GOVERNMENT MATTERS

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In This Issue

What We Could Invest In if We Ended Special Corporate Tax Breaks

by Jessica Schieder

Services for American families have been under constant attack over the past several years. Head Start slots were cut, Meals on Wheels deliveries were curtailed, and the Supplemental Nutrition Assistance Program (SNAP) has been squeezed. House leaders have repeatedly insisted the country cannot afford such programs while continuing to push forward hundreds of billions of dollars in tax breaks for corporations. What could we as a nation invest in if we ended these special tax favors?

What's Being Cut and Who's Being Hurt?

Slots for 57,000 young, underprivileged learners in the Head Start program, as well as jobs for thousands of Head Start teachers, were cut in 2013 as funding for the program was reduced by $400 million. This is the most severe budget cut the highly successful program has encountered since its inception in 1965.

Across-the-board budget cuts also slashed more than four million meals to vulnerable seniors through the well-respected and effective Meals on Wheels program. Because many of these seniors are unable to cook for themselves, their only alternative is to enter a nursing home. In April 2013, we estimated that the $39 million in Meals on Wheels cuts would result in $479 million in additional costs borne by Medicaid for nursing home care, a bad deal for seniors and Americans as a whole.

In November, an estimated $5 billion per year was cut from food assistance to hungry Americans through the SNAP program, formerly known as the food stamp program. As a result, the per-meal subsidy dropped to less than $1.40 per meal for the one in seven Americans the SNAP program helped feed in 2013.

No Money to Help People, but Plenty of Cash for Corporations

Congress claimed we could not afford $5.5 billion to help give poor children a leg up on their schooling, to help seniors stay in their homes, or to help Americans feed their families. However, lawmakers seem to have no problem endorsing more corporate tax cuts – hundreds of billions of dollars' worth – and leaving all of them "unpaid for," meaning these tax cuts will either add to the deficit or further increase the pressure to cut programs that help people.

Both the House and Senate have in recent weeks prioritized retroactively extending tax loopholes that expired late last year. These tax breaks include troubling incentives for corporations to shift jobs and profits overseas.

In April, the Senate Finance Committee approved the EXPIRE Act (Expiring Provisions Improvement Reform and Efficiency Act), which will renew virtually all tax breaks that expired at the end of 2013. The package, known in Washington, DC as "tax extenders," would extend 55 tax breaks (mostly corporate) for two years at a cost of $85 billion (about $42 billion a year).

Continuing to renew all of these extensions over the next decade will cost approximately $700 billion – roughly 85 percent of the total cost of funding SNAP to feed our nation's hungry for the next 10 years. Despite the bill's substantial giveaways to corporations, there are no demands that these tax expenditures be "paid for" with reductions in expenditures elsewhere in the tax code, as has been demanded when programs that help working families come up for renewal.

After the Senate Finance Committee moved on the issue, the House Ways and Means Committee took up tax extenders and approved making six of the 55 expired tax provisions permanent – a decision that could lock these corporate giveaways into the tax code and budget indefinitely. The cost of these six provisions over the next 10 years alone is estimated to be as follows:

