washingtonpost.com

Late Deals Got Tax Cut Done

With Deadline Looming, Negotiators Kept Cost at $350 Billion

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Friday, May 30, 2003; Page A05

Multinational high-technology companies, rural health care and millions of poor children were among the losers in the negotiations last week as Republican lawmakers completed their $350 billion tax cut plan by the White House's Memorial Day deadline.

Mammoth sport-utility vehicles, well-heeled corporate executives and Bermuda-based corporations were among the winners.

In the mad dash to reconcile the Senate's and House's competing versions of the tax cut, provisions large and small washed out of the final bill, while last-minute efforts to close loopholes failed under deadline pressure. As details emerged, Democrats renewed their criticism of the tax bill signed into law Wednesday, while Republicans continued to trumpet their success.

"While the Republicans' tax break leaves no business behind, it leaves behind millions of children from working poor families," Rep. Nancy Pelosi (Calif.), the House Democratic leader, said yesterday in a prepared statement. "Faced with a choice between giving a tax break to an elite few or helping millions of working families, the Republicans once again chose to help their wealthy friends."

"This administration treats taxpayers fairly," White House spokesman Ari Fleischer said yesterday. "This administration treats taxpayers right."

Perhaps the highest-profile victim of negotiations between House and Senate Republicans and the White House was a Senate provision that would have extended the child tax credit to working families on the edge of poverty. Because the provision did not survive, 8 million children will get no additional benefit from the tax bill, and another 4 million will get only a limited benefit, according to the Center on Budget and Policy Priorities, a liberal think tank.

Congress approved President Bush's proposal to immediately raise the $600 child credit to $1,000, which otherwise would have happened slowly over this decade. But Bush did not urge acceleration of another provision of the 2001 tax cut that in 2005 will increase the size of the child credit for low-income families that pay little or no income tax, and neither did the House.

The Senate bill included a low-income child credit provision that would have benefited families with annual incomes from $10,500 to $26,625, at a cost of $3.5 billion. It was dropped to help squeeze the House-passed tax cut down to the size -- $350 billion through 2013 -- that could win final approval in the Senate, said Christin Tinsworth, spokesman for the House Ways and Means Committee.

"Adjustments had to be made," she said.

That was not the only adjustment. Senate Finance Committee Chairman Charles E. Grassley (R-Iowa) lost a provision he has long advocated that would have changed Medicare reimbursement formulas to benefit rural hospitals and doctors. Rural lawmakers have long complained that Medicare formulas were

driving health care providers out of their communities, but House negotiators chucked the provision, deriding it as "pork."

Also dropped was a Senate-passed measure -- pushed hard by high-tech companies -- that would have allowed corporations to return earnings from overseas at a tax rate of 5.25 percent, instead of the regular corporate tax rate of 35 percent.

House members lost another corporate perk, a $15 billion provision that would have allowed companies to use current losses to reduce tax liabilities as far back as five years. Companies can now "carry back" losses only two years, but since many companies began losing money only after Sept. 11, 2001, a two-year limit is of no help, since they have not had to pay taxes during that time.

But big business had its share of victories in the negotiations. Senate tax writers had said they would try to close a loophole in the Senate and House bill that would make the biggest luxury SUVs tax deductible for small businesses. But the loophole survived, in part because House Republicans wanted it to, and in part because tax aides did not have time to draft language that would allow businesses to deduct the cost of heavy pickup trucks from their taxes but not the cost of Cadillac Escalades, a Republican tax lobbyist said.

Perhaps the biggest break for business was what did not make it into law. To offset the cost of the tax cut, senators included provisions to crack down on abusive corporate tax shelters, combat some accounting scams such as those pursued by Enron Corp., prevent U.S. companies from moving their headquarters to post office boxes in offshore tax havens such as Bermuda and limit grossly inflated deferred compensation plans for corporate executives.

Last year, at the height of the corporate scandals, such measures appeared unstoppable. But more than a year after Enron's implosion, none of them became law. This time, House negotiators tossed them aside, saying they would not agree to any provisions that could be called tax increases. That came as a relief to business lobbyists who mobilized to kill the measures.

"The things that mattered most were all the things that didn't get in," said a Republican tax lobbyist. "That kind of stuff really matters."

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