

Who Slows the Pace of Tax Reforms?

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As Congress considers international tax reforms that could help pay for health insurance reform, the Administration and Congress have heard from many stakeholders. One of the more vocal groups has been the coalition called Promote America's Competitive Edge, or PACE. To better understand where opposition to reforms is coming from, U.S. PIRG conducted a simple investigation into some of the major corporations who have signed onto one or more of the PACE coalition's many letters to Congress, and looked at how they benefit from maintaining the status quo.

The group of twelve prominent corporations profiled **rank among the top 100 largest publicly traded federal contractors** that also maintain a **significant presence in tax haven countries** or so-called financial privacy jurisdictions.¹ These corporations are huge beneficiaries of the current system in terms of contracting rules and their ability to avoid taxes that other companies must pay. In 2008, these twelve corporations alone received over \$10 billion in government contracts.² And this small group collectively has **443 subsidiaries in tax haven countries**, where they pay minimal, if any, taxes.

The twelve companies generate profits on taxpayer dollars through lucrative government contracts without contributing fair share of taxes, leaving [that burden to other businesses and regular taxpayers](#). It has been estimated that the U.S. taxpayers must make up for over \$100 billion per year in lost revenue due to the abuse of offshore tax havens.³

Additionally, this "dirty dozen" together spent nearly \$6 million in Political Action Committee (PAC) expenditures for 2008, over \$37 million lobbying in 2008, and over \$33 million so far in 2009.⁴

Putting the Brakes on Tax Reform

Corporations have a vested interest in helping elect politicians who may give them a sympathetic ear. They give money through various means, but most liberally through their Political Action Committees (PACS) to candidates, to parties, and to other PACs. In an attempt to further promote the lucrative status quo, corporations invest significant amounts to lobby elected officials – many of whom their PAC dollars helped elect – on numerous issues, including fighting tax haven reform. "We're going to spend whatever it takes," said Brigitte Schmidt Gwyn, of the Business Roundtable, to [Politico](#) earlier this year when asked about defeating tax reforms.⁵ The Business Roundtable is a member of the PACE coalition.

Tax Havens

What they are: The Government Accountability Office (GAO) describes tax havens as places with no or nominal taxes and little if any reporting requirements.

Why tax havens matter: Using tax havens to keep profits offshore results in massive losses in revenue for the U.S. Treasury – which ultimately must be made up by taxpayers. The U.S. loses an estimated \$100 billion per year due to tax haven abuse.

Political Action Committees

What they are: A "Political Action Committee" is an organization that receives contributions or makes expenditures in excess of \$1,000 for the purpose of influencing a federal election.

Corporations use PACs to contribute to federal candidates or parties. PACs receive and raise money from a "restricted class," generally consisting of managers, shareholders, and their families. The PAC may then make donations to political campaigns.

Why PAC contributions matter: While corporations are not allowed to contribute funds to candidates for federal office, PACs and individuals are. Therefore, they serve as a way for corporations to influence the political system. And, although contributions from corporate treasuries to candidates are illegal, corporate treasury funds may sponsor a PAC and provide financial support for its administration and fundraising.

It's a self-feeding cycle. By keeping profits in tax haven subsidiaries, these corporations have more cash available to use for other purposes including help elect politicians likely to represent their interests, as well as to lobby those in office to generate more contracts and tax incentives that keep the cycle going.

The data in Table 1.0 lays out the financial interests of the twelve corporations -- their contracts and tax haven subsidiaries as well as their lobbying and PAC activities.

Lobbyist Expenditures

What they are: This is the common term for any amounts paid or incurred in connection with influencing federal or state legislation, or any communication with certain federal executive branch officials in an attempt to influence the official actions or positions of such officials.

Why lobbying expenditures matter: The expenses incurred are often used to quantify the amount of influence any given corporation is attempting to have over the legislative process.

Solutions – Giving Politicians the Option to get Big Money out of Their Campaigns

Federally, we need a voluntary system of small donor-focused fair elections. The types of reform that are required can be found in the Fair Elections Now Act (S. 152, H.R. 1826):

- Small donors get incentives through public matching funds to participate and support candidates,
- Grants are provided to enable competitive campaigns to candidates who have demonstrated strong support from their constituents, and
- Both these matching funds and grants would enable candidates for Congress to run for office without relying on large contributions and big money bundlers, and would free them from constant fundraising in order to focus on what people in their communities want.

