

Rep. Peter Welch and 21 members of Congress introduced legislation late last week to close a loophole that allowed Verizon to avoid hundreds of millions of dollars in taxes when it sold its northern New England landline operations to FairPoint Communications.

The legislation, H.R. 4486, would eliminate the Reverse Morris Trust (RMT) provision of the federal tax code, which is increasingly used by regulated utility companies to avoid paying taxes while divesting of public infrastructure.

“This loophole is bad for taxpayers, bad for consumers and bad for workers,” Welch said. “It’s hard to understand what public good is achieved by subsidizing a corporation’s efforts to unload public resources on a debt-saddled company.”

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 was able to avoid hundreds of millions in taxes when it spun-off its landline operations to FairPoint, after which FairPoint was left with insurmountable debt.

Verizon is currently attempting to use the RMT provision to avoid taxes on \$3.3 billion in its proposed sale of landlines in 14 states to Frontier Communications. Lawmakers in each of those states recently wrote the House Ways and Means Committee chairman asking him to take up legislation to close the RMT loophole.

“We are concerned that consumers and workers will face the same consequences as those encountered by our counterparts in several Northeastern states, where Verizon engaged in a similar tax avoidance scheme with FairPoint Communications two years ago,” the 21 House members wrote in the December letter.

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. 4486 would change 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.

“It absolutely essential that we ensure our public utility companies have the resources they need to support consumers and preserve good jobs for workers,” Welch said. “Closing this loophole will make our utility companies stronger so that all Vermonters are served in the future.”