Media Deride Tax Haven 'Cheats' and 'Loopholes;' Ignore Benefits

Broadcast news portray Obama policy as increasing government revenue; MSNBC, CNN depict it as eliminating unethical behavior.

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Strike while the iron is hot from the flames of populism. That mixed metaphor might explain the timing of the Obama administration's announcement of anti-corporate changes he would like to make to the tax code.

The administration's allies in the media have frequently used the word "loophole" to describe certain ways corporations and wealthy individuals avoid paying portions of their tax burden. Used in this context, "loophole" is a synonym for "cheat." However, like other tax deductions, these so-called loopholes have been incorporated into the tax code over the years and are for the most part legal. They also perform an important function in the global economy, a point that has been missed by mainstream media reports.

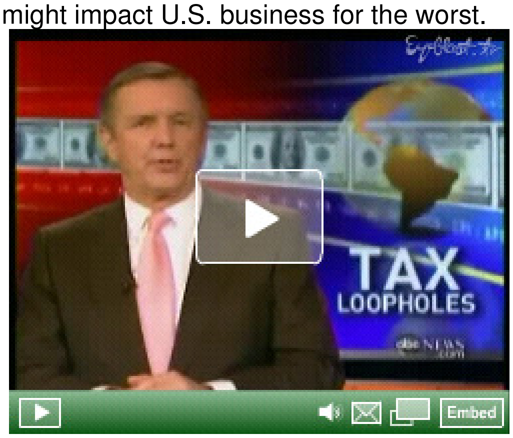
On May 4, President Barack Obama announced he would pursue measures to revamp the Internal Revenue Service (IRS) and close "loopholes" so that "offshore tax shelters" or "tax havens" wouldn't present an obstacle for government collection. Ironically, Obama made his appearance with Treasury Secretary Timothy Geithner at his side – who has had his own tax problems.

"Today, I'm announcing a set of proposals to crack down on illegal overseas tax evasion, close loopholes and make it more profitable for companies to create jobs here in the United States," Obama said.

According to the president, American companies would no longer be allowed take deductions on their overseas expenses if they don't pay U.S. taxes on their profits. His announcement was followed by a flurry media coverage including all three broadcast networks that evening.

ABC, NBC Ignore Consequences; CBS Offers Two Sides

The conservative Heritage Foundation called Obama's proposals "a fundamental misunderstanding of tax policy principles" that play a role in the global economy. None of the three broadcast networks offered this view in their reports, although "CBS Evening News" did show how such policy maneuvering might impact U.S. business for the worst.



Both ABC and NBC took the Obama position that companies shouldn't be allowed to limit their taxes. ABC's "World News with Charles Gibson" delivered some sound bites from Obama and portrayed "multinational corporations" as tax dodgers.

"President Obama today asked for a major change in the tax code to stop companies and individuals from using offshore tax shelters," Gibson said. "The President argues U.S. multinational corporations paid only $16 billion in taxes on $700 billion in overseas earnings. That's a 2.3 percent tax rate."

“NBC Nightly News” took it a little further on its May 4 broadcast, using the word “loopholes” and claiming those loopholes were worth $210 billion – to the government that is.

“President Obama laid out his plan to crack down on overseas tax shelters today, announcing a plan to close offshore tax loopholes that he said could bring in $210 billion over a decade,” “Nightly News” anchor Brian Williams said. “The plan still has to make its way through Congress, however.”

“CBS Evening News” gave the most comprehensive coverage of the three networks on its May 4 broadcast.

“As a candidate, Barack Obama promised to overhaul the tax code,” “Evening News” fill-in anchor Jeff Glor said. “Today as president he set out to do it. For starters, he wants to hire 800 new IRS agents to quote, ‘detect and pursue tax evaders.’ And, he wants to close loopholes in the law to eliminate overseas tax havens for corporations and individuals. And that he says would generate $210 billion in revenue for the U.S. Treasury over 10 years.”

CBS White House correspondent Chip Reid offered the Obama administration’s explanation of how the tax would work.

“The White House gives this example,” Reid said. “Two U.S. companies decide to build a new factory. Company A builds in the U.S. and is taxed 35 percent on profits. Company B builds in a foreign country, where the tax rate is 10 percent. It has to pay the other 25 percent only when it brings its profits back to the U.S. But many companies never do, instead reinvesting the money overseas.”