Solutions – Reforming Our Tax System

Several common-sense reforms would address the loss of billions of dollars each year due to tax haven abuse. The necessary reforms can be found in the Stop Tax Haven Abuse Act (S. 506, H.R. 1265). These include:

- Making it law that transactions must have some real economic purpose other than the reduction of tax liability,
- Taxing companies controlled and operated in the United States as domestic companies, eliminating the appeal of moving “headquarters” to a post office box in a tax haven country,
- Requiring additional reporting and disclosure from financial institutions, and
- Subjecting hedge funds to existing anti-money laundering requirements.

Conclusion

Right now, the tax reform conversations have surfaced due to the healthcare debate. But regardless of what the revenues generated by the reforms could do for taxpayers or when Congress takes this on, it is just the right thing and the fair thing to do.

In fact, reforms to give taxpayers a greater voice in electing officials, to give lawmakers greater incentives to put taxpayers first and to level the playing field for Main Street businesses and Main Street families are long overdue.

By working hard to maintain a status quo, powerful special interests are able to use their influence to slow down progress of common sense reforms. Congress and the Administration need to be sure to hear all sides of the story when it comes to reform – especially the side that comes from ordinary taxpayers.

Table 1.0 – By the Numbers: Contracts, Tax Havens, Lobbying and Contributions

Using the Table:

- Data is as of **10/26/2009**. Because it is subject to change, links are available for the very latest data regardless of when this report is read.
- Clicking on the **Total Dollars in Government Contracts** links will take readers USASpending.gov, where they can find additional information on the contracts awarded, including agencies served, Congressional districts served, services provided, contract vehicle, and extent of competition. The page also provides access to data from other years and can even drill down to individual contracts.
- Clicking on **Lobbyist Expenditures** links will take readers to OpenSecrets.org where information can be found with respect to trends over time, issues on which the corporation lobbied and agencies lobbied.
- Clicking on the **PAC Donations** links will take readers to OpenSecrets.org where they can obtain additional information on the expenditures that were made from those corporate political action committee accounts in the 2008 election year.

Name	Number of Subsidiaries in Tax Haven Countries ⁶	Total Dollars in Government Contracts for 2008 ⁷	Lobbyist Expenditures for 2008	Political Action Committee	PAC Donations for 2008
Cardinal Health	23	\$1,409,524,752	\$1,042,000	Cardinal Health PAC	\$349,101
Dell	29	\$1,210,958,955	\$2,730,000	Dell Inc PAC	\$195,363
Eaton	37	\$190,395,972	\$680,000	Eaton Corp PAC	\$58,267
Exxon Mobil Corporation	32	\$782,972,933	\$29,000,000*	Exxon Mobil Corp PAC	\$811,160
General Mills	33	\$201,353,223	\$769,300	General Mills PAC, General Mills Restaurants PAC	Gen Mills: \$233,502 Restaurant PAC: \$159,725
Hewlett-Packard	14	\$2,936,739,545	\$5,496,000	Hewlett-Packard PAC	\$401,673

Name	Number of Subsidiaries in Tax Haven Countries ⁶	Total Dollars in Government Contracts for 2008 ⁷	Lobbyist Expenditures for 2008	Political Action Committee	PAC Donations for 2008
IBM	10	\$1,647,029,089	IBM Corp: \$6,420,000 , IBM Business Consulting: \$160,000	No PAC	NA
Johnson & Johnson	38	\$187,211,711	\$6,600,000	Johnson& Johnson PAC	\$1,175,191
Kraft Foods	36	\$370,697,143	\$3,680,000	Kraft Foods PAC	\$349,994
Merck	44	\$1,135,291,961	Merck and Co: \$4,640,000 , Merck KGaA: \$1,980,000	Merck PAC	\$1,311,405
Oracle	77	\$203,899,037	\$4,990,000	Oracle Corp PAC	\$346,102
PepsiCo	70	\$218,599,638	\$1,176,000	PepsiCo Inc PAC	\$547,749

*This figure includes Exxon Mobil chemical and production

¹ <http://www.gao.gov/products/GAO-09-157>

² <http://www.usaspending.gov/fpds/index.php?reptype=a>; All data from USASpending.gov

³ Committee on Homeland Security and Governmental Affairs, Permanent Subcommittee on Investigations. *TAX HAVEN BANKS AND U. S. TAX COMPLIANCE STAFF REPORT*

⁴ <http://www.opensecrets.org/lobby/clientsum.php?lname=Cardinal+Health&year=2009>. All data totaled from Opensecrets.gov lobbying expenditures to date for 2009.

⁵ <http://www.reuters.com/article/ousivMolt/idUSTRE54B3QY20090512>

⁶ <http://www.gao.gov/products/GAO-09-157>

⁷ <http://www.usaspending.gov/fpds/index.php?reptype=a>; All data from USASpending.gov