U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

http://finance.senate.gov

MEMORANDUM

To: Reporters and Editors
Re: Response to report on JOBS Act alternative
Da: Wednesday, Feb. 25, 2004

The Congressional Budget Office (CBO) has issued a report analyzing the economic growth that would result from an alternative tax cut proposal to the foreign sales corporation/extraterritorial income bill advanced by Sen. Chuck Grassley, chairman of the Committee on Finance. Grassley's bill, known as the *Jumpstart Our Business Strength (JOBS) Act*, would repeal the current extraterritorial income tax regime and replace it with a tax cut for all manufacturers, including family-held S corporations and partnerships that produce goods within the United States. Grassley's bill would cut taxes only for manufacturers, since they receive 89 percent of the FSC-ETI benefits and therefore would face a huge tax increase under repeal of the current tax regime with no replacement. Grassley's bill is completely revenue-neutral, offset with a series of good government measures he has long advanced, including a crackdown on tax shelters. The Finance Committee passed Grassley's bill on a bipartisan vote of 19 to 2.

Sens. Don Nickles and Jon Kyl propose an alternative that would cut taxes by 2 percent for only large corporations, and not just for manufacturers. The Congressional Budget Office analyzed their proposal for long-term economic growth and efficiency. Grassley made the following comment on the analysis.

"The report says the Nickles-Kyl approach would yield slightly more long-term growth than my bill. But the reason has nothing to do with my manufacturing tax cut. CBO says the anti-tax shelter provisions and Senators Smith and Ensign's homeland reinvestment provisions are the cause. CBO says that because my bill shuts down shelters, corporations' taxes won't be as low and therefore, their long-term growth won't be as high. That might be true, but shutting down abusive tax shelters is the right thing to do. It's unfair to let certain corporations evade their fair share of taxes while other companies and individuals pay what they owe. Ending corporate abuses also will help to restore faith in corporate America, which could lead to more investment and ultimately, more jobs.

"CBO also concludes that Senators Smith and Ensign's temporary one-year rate cut won't help in the long-term. However, it's designed to stimulate short-term growth, and it's a popular provision with many members.

"CBO believes the Nickles-Kyl approach is more efficient than mine. My staff called the CBO economists to find out what that means. They said it means that a manufacturing rate cut would cause more capital to flow into the manufacturing sector. I don't see the problem with that. Tax cuts for manufacturing are supposed to increase capital investment, which can lead to job creation. If we increase taxes on manufacturing, then capital should flow out of the manufacturing sector -- the opposite of what we want. The Joint Committee on Taxation says 89 percent of the FSC-ETI benefits go to manufacturing. FSC-ETI repeal is not a tax increase on the service and financial sectors. If we don't put the repeal money back in manufacturing, then we're increasing taxes on manufacturing. No amount of efficiency arguments can change the simple fact that a tax cut for bankers, marketing companies, and restaurants comes out of the hide of manufacturers."