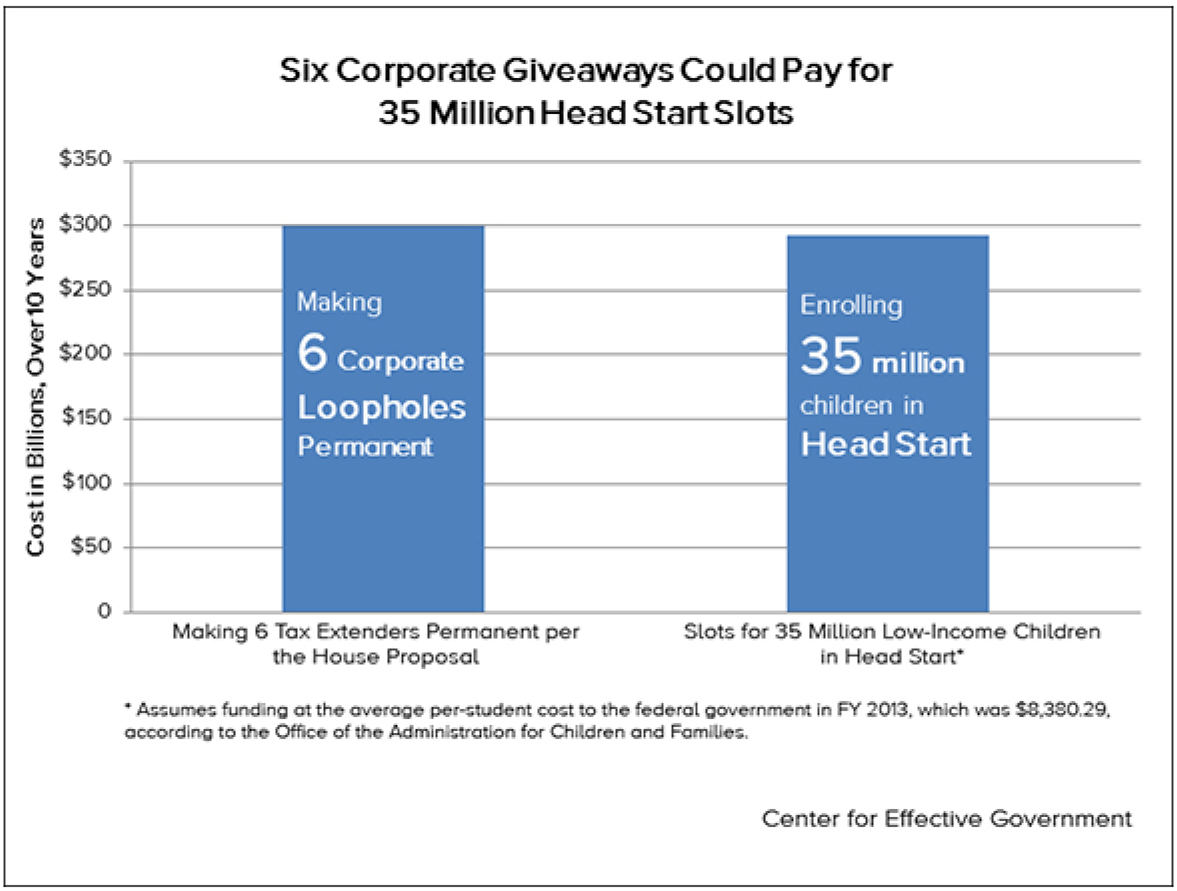
- H.R. 4429, Active Financing Exception: $58.8 billion
- H.R. 4438, Research and Experimentation Tax Credit: $155.5 billion
- H.R. 4453, Reducing the built-in gains recognition period for S Corporations: $1.5 billion
- H.R. 4454, Making permanent certain benefits regarding S Corporations: $700 million
- H.R. 4457, Permanent increases to expensing limitations: $73.1 billion
- H.R. 4464, Permanent CFC Look-Through Act of 2014: $20.3 billion

The total cost of extending the six provisions the House leadership would make permanent is more than $300 billion over 10 years and hundreds of billions more in the future.

Regardless of which bill is signed by the president – and it appears certain that there will be bipartisan agreement to extend these provisions for some duration of time – the "winners" will overwhelmingly be corporations who have gamed the system. The losers will be the American people – who need the government to provide public services. This unfair playing field means that programs, like unemployment benefits for the long-term unemployed, will continue to need funding while substantial giveaways to corporations go unquestioned, even by those who profess to be concerned about the deficit.

We Could End Special Favors for Corporations and Invest in America

There are workable alternatives. For example, instead of encouraging corporations to hide profits offshore, we could eliminate the six tax extenders the House has proposed making permanent and invest in early childhood education for 35 million children through the Head Start program. This, in turn, would stimulate local economies, as the families and teachers of these students circulate money into those economies.



