

## GOP Corporate Tax Bill Hits Intra-Party Hurdle

By Alan K. Ota and Stephen J. Norton, CQ Staff

California Republican Bill Thomas, chairman of the House Ways and Means Committee, is turning to GOP leaders and K Street lobbyists for help in quelling an insurrection by a group of Republicans who are insisting that a corporate tax bill be revised to favor domestic manufacturers.

With increasing pressure for changes in the bill ([HR 2896](#)), GOP leaders are backing away from plans for a floor vote before the Nov. 21 target date for Congress to adjourn. And they have not decided how to deal with members of their own party who object to \$36 billion in tax benefits for multinational companies. (*CQ Weekly*, p. 2695)

Adding to troubles for the bill are objections from some Republicans to an "earnings stripping" provision, a \$2.7 billion revenue-raising offset that would narrow deductions for interest payments made by U.S. subsidiary companies on loans from their overseas parents.

"It's unclear right now whether we will need changes in the bill. What we are trying to do is grow the vote," said Majority Whip Roy Blunt of Missouri, who has been working closely with Thomas.

The measure was approved by Ways and Means on a party-line vote Oct. 28. At its core is a provision that would reduce the top corporate tax rate to 32 percent from 35 percent for domestic manufacturers, and that enjoys broad bipartisan support. But an intra-party fight has broken out over other elements of the bill, pitting giant multinational companies and major business groups against a loose coalition of domestic goods-makers that includes foreign companies that invest in U.S. factories.

Thomas insisted he has gained support in his caucus through a series of briefing sessions led by GOP leaders and tax writers including Jim McCrery, R-La., and Rob Portman, R-Ohio. But he and his allies acknowledge that they face resistance from a faction of members that may be crucial to passing a bill that is strongly opposed by Democrats.

For now, House GOP leaders are focused on getting Medicare ([HR 1](#)) and energy ([HR 6](#)) legislation completed this year. "We've got to get the big fish off the plate first," said Speaker J. Dennis Hastert, R-Ill., after a 90-minute meeting Nov. 6 with Thomas and Senate Majority Leader Bill Frist, R-Tenn.

### Rebel From Illinois

The rebellion against the corporate tax bill is being led by [Donald Manzullo, R-Ill.](#), who so far has gathered 24 signatures on a letter expressing opposition to it.

Manzullo has argued for deleting all tax breaks for overseas income. He also wants to nix the \$2.7 billion revenue-raising offset that he says is wrongly aimed at a crucial generator of U.S. jobs: foreign direct



Blunt, shown here discussing Medicare on Nov. 4, is hunting for votes for a corporate tax bill. (CQ PHOTO / SCOTT J. FERRELL)

investment. Interest deductions on loans given by foreign companies to their U.S. subsidiaries are essential to encourage a wide range of foreign investors to buy and operate U.S. factories, he says. The son of an Italian immigrant grocer, Manzullo says foreign companies have a good record of creating jobs in his district. He tells the story of a local machine tool maker that sold three parts of its company, which are now operated separately by Chinese, Israeli and Italian parents.

"If they made the changes that I want, I could support the bill. But they are not offering to do that," Manzullo said.

Michael N. Castle, an influential House Republican moderate from Delaware, said he is undecided. "There are between 20 and 60 potential 'no' votes, including members who are either against or leaning against the bill," Castle said.

Grover Norquist, president of Americans for Tax Reform, said Blunt and other GOP leaders have sent a strong message to business lobbyists to help Thomas move the bill. He said most business groups support the measure, including the National Federation of Independent Businesses, which represents the same small businesses that Manzullo oversees as chairman of the House Small Business Committee.

"We have been told that we need to help if we want the bill to get done." Norquist said. "If we have problems, we are being told they will be taken care of later, or in another bill."

## **Pressure From Europe**

Pressure for action is being driven by concerns that the 15-nation European Union (EU) will impose retaliatory tariffs against the United States early next year that could harm agricultural and industrial interests in the middle of a presidential election year.

The World Trade Organization (WTO) ruled two years ago that an existing tax break for U.S. exporters violates international trade laws, and granted the EU permission to impose \$4 billion in tariffs on U.S.-manufactured goods shipped to Europe.

U.S. lawmakers generally agree that they must find a way to comply with the ruling, but they are stuck on the issue of how to provide new benefits to business as they repeal the export subsidy.

