

# Committee passes corporate tax cut

The measure, approved by a 24-15 margin along rigid party lines, is intended to create and maintain jobs

By Sumana Chatterjee  
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WASHINGTON — Republicans on the House tax-writing committee voted Tuesday to give big multinational corporations tax cuts totaling \$128 billion over 10 years, overcoming Democratic opposition.

The measure is intended to avert a trade war with the European Union over illegal subsidies for U.S. exporters, but the bill is also laden with special favors for domestic manufacturers.

The House Ways and Means Committee voted 24-15 along party lines to make it easier for multinational firms to claim tax deductions for interest and credits for taxes they pay to foreign governments. The legislation also would cut the top tax rate for most U.S. businesses from 35 percent to 32 percent by 2012. Small businesses with less than \$20 million in annual taxable revenue would also get an across-the-board tax cut to 32 percent by 2012, but their cut would be phased in depending upon each firm's taxable revenue.

Supporters of the legislation said the tax breaks would make American companies more competitive in the global economy and ultimately help them create and keep jobs in the United States. The U.S. Chamber of Commerce, National Association of Manufacturers and other business lobbies backed the legislation.

Critics, including some Republicans from areas hit hard by the manufacturing slump, worried that the measure would help companies send jobs overseas.

The legislation would lower "the cost of doing business overseas for American companies. This will necessarily encourage American companies to move American jobs offshore to China and other locations," wrote Rep. Donald Manzullo, R-Ill., in a letter signed by 10 other Republicans. Manzullo is chairman of the House Small Business Committee.

The Senate is working on its version of corporate tax cut legislation. With only weeks before this year's session of Congress ends, it is unlikely that the tax cuts will be enacted before next year.

Republican leaders pushed the bill partly to signal to the European Union that the United States intends to bring the U.S. tax code into compliance with international trade rules. The European Union has threatened to levy \$4 billion in punitive tariffs if Congress doesn't repeal certain export tax breaks by year's

end. The World Trade Organization, which monitors ground rules for international trade, said \$5 billion in annual U.S. tax breaks for American exporters are illegal.

Ways and Means tax writers stripped out many of the illegal breaks while adding tax benefits to the same U.S.-based multinationals so they would not suffer a competitive disadvantage, Republican aides said. They also eliminated some corporate tax shelters and included language to crack down on companies that move abroad to avoid paying U.S. taxes.

To broaden support, the tax writers also sought to speed along the tax cut for some domestic companies that make goods manufactured, produced, grown or extracted in the United States. That includes oil and gas companies and movie studios that spend at least 50 percent of film production expenses in America. For them, the 35 percent top corporate tax rate would drop to 34 percent next year, then to 32 percent in 2007.

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Rep. Charles Rangel  
D-N.Y.

"We started off with a \$4 billion problem and you guys made it a \$128 billion problem," said Rep. Charles Rangel of New York, the top Democrat on the committee.

Republicans said the legislation would protect the companies that benefited from the tax breaks that raised the European Union's ire. "We can't just repeal those portions of the laws. We need to make the international beneficiaries as whole as possible," said Rep. Nancy Johnson, R-Conn.

Many of the more expensive new tax provisions would not go into effect until after 2006.

The potential impact of the new tax cuts on the federal budget deficit alarmed many lawmakers, who argued that the House of Representatives should follow the Senate's lead by passing a revenue-neutral package that would not increase the national debt. The House tax package on balance would add \$60 billion to the deficit, which is already projected to exceed \$500 billion in the current fiscal year.

"We are now facing very alarming deficits and passing enormous tax breaks for corporations that create big problems for your children," said Rep. Earl Pomeroy, D-N.D.

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## SURCHARGE

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The poll confirmed that Democrats most strongly favored the surcharge, with 46 percent in favor and 40 percent against. Republicans overwhelmingly opposed the tax hike with 69 percent against it and 11 percent in support.

Independents were more evenly split, with 43 percent saying they would vote yes and 39 percent saying no.

Taxpayer Defense Fund campaign manager Angela Wilhelms said she wasn't surprised by the poll numbers, adding that her organization is "encouraged by them." The Taxpayers Defense Fund is one of the groups behind the petition to bring the tax surcharge to a state vote.

"There's been a groundswell of support for the referendum," Wilhelms said. "But it's not shocking to see how

much support there is."

Wilhelms said higher taxes wouldn't help the state out of a recession and would drive businesses and other revenue sources out of the state. She said the referendum would allow Oregonians a chance to vote on an important issue.

"I would encourage people regardless how they feel about the tax increase to support the concept (of the referendum) to go in front of people," Wilhelms said. "This is exactly what democracy is made of."

Bob Lawrence — spokesman for the Our Oregon Coalition, which is supportive of the surcharge — said the organization was actually "somewhat encouraged" by the poll numbers because the opposition to the tax surcharge was less than 50 percent.

"We're not under any illusion that ... this is any slam dunk for us, but we're confident that we can get our word out to people and that people

understand what is at stake here," Lawrence said.

Lawrence said the coalition was currently working on a "grassroots campaign" and talking to groups that would be the most affected by the rejection of a balanced budget. He said the organization has been in touch with groups on all of the major campuses around the state.

"Most college students know what the hits on higher education are like," Lawrence said. "More budget cuts mean a bigger impact on college students."

The tax surcharge will probably require the average Oregon family to pay about an additional \$88 in state taxes each year, according to the Legislative Revenue Office. The surcharge would apply to the 2003, 2004 and probably the 2005 tax years.

Contact the city/state politics reporter at shoikeda@dailymerald.com.

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