



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

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## MEMORANDUM

To: Reporters and Editors  
Re: President Bush's signing of business tax bill  
Da: Friday, Oct. 22, 2004

Today President Bush signed into law the business tax bill passed by Congress earlier this month. Sen. Chuck Grassley, chairman of the Committee on Finance, was the lead Senate author of the legislation and contributed the tax shelter loophole closers that ensured it added nothing to the current deficit. The new law contains the biggest business tax reform package since 1986, the most comprehensive agricultural, small business and rural community tax incentive package ever written by a Congress, and the strongest crackdown on tax shelters since 1986. Grassley made the following comment on the new law.

“This tips the scales of global competitiveness more in favor of American businesses. It’ll do more to help to maintain and create jobs in the United States than any law in decades.

“This is the most comprehensive agricultural, small business and rural community tax incentive package ever written by a Congress. It extends small business expensing for another three years and contains very significant S corporation reforms. S corporations can now have up to 100 members, and a family-owned business will have more flexibility in adding generations of family members as owners of the family business. It expands the New Markets Tax Credit to help economic development in rural counties that have lost population. It includes a National Health Service Corps loan program to enhance the delivery of medical services to rural areas. It gives cattlemen tax-free treatment if they lost livestock to drought and flood. It contains incentives for renewable fuels to support our energy independence. The bill contains ethanol excise tax reform, VEETC -- 37 of the 50 states will receive more highway money because of VEETC. VEETC and provisions that shut down fuel excise tax fraud will put more than \$24 billion into the Highway Trust Fund. These changes could create 674,000 new jobs across the country.

“The energy package includes new incentives for biodiesel. According to the American Soybean Association, the increase in demand for soybean oil created by biodiesel will add another \$2,000 to the bottom line of soybean farmers growing 500 acres of soybeans. These provisions mean jobs in the Heartland – more than 150,000 new jobs. In 2004 alone, renewable fuel made out of farm crops will add 22,000 new jobs. The new law devotes more than \$2 billion to the Section 45 renewable electricity production credit.

“The new law contains far-reaching measures to revive the manufacturing base in America by cutting taxes and creating incentives to invest in the United States. It devotes \$76 billion to American manufacturers in the form of a 3 percentage point rate cut. This manufacturing tax cut goes to large and small corporations, family-held S corporations, partnerships, sole proprietors, farmers, and co-ops. If you make it here, you get a tax cut here. This \$76 billion is only for manufacturing in the United States. It’s not for manufacturing offshore.

“The changes will end the European Union sanctions on American exports, which we refer to as the Euro tax on American goods. These sanctions are costing American workers their jobs because American goods continue to be frozen out of the European marketplace. Those sanctions hit farm products, timber, paper, citrus, and manufactured goods. The sanctions are now at 12 percent. We fulfilled our commitment to repeal FSC/ETI. I fully expect the European Union to fulfill its commitment to lift these sanctions now. Innocent businesses have suffered enough.

“The legislation provides all of these benefits, nearly \$140 billion worth, but doesn’t add one dime to the federal deficit. It’s all paid for by shutting down corporate expatriations to Bermuda, tax shelter leasing abuses, and ending all the Enron tax shelter deals. This is the strongest anti-tax shelter measure since 1986. These measures have been four years in the making. By enacting this law, we’re shutting down every known tax shelter.

“We’re denying the tax benefits of leasing tax shelters, known as the ‘Service-In, Lease-Out’ or SILO, tax shelter. In these scams, companies pretend to lease taxpayer-funded public works systems, like subways and sewers, and then lease them back to the cities. The companies claim depreciation on these taxpayer-funded assets, while the cities get upfront money from the shelter promoter that is just chump change, compared to what the companies get. This measure raises \$26.6 billion in revenue over the next 10 years.

“The new law has 21 provisions cracking down on tax shelters and requires companies and individuals to disclose to the Internal Revenue Service more details about tax shelters and boosts penalties for failing to do so. Tax shelter promoters are penalized even more heavily.

“We take aim at companies pretending to move their headquarters to an overseas tax haven – such as Bermuda – to evade U.S. taxes. This will hit the unpatriotic companies that dash and stash their cash.

“In response to the Enron Corp. and WorldCom scandals, the new law restricts the flexibility executives have in controlling distributions from deferred compensation plans and restricts nonqualified deferred compensation plans. One provision shuts down schemes to protect executives’ deferred compensation from creditors in the event of a corporate bankruptcy. This is a matter of fairness. Executives shouldn’t get to hide compensation from creditors while rank-and-file employees lose their shirts.

“The new law puts significant limitations on companies’ ability to take deductions for the cost of executives’ personal use of company aircraft. We’ll ground a good number of these high-flying corporate executives.

“In July 2001, we discovered a huge fraud upon the taxpayer – fuel tax evasion -- costing the taxpayers \$1 billion a year. One scheme involved an alleged terrorist cell that was skimming off money for unknown purposes.

“Corporations have been reducing their tax bill by hundreds of millions of dollars each year by taking intellectual property of little to no value and donating it to a charity. The new law ends this abuse while still encouraging the donation of legitimate intellectual property that has real value for actual development.

“The new law ends the shady practice of a donor giving a junker car to charity and claiming thousands of dollars for it as a deduction on his income tax. The reforms will place no additional burden on the donor and won’t reduce the amount going to charities from a donated car by a dime.

“There are many people going down to the Virgin Islands to get more than a tan. They go to avoid the tax man. The new law makes it harder for someone to falsely claim he is a resident of the U.S. Virgin Islands to qualify for special income tax treatment.

“The new law closes the loophole in which small businesses, doctors and lawyers are able to write off up to \$100,000 the cost of a large sports utility vehicle or truck weighing more than 6,000 pounds. It applies only to cars purchased after the date of enactment.”