Senate Panel Backs Bill to Give Tax Windfall to U.S. Companies

By EDMUND L. ANDREWS
Published: October 2, 2003

WASHINGTON, Oct. 1 — American corporations that have deferred taxes for years on the profits they made overseas could be in line for a huge windfall from Congress.

Hoping to bring more investment to the United States, the Senate Finance Committee approved a bill on Wednesday that would give a one-time tax holiday to companies that have accumulated as much as $400 billion in foreign profits on which they have yet to pay American taxes.

American companies can usually defer paying taxes on foreign profits as long as they keep the money outside the United States. Much of that money is reinvested in foreign operations, and some is parked in passive investments.

The Senate bill, which is part of a much broader bill to overhaul laws on international corporate taxation, would let companies bring those profits back and pay a tax rate of 5.25 percent.

Supporters say the six-month tax holiday could lure as much as $300 billion back into the United States, which in turn would increase investment and create jobs.

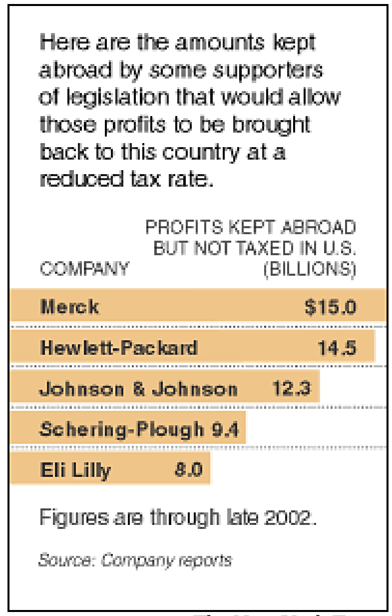
To press their case, companies like Hewlett-Packard have formed a broad coalition that includes the likes of Eli Lilly, Merck, Intel, Sun Microsystems and Dell Computer.

Among the coalition's main lobbyists are Bill Archer, the former chairman of the House Ways and Means Committee, and his former chief of staff, Donald Carlson.

"The question is, Do we want this money invested in equipment and plants in Egypt or do we want it invested in the United States?" Mr. Carlson said. "To get this much bang for the buck is a rarity."

But many tax experts, including top tax officials in the Bush administration, say the move would be a mistake because it would validate the strategies of companies that spent years sheltering the overseas profits.

"The company that left Louisiana is going to pay a 5 percent tax on the widgets they make overseas, and the company that stayed in Louisiana is going to pay a 35 percent tax," said Senator John B. Breaux, Democrat of Louisiana. "If that isn't an incentive



The New York Times

to leave, I don't know what is."

Critics also warn that there is no guarantee that the companies will invest their repatriated profits in new factories or larger work forces. Indeed, Republican lawmakers defeated an amendment offered by Mr. Breaux on Wednesday that would have required companies to reinvest their foreign profits in things like new equipment.

Pamela F. Olson, assistant secretary of the Treasury in charge of tax policy, told lawmakers Wednesday that she was skeptical about the bill's benefits and warned that it could "undermine taxpayers' perception of the fairness of the tax system."

The biggest beneficiaries of the legislation would be technology companies like Hewlett-Packard and Intel as well as pharmaceutical giants like Merck and Eli Lilly.

Hewlett, which has been one of the bill's most visible supporters, says it has accumulated $14.5 billion in foreign earnings and has kept them outside the country, in part to avoid paying the American corporate tax rate of 35 percent.

Eli Lilly, whose products include the antidepressant Prozac, says it has $8 billion in untaxed overseas profits. Intel, another big supporter of the legislation, says it has deferred taxes on $6.3 billion of foreign income.

Lawmakers say the measure has a strong chance of becoming law. The Senate bill has support from most Republicans as well as some Democrats. In the House, the Republican chairman of the House Ways and Means Committee, Bill Thomas of California, has proposed a similar plan.

Despite its unhappiness about the bill, administration officials made it clear Wednesday that they would not try to veto the measure because they were more concerned about passing the broader legislative package.

The main purpose of the bill is to replace a tax break for American exporters that has been declared an illegal subsidy by the World Trade Organization.

If the United States does not repeal the tax break, which allows American manufacturers to avoid taxes on exports by establishing offshore sales corporations, the European Union has threatened to retaliate with $4 billion in tariffs on products from the United States.

Carol T. Powers for The New York Times

Members of the Senate Finance Committee talkedon Wednesday before the start of a hearing on sharply cutting the tax rate corporations would pay on as much as $400 billion in profits accumulated overseas.

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