Even though Reid was accurate, he failed to point out the U.S. has the second highest corporate tax rate in the world behind Japan, which was even acknowledged by Jason Furman, deputy director of the National Economic Council for the White House on May 5.

But the CBS segment did explain how it would make U.S. companies vulnerable and aired a few sound bites from Marty Regalia, vice president and chief economist for the U.S. Chamber of Commerce, which opposes Obama’s plan. However, Reid said it would have a tough time making its way through Congress not because it is bad policy, but because of “business lobbyists.”

“For the president, getting this plan through Congress is not going to be easy,” Reid said. “Business lobbyists are expected to pull out all the stops in an effort to defeat it and on Capitol Hill today, even some top Democrats gave it a lukewarm reception.”

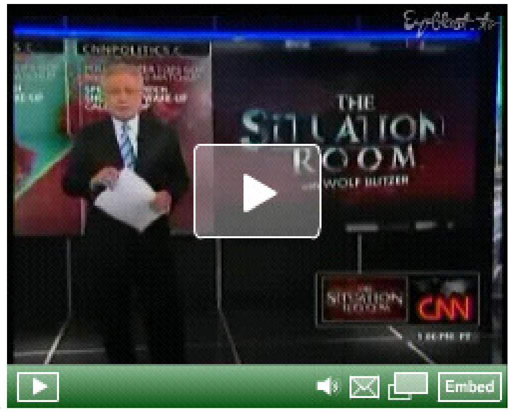
MSNBC, CNN Ramp Up Rhetoric

While Obama used class warfare rhetoric to sell his plan, cable news outlets CNN and MSNBC depicted those who are acting legally and keeping money overseas to avoid the high U.S. tax rates as doing something unethical, if not illegal.

On CNN’s May 4 “The Situation Room,” host Wolf Blitzer called Obama’s plan a policy that would “crack down on corporate tax cheats,” and speculated that the president “may be picking a tough fight with Congress and with big business.”

Liberal MSNBC host Rachel Maddow echoed Obama’s claims that a building in Cayman Islands, that is home to over 18,000 companies on paper – not proven to be illegal, is some sort of “scam.”

“Stopping U.S. companies from not paying taxes on their profits overseas, closing that loophole would bring in about $21 billion in tax revenue each year – revenue that is owed but is not being paid because of scams like the 18,000 companies in that one building in the Ugland House," Maddow said.



Maddow challenged Senate Minority Leader Mitch McConnell's assertion that closing these loopholes would be a tax increase. "Actually, the tax rate isn't going up at all," Maddow said. "It's just that corporations used to dodging taxes now will have to pay them."

But Maddow is incorrect, even according to the Obama administration. Jason Furman, deputy director of the National Economic Council for the White House explained on May 5 it's the loopholes that make corporate taxes a lower percent of gross domestic product (GDP) than they otherwise would be without them.

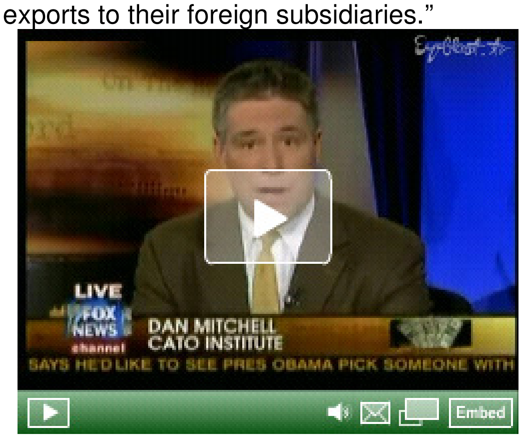
"But, the United States also has more loopholes and special tax preferences than many other countries," Furman wrote. "As a result, the United States has a much lower *effective* tax rate. If you look at corporate taxes as a share of GDP they are below those of most major economies."

Still, Obama's proposal doesn't give a tax break to offset the closure of these loopholes. As CNBC's Hampton Pearson pointed out on the May 4 "The Kudlow Report," closing the loophole would raise $210 billion in revenue from the private sector over 10 years, but only cut $75 billion from the tax burden, in the form of a "research tax credit."

