"There should be no question about closing the corporate loopholes that have cheated American tax payers for decades"

WASHINGTON – Congresswoman Louise Slaughter (NY-28), Ranking Member of the House Rules Committee, today announced that she has introduced legislation that would close a tax loophole which has cheated the government of millions and lead to the collapse of several American companies.

Specifically, Slaughter's legislation H.R. 2604 would limit "Reverse Morris Trust" (RMT) transactions, a tax avoidance loophole that currently allows companies to avoid paying millions of dollars in taxes. All too often, these transactions leave the spun off company unable to retain their workforce resulting in job losses by the thousands.

Based on analysis from the Joint Committee on Taxation in the 111th Congress, closing the RMT loophole would raise approximately $250 million over 10 years.

"As we continue our very serious conversation about reducing our deficit, there should be no question about closing the corporate loopholes that have cheated American tax payers for years," said Slaughter. "Americans understand that they are unfair and by closing the loophole that allows for the tax-free transfer of companies with a Reverse Morris Trust, we will save tax payers $250 million. What's really unfortunate about this particular loophole is that not only does it cheat taxpayers, it also exposes the purchased company to high debt and bankruptcy leaving their employees at risk. At a time when America is searching for solutions to balance our books, closing a tax loophole that often leads to job losses seems like a pretty common sense solution."

Under an RMT, a parent company can spin off a subsidiary that merges into an unrelated company tax free if the shareholders of the parent company control more than 50 percent of the voting rights and economic value of the resulting merged company. The result deprives the federal treasury of hundreds of millions of dollars. And all too frequently, the new entity incurs too much debt and lacks the capital needed to maintain services and perform system upgrades that it depends on to provide quality services to its customers and create good paying jobs.

According to a recent Forbes poll, Americans believe that corporations are "not" paying their fair share of taxes", with 56 percent saying they are not, 22 percent saying they are paying the proper amount, and only 11 percent saying they pay their fair share.

Almost identical language to Slaughter's bill was included and passed by the House in the Small Business and Jobs Infrastructure Tax Act, H.R. 4849, by a vote of 246-178 in the last Congress. The legislation failed to pass in the Senate.

Support for Closing the Reverse Morris Trust Loophole

Slaughter's legislation, H.R. 2604 has 17 co-sponsors.

Efforts to close this loophole grew out of concern that some large phone companies, including Verizon, used an obscure tax provision to make a profit on their phone lines by selling them to small companies that are unable to maintain and run the lines. With this in mind, Slaughter's legislation is supported by the International Brotherhood of Electrical Workers and Communications Workers of America.

The International Brotherhood of Electrical Workers released the following statement in support of the legislation, "The Reverse Morris Trust (RMT) is a classic example of an abusive corporate tax loophole; one that destroys jobs, companies, and communities all while enriching America's overpaid CEOs. The IBEW is grateful to Representative Slaughter for introducing H.R. 2604, legislation that will close the RMT loophole."

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Examples of the Loophole in Practice

Despite objections from the public and Congressional members, Verizon utilized the RMT to avoid taxes on a similar transaction with FairPoint Communications in Maine, New Hampshire and Vermont almost four years ago. As predicted, the result was unprecedented consumer complaints lodged with state regulators who were unable to reverse the negative consequences. On October 26, 2009, FairPoint declared bankruptcy, leaving the future of telephone service across all three states uncertain, and potentially putting at risk the compensation and benefits of thousands of employees.

Source: http://ibew2326.com/html/rmt.htm

H.J. Heinz sold various brands including Starkist tuna and 9-Lives cat food, to Del Monte Foods in 2002 for $2.8 billion using a Reverse Morris Trust.

Source: http://dealbook.nytimes.com/2008/06/04/how-to-brew-up-a-tax-free-sale/

Taking advantage of the loophole Procter & Gamble sold Folgers to J.M. Smucker Company to in June 2008 for $3.3 billion completely tax free.

Source: http://money.cnn.com/2008/06/09/magazines/fortune/sloan_smucker.fortune/index.htm

And in a marriage of peanut butter and jelly, P&G sold Jif and Crisco to Smuckers using a Reverse Morris Trust ten years ago for $806. In 2001, the tax-free transaction won the Investment Dealers' Digest’s Overall and M&A Deal of the Year.

Source: http://www.highbeam.com/doc/1G1-81405814.html and http://www.city-cap.com/news/2009/06-15-09.html