

Welch provision included in Small Business and Infrastructure and Jobs Act

The U.S. House on Tuesday passed a provision advocated by Rep. Peter Welch that would close the Reverse Morris Trust (RMT) tax loophole and save taxpayers \$260 million. The loophole was used by Verizon to avoid federal taxes when it sold its northern New England landline operations to FairPoint Communications in 2008.

By a vote of 246 to 178, the House approved the Small Business and Infrastructure Jobs Act (H.R. 4849). The legislation, which invests in local infrastructure projects and small business tax credits, is paid for in part by closing the RMT loophole. It incorporates a bill introduced by Welch and 21 other members of Congress this January (H.R. 4486), which focused on closing the RMT loophole.

"This loophole is bad for taxpayers, bad for consumers and bad for workers. By closing it and investing the savings in job creation, hardworking Americans – not corporations – will benefit," Welch said.

Under the Reverse Morris Trust, a parent company can spin-off a subsidiary that merges into an unrelated company tax-free, so long as the shareholders of the parent company control more than 50 percent of the voting rights and economic value of the resulting merged company. In northern New England, Verizon reportedly avoided hundreds of millions in taxes when it spun-off its landline operations to FairPoint, leaving the latter with overwhelming debt.

Currently, parent companies must pay taxes on gains from their subsidiaries if they receive cash payments, but not if they receive payments in the form of debt securities. H.R. 4849 changes the tax code so that debt securities paid to a parent company are taxed the same way as cash payments, removing the incentive to leave a subsidiary saddled with debt.

In addition to closing the RMT loophole, H.R. 4849 would:

- Extend the Build America Bonds program to make it cheaper for state and local governments to finance the rebuilding of schools, sewers, hospitals and transit projects.
- Exclude small businesses from capital gains
- Increase the tax deduction for start-up expenditures to encourage the formation of new small businesses