

Close the Reverse Morris Trust Tax Loophole Now

Communications Workers of America

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- The Reverse Morris Trust (RMT) is a tax avoidance loophole that should be closed. The RMT is bad tax policy that allows companies to avoid paying hundreds of millions of dollars in taxes with adverse consequences for consumers, workers, and the Federal Treasury.
- To qualify for an RMT and avoid paying taxes on any gains from a sale, the selling company's shareholders must own a majority of the post-merger acquiring firm. In order to do this, the acquiring company must be much smaller than the properties to be acquired.
- The RMT deprives the Federal Treasury of hundreds of millions of dollars with no public purpose. The RMT has the perverse effect of encouraging companies to seek small, otherwise unqualified buyers, simply to avoid taxes. Typically, the purchasing company is loaded up with debt and lacks the capital to maintain and invest in quality services.
- Currently, Verizon is seeking to utilize the RMT provisions to avoid \$600 million in taxes on the \$3.3 billion it will receive in its proposed sale to Frontier Communications. This transaction will result in Verizon dumping 4.8 million rural landlines in 14 states. The motivation behind this transaction is tax avoidance, not consumer benefit.
- Verizon engaged in a similar tax avoidance scheme in its 2007 sale of landlines to FairPoint Communications in Vermont, New Hampshire, and Maine. FairPoint Communications assumed massive debt and is now in bankruptcy. Consumers in these states suffer from deteriorating service, delayed broadband build-out, and workers must now protect their collectively-bargained compensation and jobs. FairPoint is trying to cancel the commitments it made to regulators to expand high-speed Internet and provide quality service.
- The proposed Verizon sale to Frontier will result in similar harm to consumers, workers, and communities. Frontier will not have the resources to provide quality telephone service and invest in broadband. Frontier is taking on \$3.3 billion in new debt. To service that debt, Frontier will have to generate six times the current cash flow generated in the operations to be acquired. According to Frontier documents, the company plans to decrease capital investment on the purchased networks, and to continue paying high dividends to shareholders that exceed its annual profits.
- Verizon avoided paying \$300 million in taxes in the FairPoint deal, and will avoid another \$600 million in the Frontier transaction. This \$900 million would be better spent expanding broadband services.
- It is long past time to eliminate the Reverse Morris Trust tax loophole. Taxpayers should not subsidize corporate transactions that harm communities, consumers, and workers by putting tax avoidance at the center of company decisions.