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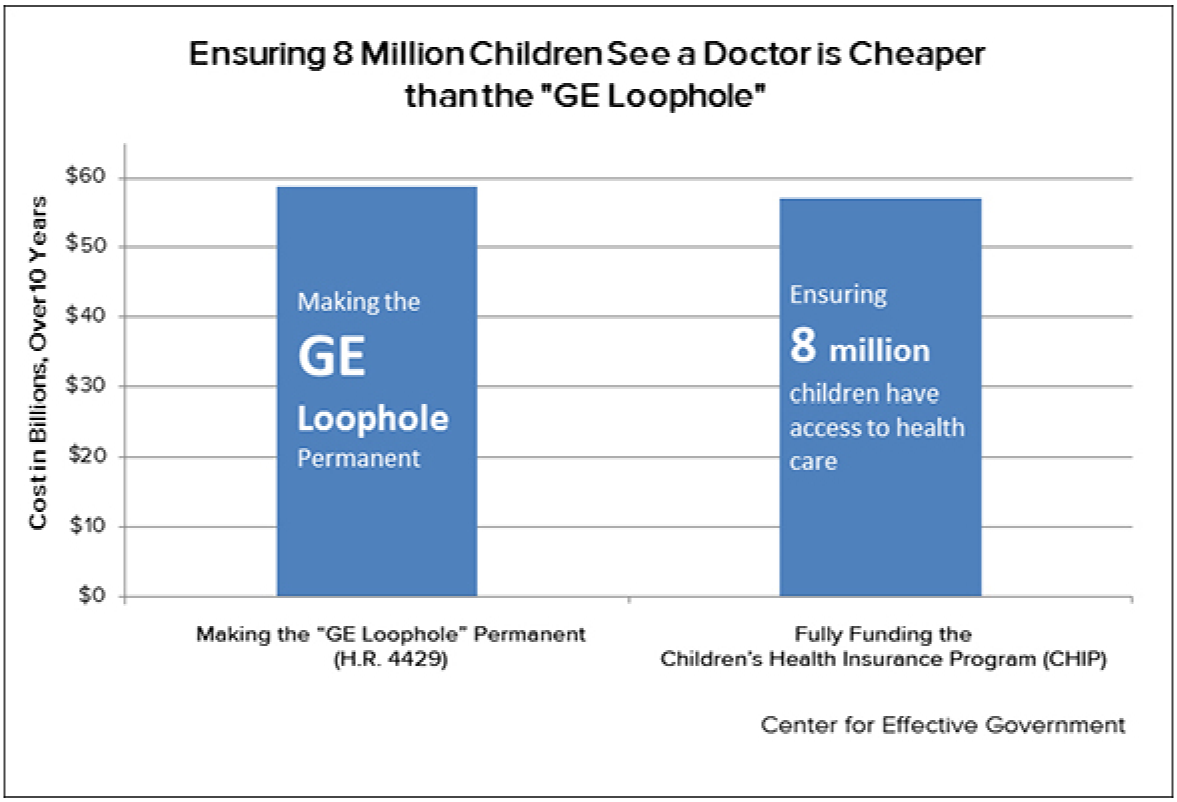
But education isn't the only area where we could invest if we ended special tax favors for corporations. Putting a stop to two particularly egregious tax extenders could help fund other programs, as well.

The Active Financing Exception

Making the "Active Financing Exception" permanent sounds relatively innocent. In reality, this would be a massive victory for multinational corporations that shift profits and jobs overseas. The measure essentially allows corporations to avoid taxes on profits from financing activities by shifting those profits abroad.

The "Active Financing Exception" is often referred to as the "GE Loophole," as General Electric (GE) has used it to achieve stunningly low effective tax rates. Between 2008 and 2012, GE paid an effective U.S. tax rate of -11.1 percent, and the GE Loophole contributed significantly to this result. GE spent $61 million and hired a small army of 48 lobbyists between 2011 and 2013 to persuade Congress to renew the tax extenders package, including this loophole.

Making this tax loophole permanent would cost the country $58.8 billion over the next decade. By comparison, eliminating this loophole would allow us to invest in the Children's Health Insurance Program (CHIP), fully funding the program for the next decade. CHIP ensures that more than 8 million children in families without other health insurance have an opportunity to see a doctor. The program has recently been under attack as Republican proposals have supported cutting the program by as much as 70 percent in recent months.



