TOP TAX LOOPHOLES

The bipartisan budget conference presents Democrats and Republicans with an opportunity to, at the very least, work together to replace the harmful cuts from sequestration and agree on, at the minimum, a budget for the short term. The question is no longer whether we should replace sequestration, but how. Democrats believe that, in addition to responsible spending cuts, we should also replace sequestration by closing wasteful corporate loopholes and ending special interest subsidies in our bloated tax system.

The need to close wasteful tax loopholes should be obvious. Our tax code is riddled with tax breaks that range from the plainly unfair to the outlandish – and they cost taxpayers hundreds of billions of dollars every year.

Below is a list of just a few of the many egregious loopholes that Republicans should either bring to the negotiating table or explain to the American people why they can't find a single loophole to close to get a bipartisan deal. Because we believe it's unfair and unacceptable to protect tax breaks for special interests while forcing seniors and families to bear this burden alone.

Short descriptions:

1. **End Tax Deductions for Shipping Jobs Overseas –** Eliminate the tax deduction corporations can take for relocating U.S. operations overseas.
2. **Close the Corporate Jet Loophole –** Prevent corporate jet owners from being able to deduct the cost of their aircraft faster than commercial airlines.
3. **Close the Carried Interest Tax Break –** Close the loophole that lets hedge fund managers pay lower tax rates on their income than teachers and firefighters.
4. **End the John Edwards/Newt Gingrich Loophole –** Close the loophole that lets wealthy business owners knowingly mischaracterize income as business profits instead of salary to avoid payroll taxes.
5. **Stop Tax Subsidies for Yachts and Vacation Homes –** Eliminate deductions used by the wealthiest Americans that subsidize yachts and vacation homes.
6. **Close the "Check-the-Box" Loophole –** Repeal the loophole that lets big corporations hide foreign subsidiaries from the IRS and pay lower taxes simply by checking a box on a tax form.
7. **Treat Companies Managed and Controlled in the U.S. as U.S. Companies –** Eliminate the loophole that allows corporations managed and controlled right here in the U.S. to claim foreign status, and avoid U.S. taxes, by setting up a P.O. Box in the Cayman Islands.
8. **Tax Risky Derivative Contracts on a "Mark-to-Market" Basis –** Limit Wall Street gaming in complicated financial products by streamlining the taxation of speculative derivative contracts.
9. **Limit Corporate Deductions for Excessive Executive Stock Options –** Curb big corporations from claiming huge tax deductions by paying executives in risky stock options instead of regular paychecks.

10. **Stop Wealthy Individuals from Playing Tax Games with their Retirement Accounts –** Tighten tax rules that let the wealthiest individuals play games with their retirement accounts to defer paying taxes on vast amounts of income.
11. **Defer Interest Deductions Related to Foreign Income –** Prevent big U.S. companies from deducting interest expense tied to foreign income until the foreign income is taxable in the U.S.
12. **Close Estate Tax Loopholes for the Wealthiest Americans –** Prevent millionaires and their heirs from using loopholes, like short-term grantor retained annuity trusts, to avoid the estate tax.

With more background:

1. **End Tax Deductions for Shipping Jobs Overseas –** The last thing we need to do is give companies an incentive for shutting down business operations here in the U.S. and offshoring those jobs overseas. But right now, the tax code allows businesses to deduct their expenses when they move a plant overseas. Closing this loophole would save about $200 million over ten years.
2. **Close the Corporate Jet Loophole –** Corporate jet owners can deduct their investments over five years, while commercial aircraft must be depreciated over a longer period. Closing this unfair loophole would save taxpayers almost $4 billion over ten years.
3. **Close the Carried Interest Tax Break –** With the "carried interest" loophole, hedge fund managers and private equity advisers face a 20 percent tax rate on their compensation, while all other taxpayers pay ordinary rates of up to 39.6 percent. Ending this loophole would save more than $17 billion over ten years.
4. **End the John Edwards/Newt Gingrich Loophole –** Some wealthy business owners knowingly mischaracterize their income as business profits instead of salary to avoid Medicare and Social Security payroll taxes. Ending this loophole would save about $12 billion over the next ten years.
5. **Stop Tax Subsidies for Yachts and Vacation Homes –** The wealthiest Americans often are able to deduct interest on loans that finance their vacation homes and yachts. Closing this loophole could save taxpayers as much as $15 billion over ten years.
6. **Close the "Check-the-Box" Loophole –** Many U.S. multinational corporations use this loophole in the tax code to make certain foreign subsidiaries disappear on paper, simply by checking a box on an IRS form. This allows these companies to avoid massive amounts of U.S. and even foreign taxes. Ending these so-called "Check the Box" schemes would save as much as $80 billion over ten years.
7. **Treat Companies Managed and Controlled in the U.S. as U.S. Companies –** Companies that are managed and controlled right here in the U.S. can avoid taxes by incorporating and setting up a P.O. Box in a tax haven overseas. In fact, 18,000 companies claim their headquarters is located inside a single five-story building in the Cayman Islands. Ending this loophole would save taxpayers almost $7 billion over ten years.
8. **Tax Risky Derivative Contracts on a "Mark-to-Market" Basis –** Excessive and risky bets on derivative contracts were a primary cause of the financial crisis. But the current

tax system actually encourages these risky bets with complex and inconsistent rules, allowing Wall Street bankers to game the system. Streamlining the tax rules for speculative derivative contracts – by taxing them on a “mark-to-market” basis – would save at least $16 billion over ten years.

9. **Limit Corporate Deductions for Excessive Executive Stock Options –** Right now, big corporations claim enormous deductions by compensating their executives in stock options instead of regular paychecks, thereby skirting existing rules that limit deductible cash compensation to certain employees to $1 million per year. This loophole encourages the same type of reckless, short-term profit focus that contributed to the financial crisis. Closing this loophole would save as much as $50 billion over ten years.
10. **Stop Wealthy Individuals from Playing Tax Games with their Retirement Accounts –** Wealthy individuals should not be able to use their tax-deferred Individual Retirement Accounts (IRAs) as estate planning tools. But right now, that is exactly what is happening. Tightening these rules to prevent individuals from accumulating millions and millions of tax-deferred dollars in IRAs, as well as continuing to defer tax on these amounts until decades after they die, would save about $10 billion over ten years.
11. **Defer Interest Deductions Related to Foreign Income –** Current tax rules allow U.S. multinational corporations to finance expanded overseas operations with debt, and then deduct the interest on that debt before they report any foreign income to the IRS. This unfair tax break shifts tax burdens onto Americans and U.S. businesses without foreign operations. Ending this loophole would save more than $50 billion over ten years.
12. **Close Estate Tax Loopholes for the Wealthiest Americans –** Millionaires and their heirs can skirt the estate tax through a form-over-substance scheme that involves setting up a two-year grantor retained annuity trust (GRAT). If the grantor outlives the trust term of two years, the trust assets avoid estate taxation. Closing this loophole, by requiring a ten-year minimum term for grantor trusts, would save more than $3 billion over ten years.