, which include a 10 percent drop in capital gains taxes, are also sharply tilted towards the wealthy. Overall, almost three-quarters of the total tax reductions next year (including the benefits to capital owners from the corporate breaks) would go to the top tenth of all taxpayers. That includes the 41 percent that would go the best-off one percent, whose average tax cut in 2002 would be almost $27,000 each.

Under the bill, the biggest current corporate tax subsidy—accelerated depreciation—would be almost doubled, at an estimated cost of $109 billion over the next three years. Ostensibly, this expanded loophole will expire after 2004, but similar "temporary" measures enacted in the past have more often than not been routinely extended.

The corporate alternative minimum tax, which now discourages corporate tax sheltering and forces some otherwise low- and no-tax large, profitable corporations to pay at least something in taxes, would be permanently repealed. As a bonus, companies that paid the minimum tax over the past 15 years would get an immediate refund of those payments. Of the $25 billion in instant corporate rebate checks, $6.3 billion would be made out to just 14 tax-avoiding Fortune 500 companies—whose rebates would average $450 million each. Topping the list is IBM, which is slated to receive a $1.4 billion rebate check. General Motors is next at $833 million, followed by General Electric at $671 million, TXU (Texas Utilities) at $608 million, DaimlerChrysler at $600 million, and ChevronTexaco at $572 million. According to the *Wall Street Journal*, a spokesman for GM said that the company is "very pleased."

In addition, House Republicans want to make it easier for corporations with loophole-generated "tax losses" to use them to apply for refunds of taxes they paid in the past, at a cost of more than $10 billion over the next three years. Like the increase in depreciation write-offs, this provision is technically supposed to expire after 2004.

Multinational corporations such as General Electric and the major auto companies would get permanent extension of an expiring tax shelter that allows them to shift profits off-shore through manipulation of interest payments. Most of the estimated $21 billion ten-year cost will be incurred in the second half of this decade.

On the individual side, the bill cuts the top income tax rate on capital gains from 20 percent to 18 percent. Assuming no increase in realized gains, this would cut taxes by $10 billion in calendar 2002 alone (with three quarters of that going to the top 1%). If as some predict, realizations go up, then the upper-income tax savings will be even larger. Amazingly, Ways and Means Chairman Bill Thomas (R-Calif.), who insisted on including the capital gains tax cut in the bill, admits that he "doesn't consider it a short-term recovery tool," while discount broker Charles Schwab, who lobbied hard for the change to boost his firm's sagging revenues, argues that it will lower stock prices by encouraging sales.

The reduction in the former 28 percent individual tax rate to 25 percent, scheduled to be phased in by 2006 under the Bush tax-cut bill enacted last May, would be accelerated to 2002. Three out of four taxpayers wouldn't get even a penny from this change, and most of the $56 billion in tax savings would go to the best-off tenth.

Finally, the 2001 tax rebates of $600 for couples, $500 for single parents, and $300 for childless singles would be extended to about 37 million couples and individuals who did not get them or got less than the full amounts. To qualify, a person or couple must have filed an income tax return for tax year 2000, thus still leaving out about 14 million non-filers. For those affected, the $13.7 billion in additional one-shot rebates in 2001 would average about $350.

Senator Majority Leader Tom Daschle (D-S.D.) has condemned the House's perfidy, calling several of its proposals, including the repeal of the alternative minimum tax, "non-starters." Budget Committee Chairman Kent Conrad (D-N.D.) added that the House bill "doesn't pass the laugh test," pointing to its huge cost and grossly unfair distribution. Even some Republicans are upset with the House action. Both Sen. Pete Domenici (R-N.M.), ranking Republican on the Budget Committee, and Treasury Secretary Paul O'Neill blasted the House bill as inconsistent with the previously agreed-upon stimulus framework.

But George W. Bush's chief spokesman Ari Fleischer sings a different tune, reporting that the President, like General Motors, is "very pleased" with the House tax-cut bill. Meanwhile, White House budget director Mitchell Daniels is warning that even without new tax cuts, the country may be heading back to permanent big budget deficits, and is gleefully preparing a long list of non-military programs that he says must be sharply reduced. This is all getting very ugly, very fast.