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Senate Panel Backs Bill to Give Tax Windfall to U.S. Companies

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WASHINGTON, Oct. 1 — American corporations that have deferred taxes for years on the profits they made overseas could be in line for a huge windfall from Congress.

Hoping to bring more investment to the United States, the Senate Finance Committee approved a bill on Wednesday that would give a one-time tax holiday to companies that have accumulated as much as \$400 billion in foreign profits on which they have yet to pay American taxes.

American companies can usually defer paying taxes on foreign profits as long as they keep the money outside the United States. Much of that money is reinvested in foreign operations, and some is parked in passive investments.

The Senate bill, which is part of a much broader bill to overhaul laws on international corporate taxation, would let companies bring those profits back and pay a tax rate of 5.25 percent.

Supporters say the six-month tax holiday could lure as much as \$300 billion back into the United States, which in turn would increase investment and create jobs.

To press their case, companies like [Hewlett-Packard](#) have formed a broad coalition that includes the likes of Eli Lilly, [Merck](#), [Intel](#), [Sun Microsystems](#) and [Dell Computer](#).

Among the coalition's main lobbyists are Bill Archer, the former chairman of the House Ways and Means Committee, and his former chief of staff, Donald Carlson.

"The question is, Do we want this money invested in equipment and plants in Egypt or do we want it invested in the United States?" Mr. Carlson said. "To get this much bang for the buck is a rarity."

But many tax experts, including top tax officials in the Bush administration, say the move would be a mistake because it would validate the strategies of companies that spent years sheltering the overseas profits.

"The company that left Louisiana is going to pay a 5 percent tax on the widgets they make overseas, and the company that stayed in Louisiana is going to pay a 35 percent tax," said Senator John B. Breaux, Democrat of Louisiana. "If that isn't an incentive to leave, I don't know what is."

Critics also warn that there is no guarantee that the companies will invest their repatriated profits in new factories or larger work forces. Indeed, Republican lawmakers defeated an amendment offered by Mr. Breaux on Wednesday that would have required companies to reinvest their foreign profits in things like new equipment.

Pamela F. Olson, assistant secretary of the Treasury in charge of tax policy, told lawmakers Wednesday that she

was skeptical about the bill's benefits and warned that it could "undermine taxpayers' perception of the fairness of the tax system."

The biggest beneficiaries of the legislation would be technology companies like Hewlett-Packard and Intel as well as pharmaceutical giants like Merck and Eli Lilly.

Hewlett, which has been one of the bill's most visible supporters, says it has accumulated \$14.5 billion in foreign earnings and has kept them outside the country, in part to avoid paying the American corporate tax rate of 35 percent.

Eli Lilly, whose products include the antidepressant Prozac, says it has \$8 billion in untaxed overseas profits. Intel, another big supporter of the legislation, says it has deferred taxes on \$6.3 billion of foreign income.

Lawmakers say the measure has a strong chance of becoming law. The Senate bill has support from most Republicans as well as some Democrats. In the House, the Republican chairman of the House Ways and Means Committee, Bill Thomas of California, has proposed a similar plan.

Despite its unhappiness about the bill, administration officials made it clear Wednesday that they would not try to veto the measure because they were more concerned about passing the broader legislative package.

The main purpose of the bill is to replace a tax break for American exporters that has been declared an illegal subsidy by the World Trade Organization.

If the United States does not repeal the tax break, which allows American manufacturers to avoid taxes on exports by establishing offshore sales corporations, the European Union has threatened to retaliate with \$4 billion in tariffs on products from the United States.

Treasury Secretary John W. Snow said in a statement Wednesday afternoon that the "top priority" would be replacing the tax break. "It is critically important that we continue to work together in order to get legislation enacted," he said.

But the effort to replace the old break with new ones of comparable value has touched off intensive lobbying by corporations.

The bill approved by the Senate Finance Committee would reduce the corporate tax rate on American manufacturers by as much as 10 percent and offer some modest new permanent tax breaks for American companies operating overseas.

The \$75 billion bill is supposed to be self-financing, with the new tax breaks being offset by the repeal of older ones.

But the bill has also become packed with items that benefit farmers and agribusinesses, oil and gas pipeline companies and even movie producers.

By far the most controversial of those measures is the proposed tax holiday on foreign profits, which supporters call the "homeland reinvestment act."

The idea has tremendous allure to lawmakers because it offers the possibility of bringing at least a brief flood of money into the United States.

The Joint Committee on Taxation, the nonpartisan Congressional agency that calculates the effect of tax proposals on revenue, estimates that a six-month tax amnesty for overseas profits could bring back \$135 billion.

Economists at J. P. Morgan who scrutinized the annual reports of large American companies estimate that American companies have parked as much as \$406 billion in foreign profits outside the country and that a tax holiday could lure back as much as \$300 billion.

Many tax experts say such estimates are greatly exaggerated, but even skeptics concede that the windfall to many large multinational companies could be huge.

The added political allure is that, at least on paper, the measure looks cheap. Congressional analysts estimate that the measure would actually increase tax revenue by several billion dollars in the first year because corporations would pay the 5 percent tax on all the profits they bring back home. Over 10 years, the Joint Committee of Taxation estimates, the Treasury would lose about \$3.7 billion.

After watching companies shed 2.7 million jobs over the last three years, most of them in manufacturing, lawmakers in both parties have become receptive.

Indeed, the Senate voted to include an identical provision in the \$350 billion tax-cut bill in this spring, but the provision was dropped during the House-Senate conference committee.

Dan Kostenbauder, Hewlett-Packard's vice president in charge of transaction taxes, said his company would use much of its tax windfall to reduce its debt. Last year, Hewlett lost more than \$3 billion on its operations in the United States but earned a profit of \$2.6 billion overseas.

"If we have cash in our foreign subsidiaries, we can't lend it to our American subsidiaries because it would be taxed immediately," Mr. Kostenbauder said. "Having this cash available would enhance our ability to compete."

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