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TOP STORY

House GOP Leaders Delay Corporate Tax Package

Talks are stalled over breaks for domestic firms as deadline nears for EU tariffs

By **ALAN K. OTA**, CQ STAFF WRITER

House Ways and Means Chairman Bill Thomas moved his \$140 billion corporate tax cut package to a back burner Wednesday, raising the prospect that Congress will defy a European Union threat to impose retaliatory tariffs.

Thomas, R-Calif., and Majority Leader Tom DeLay, R-Texas, said they will likely postpone further action on the bill, which also includes \$80 billion in revenue increases. And they left unclear whether they still intend for the House to act first, or wait to receive legislation from the Senate.

"We don't have it fully written yet," DeLay said Wednesday.

Ways and Means marked up the bill (HR 2896) on Oct. 28. But it stalled when Donald Manzullo, R-Ill., led a revolt by 25 Republicans who complained that the bill offered too many tax breaks for multi-

national companies and not enough relief for domestic manufacturers.

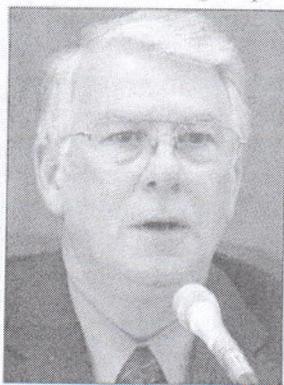
Talks between Manzullo and GOP leaders appear to be at an impasse. Instead of pushing for passage of the bill this month, House aides said Thomas and DeLay could well wait until February before trying to cut a deal.

Thomas said he was unsure when he would take the bill to the floor. "I may not . . . in its present form," he said. "It's a new year. You've got to think in new ways."

The EU has threatened to impose \$4 billion in tariffs starting March 1 unless Congress and the president repeal a current tax break for exporters that has been deemed an illegal

trade subsidy by the World Trade Organization (WTO). For now, GOP leaders in both chambers appear to be content to wait, while the tariff deadline moves closer.

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Manzullo's rebellion has tied the hands of House GOP leaders.

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Senate Finance Chairman Charles E. Grassley, R-Iowa, reiterated his view that Congress must finish legislation to replace the exporters' tax break with other tax cuts for business before Feb. 29 in order to avoid tariffs.

But Thomas and House GOP leaders appeared to be more willing to wait, possibly for increased pressure to force concessions either by lawmakers or by the EU. Lists are circulating on Capitol Hill of congressional districts and export products, including citrus and meat, that are likely tariff targets.

The Senate committee's bipartisan version of the legislation (S 1637) contains plenty of tax breaks for domestic manufacturers and has backing from Democrats including Minority Leader Tom Daschle of South Dakota. It includes \$112 billion in tax cuts fully offset by revenue increases.

But Senate GOP leaders are worried about possible amendments including conservative proposals to reduce the corporate income tax rate and efforts by Democrats and moderate Republicans to expand payments to low-income families under the child tax credit.

In a brief summary of his priorities for 2004, Thomas hinted that a number of key issues could simmer for weeks — without markups or floor action. In addition to the delay on the corporate tax bill, he said it will probably take a month for Rob Portman, R-Ohio, to complete work on a compromise bill that would provide tax breaks for savings accounts similar to a draft proposal floated by the White House.

Offsets Likely to Be Sought

Thomas said bills will likely be delayed by the demands of deficit-conscious moderates in the Senate for revenue-raising offsets to fully pay for tax-cut proposals.

The Ways and Means chairman also said tax writers need more details of tax incentives Bush is expected to include in his fiscal 2005 budget proposal that will be sent to Congress on Feb. 2.

Thomas said he favors the broad goals of Bush's proposals, outlined in the president's State of the Union address, to provide tax breaks for savings accounts. Yet he added that Portman's bill might be a modified version of Bush's plan. "It will come together

in slightly different form than perhaps the administration has presented, unless they are changing it from the last time they offered it," Thomas predicted.

One issue is whether to impose income caps that would limit tax breaks for the wealthy.

Portman said he is working with Benjamin L. Cardin, D-Md.

Lobbyists reported that the administration has been considering a \$3 billion, 10-year draft proposal that would allow after-tax contributions of \$5,000 apiece to new tax-advantaged savings accounts.

In his Jan. 20 speech, Bush renewed a separate plan to promote private accounts to help offset unfunded liabilities in the Social Security program. Thomas said he generally favors that approach, but added that he would include safeguards for retirement savings.

Thomas said he has not decided whether to attempt to extend the tax cuts enacted in 2001 (PL 107-16) and 2003 (PL 108-27) through individual bills or larger packages. He said he expects such measures will need to muster 60-vote majorities in the Senate to overcome opponents' filibusters. ♦