Obama's anti-loophole call gets clean-energy exception

(Source: The Washington Times)By Kara Rowland, The Washington Times

Feb. 08--One week after he called on lawmakers to close tax-code loopholes that benefit specific industries, President Obama proposed one of his own -- a tax break aimed at spurring the development of energy-efficient commercial buildings.

In doing so, Mr. Obama underscored the herculean challenge of simplifying the tax system in Washington, where loopholes are in the eye of the beholder.

Even as the president touts preferences for renewable energy, he has called for eliminating tax breaks for oil companies. During a visit to Pennsylvania State University last week, Mr. Obama justified his Better Buildings initiative by saying "it's time to stop subsidizing yesterday's energy; it's time to invest in tomorrow's."

Some tax-policy analysts cited the president's latest proposal as symptomatic of the difficulties involved in tackling the federal tax code.

"All Obama is doing is swapping one set of loopholes for another," said Dan Mitchell, a senior fellow at the Cato Institute. "This is why our tax code is a 70,000-page monstrosity. Politicians just can't resist doing this kind of stuff."

Mr. Obama has long been an advocate of renewable-energy credits, including a $3,000 tax rebate to retrofit homes that was part of the 2009 stimulus. His latest proposal includes more generous tax breaks and easier access to loans to fund retrofits, both intended to boost energy efficiency in commercial buildings by 20 percent by 2020.

The White House declined to estimate the proposal's price tag, saying the cost would be in the 2012 budget submitted to Congress next week. But Mr. Obama said he will rely on money from closing oil and gas tax breaks to help pay for the proposal -- an idea he also pushed in his State of the Union address.

In that speech, Mr. Obama called for an end to oil subsidies.

"Over the years, a parade of lobbyists has rigged the tax code to benefit particular companies and industries. Those with accountants or lawyers to work the system can end up paying no taxes at all. But all the rest are hit with one of the highest corporate tax rates in the world," Mr. Obama told Congress. "Get rid of the loopholes. Level the playing field. And use the savings to lower the corporate tax rate for the first time in 25 years -- without adding to our deficit."

Mr. Obama reiterated his goal in a speech Monday to the U.S.

Chamber of Commerce, saying that because of "various loopholes and carve-outs that have built up over the years, some industries pay an average rate that is four or five times higher than others."

A White House spokeswoman did not respond to questions, but Michael Ettlinger, vice president for economic policy at the Center for American Progress, said there's nothing wrong with eliminating some corporate tax breaks while adding new ones.

"I don't believe that the president said he was going to close every single corporate tax break or loophole," Mr. Ettlinger said. "So picking and choosing which tax breaks to close, based on their merits, and adding a new one, with enough money left over to lower the corporate tax rate, is a principled approach and consistent."

Mr. Obama's calls to lower the overall corporate income tax rate -- the second highest among industrialized economies -- drew bipartisan praise. As of 2010, Japan had the highest rate at 39.5 percent, with the U.S. closely behind at 39.2 percent, according to the Tax Foundation.

At the same time, a report from congressional scorekeepers on Monday shows that corporate tax payments in the U.S. will be one-third lower this year than in 2008. The CBO credited the drop to a dip in corporate profits, continued unemployment and an ever-expanding maze of federal tax deductions and credits.

While many tax analysts support the idea of simplifying the code and eliminating special-interest breaks, they caution that doing so may not save as much money as one might think. Cumulatively, corporate tax breaks in the U.S. are expected to amount to $102 billion in 2011 -- well below the total costs of tax breaks for individuals, such as the exclusion for employer-provided health insurance, measured at $177 billion, or the mortgage interest deduction, calculated at $104 billion, according to a 2010 Tax Foundation analysis.

Most corporate tax preferences benefit all corporations, while about one-fifth target specific sectors. Oil and gas companies receive almost $3 billion in tax breaks, according to the tax research group, compared with about $11 billion aimed at the renewable-energy industry.

In December, a bipartisan debt commission created by Mr. Obama called for ending $1 trillion in breaks for both individuals and corporations, but the 11-7 vote in favor of the plan fell short of the margin needed to advance it to Congress. The panel's proposal would have used the savings to help reduce projected deficits by $4 trillion in the coming decade.

Sen. Orrin G. Hatch, the ranking Republican on the Senate Finance Committee, said lawmakers should look at ending special tax breaks in the corporate and the individual tax codes but said that shouldn't be an excuse to pour the money back into the federal government.

"We should not use tax reform as a means of raising more money to spend. After all, Washington has a spending problem, not a revenue problem," said Mr. Hatch, Utah Republican.

Some analysts argue that rolling back corporate tax breaks wouldn't do nearly enough. Eric Toder, a fellow at the Urban Institute, said policymakers should instead repeal tax breaks for corporate shareholders to help deal with the problem of international tax avoidance.

"I'm not arguing against the desirability of closing some preferences and using it to buy down the corporate rate -- I just don't think it's going to get you that far. The way corporations are able to get away from paying taxes is a problem that's much more fundamental," Mr. Toder said, citing the example of global Internet giant Google Inc., which was able legally to lower its overseas tax rate to 2.4 percent through accounting techniques that moved its foreign profits through various countries.