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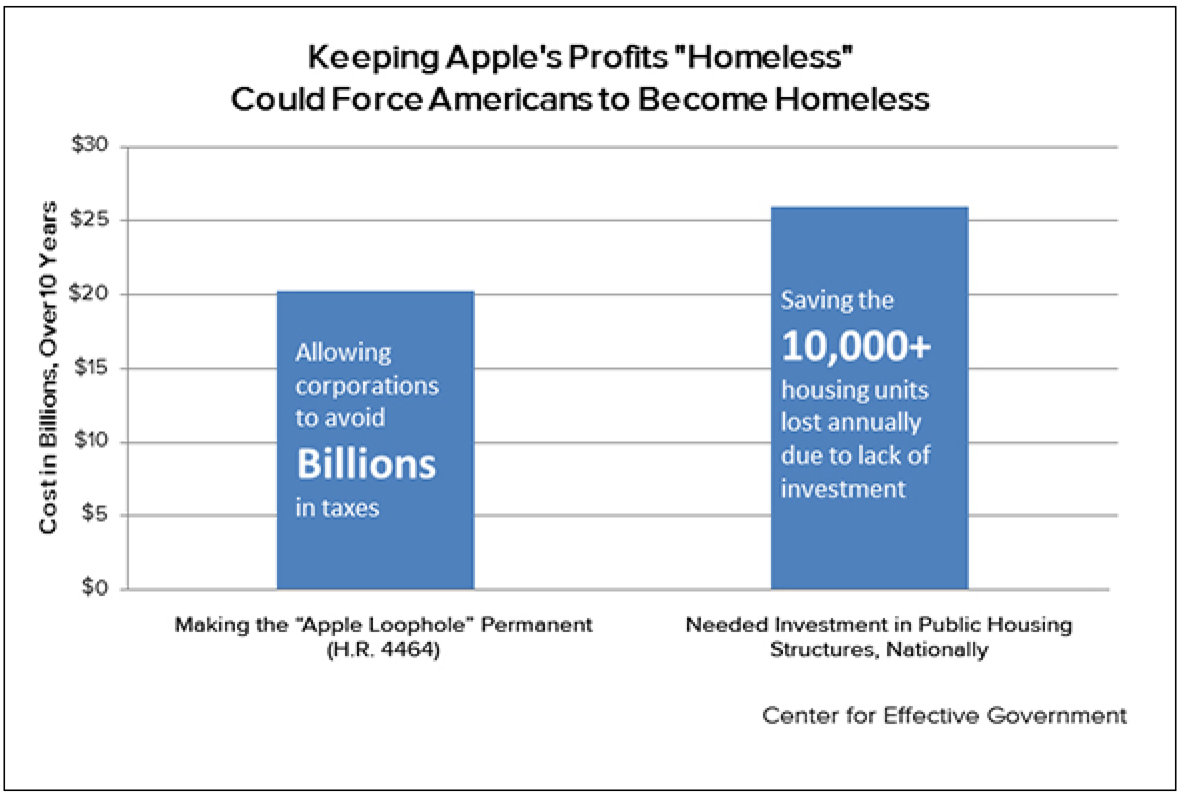
The CFC Look-Through Rule

For the most part, Americans pay taxes in America, Canadians pay taxes in Canada, and the Irish pay taxes in Ireland. However, when it comes to corporations, there are plenty of exceptions.

Companies like Apple have learned to exploit tax loopholes such that it owes no taxes to any country on a huge percentage of its profits. How is it that billions of dollars in profits can go untaxed? Sen. Carl Levin (D-MI) described the scheme in a hearing, saying, "Apple successfully sought the holy grail of tax avoidance. It has created offshore entities holding tens of billions of dollars while claiming to be tax resident nowhere."

Apple used a combination of "look-through" and "check-the-box" tax loopholes to avoid paying $44 billion in U.S. taxes between 2009 and 2012.