Both the House bill and a Senate counterpart (S 1637), approved Oct. 1 by the Finance Committee with a bipartisan majority, would phase out the export subsidy over three years. The EU finds that unacceptable; however, both Thomas and Senate Finance Chairman Charles E. Grassley, R-Iowa, insist they will not revise the three-year phaseout. (*CQ Weekly*, p. 2428)

The European Commission, the EU's executive body, tried to raise the pressure on Congress to act by formally adopting a proposal Nov. 5 to impose the trade sanctions. The proposal would phase in the tariffs gradually, beginning March 1 with 5 percent of what the WTO ruling allows, followed by automatic monthly 1 percentage point increases to a ceiling of 17 percent that would be reached in March 2005.

"The commission hopes to pass a very clear message to the U.S. that their continued failure to implement" tax changes "is unacceptable," EU Trade Commissioner Pascal Lamy said. Lamy met with a half-dozen lawmakers in Washington the week of Nov. 3 to press Europe's case.

## Resisting Amendments

In addition to hunting for votes, Thomas is working hard to head off amendments to his bill. He said changes might draw additional complaints from the EU and insisted that quick action is needed to ensure lawmakers have time to complete the bill, preferably before the crush of business they will face when they return to Washington early next year. "We've got to deal with it now. Not then. There's no time," he said.

Still, Europe's actions the week of Nov. 3 may have the reverse effect of what was intended — and slow the legislative process. With a March 1 deadline now set, it seems less important to advance legislation this year, several House GOP aides said.

In addition, the punishments threatened by Europe are relatively light. "For individual products, the hit in terms of tariff cost is going to be really low — if barely noticeable," said one tax lobbyist.

Indeed, on the same day the European Commission was threatening tariffs, DeLay indicated that there was no imperative to get the bill through Congress soon. "Ways and Means is so overloaded, it's very difficult to get it done," DeLay said. "There is no doubt it will have to be done later."

DeLay said the legislation "probably" will come up next year as part of the budget process. If Republicans were able to insert reconciliation instructions outlining a corporate tax bill in the fiscal 2005 budget resolution, it would give the measure important procedural protections, particularly in the Senate.

Grassley says he believes there are few objections in the Senate to his bill, although Democrats might block the measure from coming up this year as part of their protest against being left out of some conference committees. (*Conferences*, p. 2761)

"We've got the votes," Grassley said. "It's just a question of when we go to the floor."

While acknowledging that compromises will be required to resolve difference among Republicans, Thomas argued against changing the House bill before a conference committee meets to resolve differences with the Senate. That would give Thomas more leverage to cut a deal with Grassley on the structure of business tax breaks, and on contentious revenue-raising offsets in the Senate bill opposed by the House.

A dilemma for GOP leaders in both chambers has been trying to mollify the EU without appearing to cave in to foreign pressure. Republicans also want to blunt attacks by Democrats who will say the House bill in particular is a gift to big companies.

## Fighting Defections

Meanwhile, GOP leaders are struggling to keep Manzullo and his breakaway band of Republicans from provoking additional defections. "Frankly, I have some problems with this bill, and I'm just not sure," said Dana Rohrabacher, R-Calif. "I don't want to see our tax system skewed to reward companies that go overseas."

Manzullo's arguments appear to be reaching beyond Republicans wary of free trade policies, such as Rohrabacher, to include some in the party who typically support trade deals and who are normally staunch allies of business.

"Why should we be giving a tax break to big companies that are moving jobs overseas and decimating our economy? What we should do is give the tax breaks to domestic manufacturers," said Sue Myrick of North Carolina, chairwoman of the conservative Republican Study Committee.

Ernest Istook, R-Okla., agreed. "People back home are worried about the loss of manufacturing jobs," he said.

In addition to concerns about the effect on U.S. jobs, Castle and other GOP moderates are worried about the House bill's \$60 billion cost and its impact on the budget deficit. The Senate bill would be fully offset with a variety of revenue increases.

Opponents of the House bill say they are gaining strength, in part, because of a defiant mood among some Republicans who do not want to bow to European pressure, and who question the resolve of the EU to engage in a trade war. "They always threaten to retaliate," said Bob Ney of Ohio. "But who knows what they will do? Maybe they will do nothing."