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Firms Pass Up Tax Breaks, Citing Hassles, Complexity

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For years, politicians have used targeted tax breaks to try to influence corporate behavior, offering lower tax bills as an incentive to hire more workers, boost energy efficiency and buy more equipment, among other things.

Both sides agree the code's complexity is unfair: While small and medium-size companies forgo the headaches and the tax savings, bigger companies can more easily afford the specialized accountants and lawyers needed to claim the best breaks and gain a cost advantage.



Many critics, particularly congressional Democrats, also say U.S. multinationals often use complex tax breaks to lower their tax bills too much or dodge taxes overseas. Some economists think the perception of unfairness may cause some companies and wealthy individuals to avoid complying with tax rules.

Tax consultants estimate that eligible businesses obtain as little as 5% of the main domestic tax breaks that they are entitled to claim. That means firms are leaving tens of billions of dollars on the table every year. Out of 1.78 million corporate tax returns in the U.S., only about 20,000 claimed any of the three dozen main business tax credits in the code, according to IRS estimates.

Treasury Secretary Timothy Geithner describes the numerous U.S. targeted breaks as the tax code's "overwhelming source" of complexity.

The tax thicket has been growing for years. In 1987, there were 128 major tax breaks for both individuals and companies, of which about 100 survive now. Another 100 or so have been created since then.

To be sure, some targeted business breaks are popular. A temporary tax measure known as "bonus depreciation" allowed companies to write off their investments in goods such as manufacturing machinery and computers in the year in which they are bought rather than over time. The White House estimates the subsidy, which lasted through December, saved companies roughly \$55 billion in corporate income taxes over each of the past two years.

The break was one reason total corporate federal taxes paid fell to 12.1% of profits earned from activities within the U.S. in fiscal 2011, which ended Sept. 30, according to the nonpartisan Congressional Budget Office. That is the lowest level since at least 1972, and well below the 25.6% companies paid on average from 1987 to 2008.

One reason government officials favor the breaks is that they are a politically expedient way to pursue policy goals—and potentially less trouble than a fundamental easing of business tax rates and rules. Because of political pressure to hold down budget deficits, U.S. lawmakers often design tax breaks in ways intended to narrow the number of beneficiaries.

More broadly, President Barack Obama in February proposed overhauling the U.S. corporate-tax code by lowering rates and limiting deductions. But the plan met with criticism from business groups that said it would favor some industries while penalizing others. He also has proposed a number of new breaks recently, including a new-jobs tax credit.