Making this tax treatment permanent would cost taxpayers $20.3 billion over a decade, as described in H.R. 4464, and benefit corporations shifting profits to foreign subsidiaries. But if we ended this loophole, we could invest in updates to our public housing structures, of which more than 10,000 units are lost every year due to crumbling infrastructure. Suffering a shortage of funding from Congress to repair these homes, the Department of Housing and Urban Development (HUD) has begun selling them off to the private sector in a desperate, one-time attempt to raise the $26 billion needed to maintain the remaining buildings.



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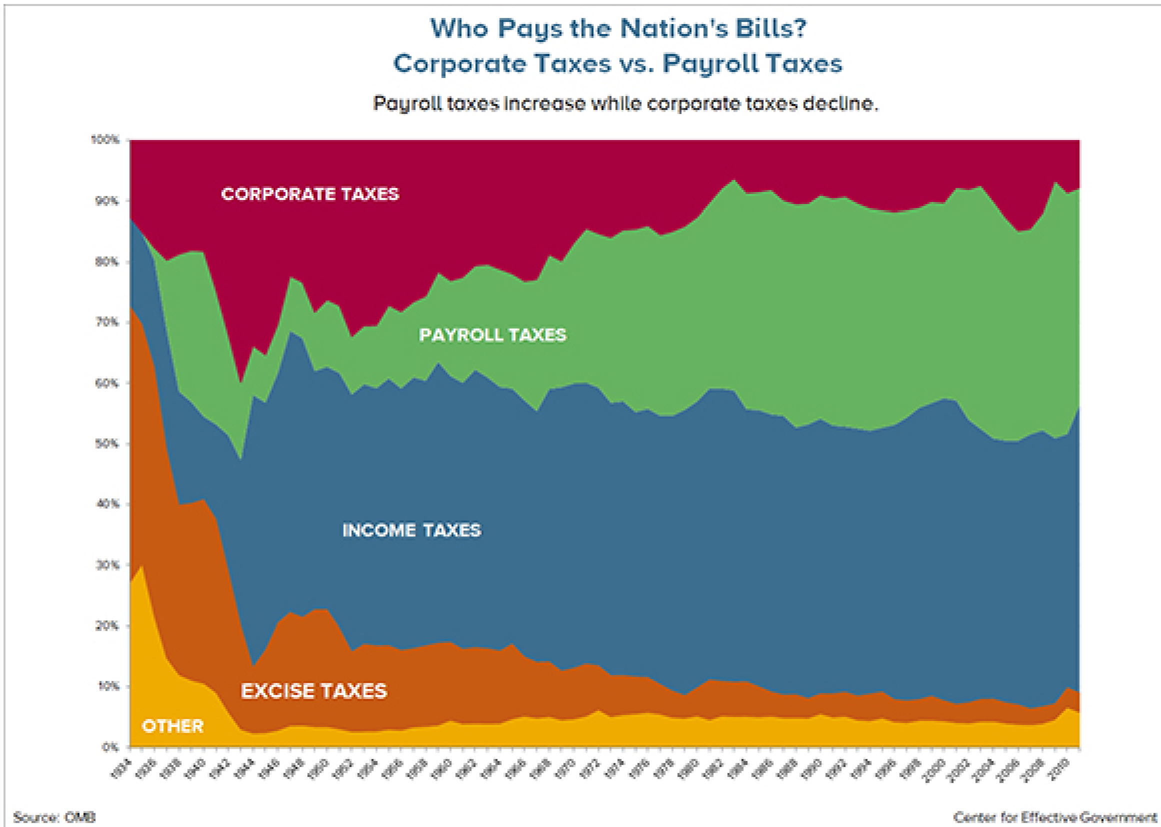
It's Time to Put People First

Smaller, U.S.-based businesses and average Americans, who do not exploit tax loopholes to stash profits offshore or otherwise dodge their obligations, are put at a competitive disadvantage by tax avoidance strategies. Additionally, profitable corporations that engage in this behavior force other taxpayers to pay a larger percentage of tax receipts.

Partially because corporations have become so well versed in tax avoidance, they are paying a smaller percentage of the nation's bills, while American workers [are paying an ever-greater share]() of our nation's expenses.



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With each extension of corporate tax loopholes, billions of dollars of taxpayer money is given away to Wall Street. Government budgets are pressured when corporations fail to pay their fair share, forcing difficult choices about cutting basic services to American families.

