United States Senate
Committee on Finance

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Ranking Member

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Grassley Praises Small Business Tax Relief, Loophole Closers With Minimum Wage Increase

WASHINGTON – Sen. Chuck Grassley, ranking member of the Finance Committee, today praised Senate passage of small business tax relief, paid for largely by closing abusive tax avoidance loopholes, to accompany a minimum wage increase.

"We enacted small business tax relief the last time we raised the minimum wage, under President Clinton," Grassley said. "Small businesses have created most jobs over the last decade. The combination of a wage increase plus tax relief works. Employment is high, and we need to keep it that way. Minimum wage workers want an increase, but they also want to keep their jobs. We're helping with both. At the same time, it's only fair to fix areas of the tax code that some exploit and abuse for personal gain. Every taxpayer who doesn't pay what he owes makes a sucker out of everyone who does."

The Senate today passed the *Fair Minimum Wage Act of 2007* by a vote of 94 to 3. The Finance Committee, of which Grassley is the leading Republican, contributed the measure's package of small business tax relief and tax loophole closers. Grassley developed many of the bipartisan loophole closers as committee chairman.

The next step is to reconcile the Senate bill with the House-passed bill, which only raises the minimum wage and does not offer tax relief for small businesses or close tax loopholes. "This bill is a good mix of things both Democrats and Republicans want," Grassley said. "I'll be disappointed if the House rejects the Senate's proposal on arrival. You have to compromise to get anything done in Congress."

The following tax relief provisions were included in the legislation:

Expensing. A one-year extension of a provision allowing small businesses to combine as much as $112,000 in expenses into one annual tax deduction.

Leasehold Improvements. An extension through March 31, 2008, of the provisions that allow property owners to more quickly deduct the cost of making improvements to a restaurant or to leased property. Also, extends the provision to apply to improvements made to owner-occupied retailer space and for the construction of new restaurants.

Cash Method of Accounting. A permanent change to the tax code that will allow more businesses to simplify their bookkeeping by allowing them to use the cash method of accounting for tax purposes.

S Corp Reforms. A modification to the standards that allow small businesses to qualify for or stay within the S Corp tax rules.

Certified Professional Employer Organizations. Establishes a certificate program for companies that provide and oversee employees for other corporations. The certification would require these companies to meet certain standards set by the IRS. Businesses that contract with certified professional employer organizations would be assured they would not be liable for those taxes already paid to the certified professional employer organization.

Work Opportunity Tax Credit. A five-year extension of the tax credit provided to employers who hire workers who have experienced barriers to entering the workforce. Also, a modification to the work opportunity tax credit to include a tax credit for employing veterans disabled after the Sept. 11, 2001, attacks.

Loophole closers included in the bill include:

A further crackdown on leasing tax shelters. These leases involve companies that pretend to sell or lease taxpayer-funded public works systems, such as subways and sewers, and then lease them back to the cities. The companies claim depreciation on these taxpayer-funded assets, while the cities get up-front money from the tax shelter promoter that Grassley has called "chump change," compared to what the companies get. Under Grassley's leadership, Congress in 2004 largely outlawed tax benefits from these transactions.

Grassley and Sen. Max Baucus have argued that even in cases of leases entered into before the 2004 law, the holders of the shelters should not gain future benefits -- especially if the lessee is a foreign person or company – because these deals are so abusive. Per the House's position, the 2004 law mainly restricts leases entered into after March 12, 2004. Today's legislation prevents companies from receiving tax benefits for leases entered into with foreign entities on or before March 12, 2004.

Further restriction on corporate inversions. In this practice, U.S. companies relocate nominally in overseas tax havens to reduce their U.S. taxes. The 2004 tax law restricted such transactions after March 4, 2003. Today's bill moves back the effective date to March 20, 2002, when Grassley and Baucus warned companies considering these deals to proceed at their own peril. This change is meant to capture any inversions that occurred in a rush to beat the new crackdown.

A **prohibition of the deduction of civil regulatory fines and penalties**, as well as punitive damages from a lawsuit, on federal tax returns. This grew out of some companies' attempts to deduct the expense of settling cases with the government over wrongdoing.

Encouragement of tax whistleblowers. These further refinements will help make sure the Internal Revenue Service fully encourages whistleblowers to come forward with information about tax cheats. Grassley sees this as an effort to help close the approximately $350 billion gap between taxes owed and taxes paid.

Grassley said today's loophole closers are a logical follow-up to the *American Jobs Creation Act of 2004*, which under his authorship in the Senate offered the strongest crackdown on tax shelters since 1986.

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