How American Business Would Be Hurt

Critics of the Obama proposal suggest his policies are protectionism under the guise of tax reform because they create barriers to international trade. Shutting down supposed "loopholes" would hurt American business by making more expensive to participate in the global economy, as Business & Media Institute adviser and Cato Institute Senior Fellow Dan Mitchell explained.

"The big piece of what the president is talking about is this notion of ending what's known as deferral for U.S. companies, or severely restricting it," Mitchell said on Fox News Channel's "On the Record" May 4. "What this basically means is a giant tax increase on American companies that are trying to compete and win market share overseas. So, this is going to result in American companies losing business, closing down foreign subsidiaries, not bringing jobs back to America. Instead, they'll be getting rid of jobs in America because they'll no longer be sending exports to their foreign subsidiaries."



Mitchell explained it would burden American business with extra cost through double taxation – both at home and abroad.

"This is a spectacularly misguided proposal," Mitchell said. "In a global economy, you don't saddle your companies with extra costs. No other country in the world does this kind of crazy policy." Mitchell noted that even foreign governments with heavy-handed involvement in the economy don't operate under the plan Obama has proposed.

"What Obama's proposal would do is it would make the double taxation they pay to the IRS even worse," Mitchell said. "The Germans don't do that, the Canadians don't do that. Even the French, who love taxes, don't do this kind of crazy policy. We are literally shooting our companies in the foot while other countries are making it easier for their companies to compete around the world."

Marty Regalia from the U.S. Chamber of Commerce concurred with Mitchell's conclusions – that the Obama administration's proposal could hurt U.S. business. "We're going to penalize those companies simply because they are successful and the administration needs money," Regalia said on "CBS Evening News" May 4.

Havens Provide a Tax Check and Balance System

While these network reports analyzed how Obama's policies would bring in more revenue for the government, and created a sense that the president just wants big corporations and the wealthy to pay their fair share, they didn't recognize how these tax havens create a balance in the global economy.

On April 2, CNBC's Michelle Caruso Cabrera explained how countries considered tax havens kept other countries honest with their own tax policy, a point Mitchell elaborated on during CNBC's May 4 "The Kudlow Report."

"Well, first thing to understand is all politicians hate tax havens," Mitchell said. "Why? Because politicians want government to behave like a monopoly or an oligopoly, when you're talking about the G20 and a bunch of politicians getting together in a room. Politicians do not want tax competition. They want to shut down the tax havens."

Mitchell likened it to interstate commerce and how bordering states compete with each other for business.

"Imagine if you're governor of Massachusetts – you would love to shut down New Hampshire because it's competition," Mitchell said. "Schwarzenegger would love to shut down Nevada because it's competition. All that's happening is the same thing on an international level. The U.S., France and Germany and other high-tax countries want to go after tax havens in general and then specifically on this proposal – Obama and the rest of the collectivists on the left hate tax havens because they're outposts of freedom that make it easier for American companies to compete around the world. We should want American companies to compete."

One of the proposals put forth during the G20 in April was to go after countries considered tax havens with international sanctions. But as Mitchell explained, that's interfering with the sovereignty of other countries.

"I think every country should have the sovereign right to determine its own tax policy," Mitchell said. "And if some place like Singapore, or the British Virgin Islands, or Switzerland has a better tax system than we have, it shouldn't be our right to bully them into changing their tax laws anymore than we would want a foreign country to tell us what our tax laws are allowed to be."

His solution? Instead of threatening other countries, reform our own tax code and make the U.S. a more lucrative place to locate a business or keep money rather than having to avoid the complicated U.S. tax system.

"So if we're worried that some Americans – either businesses or individuals are moving their money to countries with better tax law, that should be a lesson to us that we should fix our tax law," Mitchell added. "That was the great insight of the Reagan tax cuts, which owed so much to Jack Kemp … When we lowered tax rates dramatically in the 1980s, we collected a lot more money from rich people. There was a huge Laffer Curve effect. That's the right way to get the rich people to pay more. Not by interfering with the right of other sovereign jurisdictions to have the kind of tax policy that we should have."