Over 10 years, the cost of the two tax extenders discussed above would total [$80 billion]() and promote the shifting of profits to offshore tax havens. Putting that $80 billion into fixing our nation's bridges – instead of putting it in the pockets of tax-avoiding corporations – would put the country on track to repairing our nation's backlog of [structurally deficient bridges]() by 2028.

Advocates for tax extenders frequently suggest that these loopholes should be protected because they produce jobs, but the connection between tax loopholes and job creation is [tenuous](), at best. Between 2008 and 2010, 30 profitable Fortune 500 companies that paid low effective tax rates actually ***destroyed*** **51,289 jobs**, whereas 30 corporations that paid relatively high effective tax rates ***created*** **almost 200,000 jobs**.

Public programs like Meals on Wheels, Head Start, and unemployment insurance are not "too expensive" for the country to afford; they are critical public investments and are more important to the quality of life for average Americans than corporate tax breaks. It is morally bankrupt to insist that extending unemployment insurance to help jobless Americans looking for work be paid for with cuts to other public programs while allowing the corporate tax extenders package to fly through with no "pay-for."

For working Americans, there is a justified sense that corporations are getting the better end of the bargain. It's time to put the American people first.

House Leader Calls for Investigation into ALEC Efforts to Undermine National Safeguards

by Katie Weatherford

On April 16, Rep. Raul Grijalva (D-AZ), Ranking Member of the House Subcommittee on Public Lands and Environmental Regulation, sent a letter to the Department of the Interior requesting an investigation into the American Legislative Exchange Council's (ALEC) state-level efforts to push legislation that could undermine federal land management policies and directives.

ALEC Pushes the Envelope

ALEC's membership is comprised of private corporations and over 2,000 state legislators from across the country. While a full list of ALEC's private members is not publically available, the Koch Brothers, Exxon Mobil, and Dow Chemical Company are among its corporate members. ALEC is well known for pushing policies that promote corporate interests at the expense of the public interest. These members join with state legislators on "task forces" that meet behind closed doors to discuss issues and draft "model" bills and resolutions.

Grijalva's letter raises concerns about whether ALEC's activities are permissible, given that it is registered as a 501(c)(3) organization. Specifically, Grijalva's letter asks the Department of the Interior to look into ALEC's state-level advocacy of "model" bills designed to undermine federal land management policies. The letter also encourages the agency to coordinate its investigation with the Internal Revenue Service (IRS) "to determine whether ALEC activities violate federal, state or local lobbying and disclosure regulations." Grijalva notes in the letter that despite ALEC's legal status as a 501(c)(3) organization, the group "has mounted an aggressive effort to change state laws in ways that undermine decades of precedent on the use and management of public lands without scrutiny or serious federal oversight."

Members of the public and public interest organizations have also called for investigations into ALEC for advocating that states adopt "model" bills designed to undermine federal health, safety, and environmental initiatives that are largely supported by the American people and businesses alike.

ALEC's Activities Seek to Weaken Public Protections

In July 2011, the Center for Media and Democracy launched a website, ALEC Exposed, where it publicized hundreds of ALEC's model bills and resolutions, many of which have been proposed in state legislatures across the country. The website now serves as a centralized, collaborative hub on all things ALEC. "Through the corporate-funded American Legislative Exchange Council, global corporations and state politicians vote behind closed doors to try to rewrite state laws that govern your rights," the website explains. "These so-called 'model bills' reach into almost every area of American life and often directly benefit huge corporations."

In November 2013, the Center for Effective Government released a report, *ALEC's Latest Trojan Horse: The Attack on Standards and Safeguards Moves to the States*, which highlighted state-level model bills being pushed by ALEC to "reform" the regulatory process by expanding or institutionalizing requirements that delay and weaken important safeguards and increase the already outsized influence of corporations in setting environmental, food, consumer, and worker safety policies.

A month later, the Brookings Institute published an analysis finding that ALEC has pushed model bills in state legislatures across the country at a "non-trivial rate." During 2011-2012, at least 132 ALEC "model" bills were introduced at the state level. ALEC representatives had previously been quoted by *The New York Times* boasting that "nearly 1,000 state bills each year are based at least in part on ALEC model legislation."

