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Offsets Mean Tough New Era for Tax Lobbyists

By Alan K. Ota, CQ Staff

The package of small-business tax breaks set for Senate floor action this week is minuscule compared with the tax cuts enacted during the past six years under President Bush's watch.

But for K Street lobbyists, the \$8.3 billion tax cut package signals the start of a new era of double-edged Democratic tax legislation that will couple tax breaks coveted by business groups with revenue-raising offsets that will inflict pain on some businesses.

Senior Democratic aides say the tax breaks will be attached to a bill ([HR 2](#)) that would raise the federal minimum wage to \$7.25 an hour over two years. Floor debate on that bill will begin Monday.

The tax package — which would be fully offset over 10 years by a long list of revenue increases — has the support of the National Federation of Independent Business, National Retail Federation and other groups representing small businesses.

Although other business groups oppose parts of the package, they have not yet mounted campaigns to block it. And although businesses generally oppose increases in the minimum wage, the business lobby has been careful not to publicly antagonize the new Democratic majority on one of the party's top priorities.

Democratic Control Spurs Shift in Tax Lobbying Clout

With Democrats now in control of both chambers, the hierarchy within the lobbying corps following tax issues on Capitol Hill is changing. Below are some of the Democratic tax lobbyists likely to be called upon by businesses and trade groups hoping to minimize the damage to their interests as tax writers begin their efforts to reshape federal tax policy. Some of the best-connected Democratic tax lobbyists are former members of the House Ways and Means Committee or are former aides to Senate Finance Chairman Max Baucus, D-Mont.

Thomas J. Downey



The former New York congressman (1975-93) was a senior member of the Ways and Means Committee. He is now chairman of Downey McGrath Group representing clients including Fannie Mae and the Healthcare Association of New York State.

Nick Giordano



This former top aide to Baucus is a lobbyist at Washington Council Ernst & Young. The firm's clients include Ford Motor Co., the Biotechnology Industry Association and the Securities Industry and Financial Markets Association.

Dawn Levy



A former Senate Finance Committee tax counsel who reported to Baucus, Levy is a lobbyist for Cassidy & Associates in charge of tax and finance. Her clients include Wal-Mart Stores Inc. and AMR Corp.

Greg Mastel



This Miller & Chevalier lobbyist is a former chief of staff to Baucus and the Finance Committee's former chief international trade adviser and chief economist. His clients include Home Depot Inc., Eastman Chemical Co. and Nikon Inc.

Max Sandlin



The former House Democrat from Texas (1997-2005) has a Ways and Means seat on his résumé. He's now a Fleishman-Hillard lobbyist and says he is talking with business clients interested in the small-business tax package developed by Baucus. Sandlin has represented a number of clients with interests in taxes and health care.

Peter L. Scher



A former chief of staff to Baucus and to former Commerce Secretary Mickey Kantor, Scher is a Mayer Brown lobbyist representing clients including Time Warner Inc., Monsanto Co., Accenture and the Renewable Fuels Association.

Instead, business interests are sending teams of lobbyists into the fray — including former Democratic aides with close ties to key players like Senate Finance Chairman Max Baucus, D-Mont. — not so much to push for new tax breaks but to defend existing ones and to try to stave off tax increases.

Many of those lobbyists have close ties to the new Democratic majority in Congress. Former aides of Baucus, in particular, have been in demand on K Street by companies that hope to limit damage to their business interests.

“Most people in the business community are playing defense now on these tax bills. They want to prevent things from happening that will require their companies to pay for something,” said Greg Mastel, a lobbyist for Miller & Chevalier whose clients include Home Depot Inc. and Eastman Chemical Co. He is a former chief of staff to Baucus.

So far, Mastel has been fortunate. He was relieved that his former boss did not seek to remove tax breaks for some of his energy clients to pay for the small-business tax package.

Other business groups and their lobbying teams have not been so lucky. For example, a bipartisan group of lobbyists for the Securities Industry and Financial Markets Association has roundly criticized a proposal in Baucus’ tax package that would raise \$806 million over 10 years by capping at \$1 million the amount of tax-deferred pay that executives can set aside each year in compensation plans. The lobbyists argue that the proposal has not been fully vetted in a hearing or previous legislation.

Former Rep. Thomas J. Downey, D-N.Y. (1975-1993), now chairman of Downey McGrath Group, said that although Democratic lobbyists have more access in this Congress, that does not translate to automatic influence. “People aren’t going to get what they want just because they’re Democrats,” he said.

New Era of Offsets

Republicans enacted many of Bush’s signature tax cuts over the past six years with little consideration for offsets. But Democrats are now scrambling to find offsetting revenue for tax breaks both to comply with new pay-as-you-go rules in the House and to mollify Senate deficit hawks like George V. Voinovich, R-Ohio, who has offered his draft minimum wage increase with small-business tax cuts and offsets.

Business interests worried about the tax pain that offsets might inflict are receiving only mild support from the GOP and the White House. For instance, the White House said in a statement of administration policy on the minimum wage and small-business package that it “does not think it is necessary to tie this small-business tax relief to other revenue increases.”

With such tepid GOP opposition, tax increases for some businesses as a way to pay for other priorities seem certain to be on the table in coming months.

“In this environment, if you ask for something, you have to pay for it. Nothing is free,” said Dawn Levy, a former tax counsel for the Senate Finance Committee under Baucus who now lobbies with Cassidy & Associates for a number of big clients, including Wal-Mart Stores Inc.

Baucus said he was aware of the intense lobbying efforts on behalf of his modest tax cut bill. "There's always a lot of lobbying on tax initiatives. And it's the same this time," he said in an interview.

Yet Baucus said he did not expect business groups, for now, to try to block the package, and he was pondering a number of changes they are seeking. One is a request to extend beyond March 31, 2008, accelerated depreciation rules for leased property improvements. The bill currently would extend only the faster depreciation benefits that expire at the end of the year for the first three months of 2008.

Bipartisan Backing

Minority Whip Trent Lott, R-Miss., said he expected the minimum wage bill with the small-business tax breaks to advance in the Senate with bipartisan support.

Given that, business groups are targeting their objections more narrowly to offsets in the measure. The National Association of Manufacturers, U.S. Chamber of Commerce, and the Securities Industry and Financial Markets Association have lined up against the cap on tax-deferred compensation, though they do not have a GOP champion advocating their position.

Business lobbyists are opposing other offsets in the bill, including a proposal that would bar companies from deducting the punitive damage payments, which would raise \$244 million over 10 years.

And some lobbyists are planning to weigh in after the Senate finishes work on the combined minimum wage bill and small-business tax package. They are hoping that House Ways and Means Chairman Charles B. Rangel's insistence on advancing a final minimum wage increase measure without the business tax breaks or offsets will allow them to claim victory for their clients. Rangel, D-N.Y., has vowed to lodge procedural objections to a measure with tax breaks, invoking the constitutional requirement that revenue measures start in the House.

Former Rep. Max Sandlin, D-Texas (1997-2005), a lobbyist who was a member of the Ways and Means panel, said businesses hope Rangel's position would buy them time to argue against the offsets in negotiations to reconcile the different measures. "There's a lot of interest in the bill," he said.