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House Tax Extenders Bill Is Bad for Business and the Economy

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The Senate should alter the House tax extenders package that contains tax increases and budget gimmicks. These tax credits will only complicate the tax code, increase the burden on businesses, and increase energy prices. In a sluggish economy, tax increases will only slow the economy more as the costs to business and individuals increase.

Increased Costs to Businesses. In order to meet PAYGO standards, the bill contains over $60 billion in tax requirements. Tax increases for businesses account for half of the total tax hikes, with the other half coming from tax increases on deferred compensation and attempts to close the tax gap. Energy and companies with assets in foreign countries will bear most of the tax increases.

Companies that have investments that generate income and assets abroad will pay $18.6 billion more in taxes over the next 10 years. The current legislation postpones the worldwide interest tax credit for another six years. Originally the credit was to take effect in 2009, but due to earlier legislation the tax credit could be postponed to 2016. The continual postponement of this tax provision is bad policy, as businesses need stability in tax policy to enable smooth planning for the future.

Another provision in the bill is a timing trick that is scored by the Joint Tax Committee as not having a long-term revenue effect. But in reality this provision will affect many businesses. The tax extender bill forces businesses to pay a larger share of their yearly tax in the third quarter of 2013 and less in taxes in 2014. While this zeroes out because of fewer taxes in 2014, this provision is still a cost to businesses. Businesses will be forced to recalculate their taxes as well as lose the time value of $30 billion for the three months. This provision serves no purpose other than forcing businesses to pay for other tax credits and to keep the bill compliant with PAYGO.

Oil Taxes Hurt Consumers. The bill increases taxes on oil and gas in three ways: (1) freezing the corporate tax deduction rate for manufacturing at 6 percent instead of a scheduled increase to 9 percent for all other domestic manufacturers, (2) placing more stringent rules on the way in which oil and gas companies calculate their foreign tax credits, and (3) increasing the amount producers must pay into the Oil Spill Liability Trust Fund. According to the Joint Committee on Taxation, the increased taxes on energy would sum to $8.85 billion over 10 years.[1]

And these tax increases are for all oil companies, not just the larger ones. Unfortunately, the unintended consequences of higher taxes on oil and gas will result in restricted supply and increased prices by discouraging investment in domestic drilling for oil and natural gas. When Congress raises the cost of capital for exploration and production, it is the consumers that suffer, because oil companies do not

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pursue these resources as they are no longer economically viable.

Congress should be creating incentives that result in increased supplies of oil and gas, especially in these times of high gasoline and home heating costs. Congress's tax proposal places domestic oil producers at a disadvantage when competing with foreign oil producers. In the end, as the global demand for oil and natural gas continues to grow and Congress confines domestic supply, American consumers will be the ones paying the higher price.

Incentives for Unsuccessful Energy Sources. The bill also includes extended tax credits for renewable sources of energy such as solar, biomass, biodiesel, and geothermal. In addition, the bill provides refueling property credits for ethanol and biodiesel gas pump stations as well as tax credits for plug-in hybrids and more energy-efficient homes, buildings, and appliances. These energy sources have been receiving federal assistance through tax incentives, subsidies, and mandates for decades with very little success.

The reason these sources need handouts is that they would simply not be able to stay afloat in a free market. Even after over 30 years of special tax breaks, alternative energy still provides only a small fraction of America's energy needs. For example, wind and solar energy account for less than 3 percent of America's electricity because of their high costs and unreliability.[2]

Increased Refundability of the Child Tax Credit. The bill has a provision that will increase the refundable portion of the child tax credit for 2009, and the Joint Tax Committee has scored that provision at $3.4 billion. This is a dangerous provision, because once it is enacted it becomes very easy to continue extending the provision. The small upfront cost is just a small portion of the cost of the bill if it is extended against next year. This provision is using the tax code as a vehicle for social spending, since these families pay no income tax. This tax provision does not promote economic growth and will actually slow the economy as money to pay for this provision is being taken from productive businesses and individuals.

Beware of Hidden Costs. The tax extenders legislation that passed the House 257–166 on September 26 has significant problems. The tax cuts and increased spending in the bill are being offset by tax increases on businesses. There are also hidden costs in the bill that will likely increase deficits in future years. Elements of the bill that raise taxes, increase the deficit, or complicate the tax code should be eliminated.

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1. Joint Committee on Taxation, "Estimated Budget Effects of H.R. 7060, the 'Renewable Energy and Job Creation Tax Act of 2008,'" JCX-76-08, September 25, 2008.
2. U.S. Department of Energy, Energy Information Administration, "Renewable Energy Consumption and Electricity Preliminary 2006 Statistics," August 2007, table 4, at *http://tonto.eia.doe.gov/FTPROOT/renewables/pretrends.pdf* (September 26, 2008).