In a report release last June, the ALEC task force on Energy, Environment, and Agriculture laid out its arguments against environmental initiatives and recommended "model" legislation that states opposed to these critical health and safety rules can adopt. Examples of ALEC's extreme model bills that would undermine public safeguards include:

- **Economic Impact Statement Act:** This bill is similar to the federal Congressional Review Act (CRA), which provides that before a final rule can take effect, the federal agency issuing the rule must submit to Congress and the Comptroller General a copy of the rule and statement describing its purpose and proposed effective date. The CRA also provides members of Congress a chance to review and disapprove of final rules issued by federal agencies.

  However, ALEC's model state bill would go much further than its federal counterpart. Before a state agency could even propose a rule, it would first have to submit to the state legislature a copy of the rule and a lengthy, overly complex economic impact statement that includes calculations such as the potential effect of the regulation on the cost of living or the state tax base, or the potential effect on market competition within the state, with other states, and globally. The legislature would then be provided an opportunity to disapprove the proposed rule.

  The Center for Effective Government and the Coalition for Sensible Safeguards have warned that attempts to use the federal CRA to attack proposed rules would set a dangerous precedent by allowing any member of Congress who dislikes a proposed agency action to challenge the rule before the agency has even finished writing it. ALEC's model bill would similarly make it possible for any state legislator to circumvent the state's legislative process by attacking important safeguards while they are still in development.

- **Intrastate Coal and Use Act:** This bill provides that only the state may issue environmental regulations on business activities performed in-state when the products of those activities originate and remain within the state's borders. Perhaps the most troubling provision of the bill is the declaration that activities involving the transportation and disposal of hazardous waste, the release of pollutants into air or water, and virtually any activity having to do with coal mining or the production of chemically altered coal products are not subject to federal laws or regulations unless a state or federal court has found that those activities cause "quantifiable harm to any person, businesses, or places beyond the border of the state." In other words, states that adopt this bill would elect to simply ignore any rules issued by a federal agency, even though such an action would be in violation of the U.S. Constitution.

- **Regulatory Review and Rescission Act:** This bill would remove regulatory responsibilities from the experts within state agencies and instead allow non-expert state legislators make decisions on critical public safeguards based on the costs, benefits, and potential employment impacts of the standards. The bill would also establish a review body tasked with reviewing all state regulations every three years and allow the governor to unilaterally rescind any rule after the regulatory review is completed, even if a rule produces far more benefits than costs.

- **Climate Accountability Act:** Under this bill, before any state funds could be used to reduce greenhouse gas emissions, a state would have to complete an assessment of the number of tons of carbon dioxide equivalent that the action is expected to reduce, the total costs of the action, and the cost per ton of reduction. According to ALEC's report, this bill is to be introduced only once it is clear that a state's efforts to reduce greenhouse gas emissions cannot be stopped.

The Public's Chance to Weigh In

The concerns about the legality and ethics of ALEC's state-level efforts are well-founded and worthy of an investigation. With numerous calls for a probe into the organization's activities, it is time for action. Grijalva's letter calls for a response from the Department of the Interior by May 2, although no response has been made public as of May 6. In the meantime, members of the public can take action by signing a MoveOn.org petition calling on the IRS to conduct an investigation into ALEC's activities.

E-Gov Spotlight: Safercar.gov Informs the Public about Vehicle Safety Risks

by Gavin Baker

Vehicle safety is a significant concern for many Americans. As the ongoing General Motors recall has shown, problems with automotive parts can adversely affect millions of people. The National Highway Traffic Safety Administration (NHTSA) is the federal agency that sets safety standards for motor vehicles and investigates defects. To keep customers informed, NHTSA's Safercar.gov provides a portal to information about potential problems with cars and automotive equipment.

What is Safercar.gov?

Safercar.gov provides many resources for vehicle owners. The core of the site allows consumers to research safety information for their vehicles, including recalls, agency investigations, and consumer complaints. The site also provides a mechanism for drivers to send complaints to the agency, which could alert investigators to a problem.

Using the Site

Several simple pathways allow drivers to easily locate relevant information. The site uses prominent buttons to highlight some of the most frequently taken actions, including "Search for Recalls" or "File a Complaint." Common types of vehicle equipment, such as tires and car seats, are also highlighted on the homepage. In addition, the site displays recent news about the agency's activities related to auto safety.

The site has sections for particular types of users such as vehicle shoppers, owners, and manufacturers. Each section highlights agency information most relevant to those types of users. For instance, vehicle shoppers are presented with information on vehicle safety ratings as well as quick links on child safety, tires, airbags, and rollover risks. The vehicle owner section provides information on filing complaints; searching through recalls, investigations, and complaints; and how to sign up for alerts. The manufacturer section offers tools and information to help dealers and manufacturers use NHTSA data to educate consumers and for submitting safety information to the agency.

A pull-down menu offers several intuitive options for searching recall information, such as searching by the year, make, and model of a vehicle, or by the manufacturer of equipment. For instance, searching for "2012 Hyundai Sonata" produces search results indicating that there is one recall for air bags, no investigations, 135 consumer complaints, and seven service bulletins from Hyundai. The user can click the site's tabs to switch between the different types of information and scroll through complaints and service bulletins to see if any match vehicle problems they have experienced. In addition, a visitor can subscribe to receive notice of new recalls pertaining to his or her vehicle. Visitors can conduct similar searches on car seats, tires, and auto parts.

Strengths

Overall, the safety information on Safercar.gov is very thorough. Users can easily navigate the site, guided by effective organization, from the main page through each subsequent feature. Clear, detailed instructions and easily referenced Frequently Asked Questions (FAQs) and tutorials accompany the user throughout the navigation process.

Significantly, the site collects all the safety information relevant to a particular vehicle or product in one place, making it a useful, one-stop-shop for vehicle safety data. Also of note: the site includes complaints received from the public, which can serve as an early warning system to consumers but which some agencies prefer not to disclose until a complaint is fully researched by agency staff.

The search feature benefits the user with a multitude of options. The ability to register for recall alerts is another useful feature. The availability of mobile apps for Apple and Android devices is convenient for smartphone users. For advanced users, the site also offers bulk downloads of the data.

Weaknesses

While the site navigation is intuitive overall, there are a few confusing aspects. The "File a Complaint" page includes useful background information about making a complaint, but if a user clicks on the "File a Complaint" link from the Safercar.gov homepage, it takes him or her directly to a complaint form, skipping past the background information.

The site also doesn't make full use of the safety databases on vehicles, tires, and car seats. The site allows owners to search for information relevant to their particular car or product. But the site doesn't offer shoppers any tools to use this information. Those considering a purchase of a car, set of tires, or car seat might find it helpful to be able to compare the recalls, complaints, and service bulletins for different manufacturers. And while shoppers may find the safety data on the owner's page of Safercar.gov, that tool isn't configured to allow easy comparisons between products. Because of this, users are forced to perform separate searches for each different car or product and compare the results offline.

There are some limitations to the mobile app, as well. For instance, the Android app only provides information about recalls, not investigations or complaints. In addition, the Safercar.gov website itself does not appear to have a responsive or mobile-optimized design for easy mobile use without an app. Shoppers at a car lot may find access to such information through their mobile device particularly helpful.

Additionally, there appear to be some limitations in the data. The information on the site is primarily organized by manufacturer, but sometimes companies are not consistently identified – for instance, there are entries for both "Harley Davidson" and "Harley-Davidson."

Conclusion

NHTSA's Safercar.gov offers practical, convenient features for users interested in researching recall and safety information. Overall, it offers substantial and well-organized resources for the public, making the website a useful tool for helping drivers stay safe. Minor improvements in some of the navigation and more standardization of the data would be helpful so users can find what they are looking for more quickly and easily. Tools that would allow for the comparison of the safety information for different cars, tires, and car seats would be great new features for shoppers. The mobile app should also be updated to provide access to complaints and investigation data, and the site should be optimized for smartphones and tablets.

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