http://www.globalresearch.ca/corporate-profits-soar-the-super-wealthy-reinvent-american-capitalism/5357607?print=1

Corporate Profits Soar. The Super Wealthy Reinvent American Capitalism

By Shamus Cooke

November 10, 2013

As U.S. corporate profits soar to record highs, food stamps for the neediest were quietly cut. The politicians who are demanding endless cuts to social programs — Democrats and Republicans alike — insist that the U.S. is broke, all the while conveniently ignoring the mountains of tax-free wealth piling up in the pockets of the super rich.

This newest flood of cash for the nation's wealthiest 1% is a blatant government subsidy: the Federal Reserve continues to pump out an extra $75 billion a month, the vast majority of which fattens the already-bursting overseas bank accounts of the rich. Since Obama has been president this pro-corporate policy has helped funnel 95 percent of the nation's new income to the wealth-soaked rich.

And while it's true that the global super rich have an estimated $32 trillion [!] stashed away abroad in off shore tax havens, an even newer way to avoid taxes has gripped the endlessly-greedy minds of U.S.-based billionaires.

Instead of shielding themselves behind the classic 'C' corporation structure — and all the burdensome taxes and regulations associated with it — two-thirds of new corporations have "evolved" into pseudo-legal "partnership" structures, commonly referred to as "pass throughs," the idea being that the corporate-partnership instantly passes the profits through to the shareholders, no corporate tax necessary.

The most common form of pass throughs are “innovative” variations of a Limited Liability Company, a tax structure created in 1975 for narrowly regulated purposes. But now rich investors are performing accounting and legalistic somersaults to exploit the tax structure, practices that were illegal before the regulators were “captured” by the big banks.

The pro-billionaire Economist magazine recently discussed the pass through fad:

“A mutation in the way companies are financed and managed will change the distribution of the wealth they create…The corporation is becoming the distorporation…More businesses are now twisting themselves into forms that allow them to qualify as pass throughs.”

So, for example, imagine that nine rich guys get together and call themselves a pass through corporation of some variety. They do this because they want to avoid personal liability in case things go awry. Their partnership only buys and sells stocks and goes on to make billions, while paying zero corporate taxes. When their risky bets go bust and the partnership is sued by hoodwinked investors, the company instantly declares bankruptcy, since all profits were quickly “passed through.” The partners (the nine guys) cheerfully go home to swim through their sea of cash.

In real life shady pass throughs make massive wealth. Richard Kinder, who co-founded the biggest pass through, named Kinder Morgan, personally received $376 million in dividends last year alone [!], according to the Economist.

The pass through fad is on track to becoming the dominant way that the super rich get together to make huge amounts of money — pass throughs were 63 percent of all corporate profits in 2008, and are likely higher now, since many of the big private-equity companies making a killing by the cheap fed dollars are organized under pass through umbrella structures.

There is a huge society-wide risk for this type of behavior, which resembles the reckless gambling that destroyed the economy in 2008. As an ever-larger share of wealth is poured into these risky, non-regulated vehicles, the potential grows for them to self-destruct and pull down the broader economy with them. Pass throughs — which include most private-equity firms — function “efficiently” when the government is handing them cheap money; when interest rates go up, the pass throughs go bust, with predictable outcomes.

“But wait,” the billionaire will protest, “we pay individual taxes, which help fund social services.” Not necessarily. If the billionaire investor paid their legal obligation of “capital gains” taxes, they’d already be paying far less than the average worker. But the pass-through billionaires excel at avoiding all taxes. The Economist again:

“For a [pass through] partner a payout can be considered merely a return of capital rather than a profit, and consequently no tax is due until the sale of the underlying security. When tied to nuances of estate law, this may mean no tax at all.”

This type of blatantly criminal behavior used to be actually illegal, but as Wall Street bought Congress, the rules were either bent or ignored.

The Economist explains:

"The limitations on becoming [a pass through] seem to be tied more to legal dexterity [!] and influence [buying politicians] than any underlying principle. Politicians want to extend the benefits of [pass through] partnerships to industries they have come to favor either on the basis of ideology [of the corporate type], or astute lobbying [bribery], or a bit of both."

The rest of society is affected because public services are being starved of funds, while these new pass throughs face vastly less regulation than the standard C corporations, and push wealth inequality to new heights while threatening a deeper recession.

Historically, government began regulating corporations because everyone realized the profound effects these institutions were having on the rest of society; the nation was becoming more unequal, the labor force more exploited and the environment torn to shreds.

As the super wealthy organized themselves into corporations they took most of society's wealth with them; government realized that a semi-functioning country would need to tax these institutions and regulate their behavior, since the "natural" behavior of the capitalist — greed — was capable of pushing the rest of society into the dregs.

The new pass through fad is also indicative of the current state of U.S. capitalism; instead of investing profits in a company to buy machines or hire new workers, all the cash is either sitting in overseas bank accounts, or is being instantly funneled, via pass throughs, into the hands of ever-richer billionaires, who are proving to everyone that there is no bounds to the amount of cash they can accumulate. Where there are barriers to accumulation (regulations and taxes), they will supersede them while paying politicians of both major parties to ignore it or make it legal.

This dynamic occurs, in part, because the wealthy are basically refusing to invest in the real economy, as they fear the unstable economic conditions are not safe enough to make long term investments, which they believe won't yield long term higher rates of profits. Safer to speculate on risky stocks, pocket the money and be the first one out when things go bust, as they did in 2008.

Of course the big name C corporations are up to their eyes in fraud too. Apple made big news when it only paid 2 percenttaxes on $74 billion in profits, by "declaring" its profits in Ireland, a corporate tax haven.

This occurs while other giant companies simply use clever accounting tricks to pay zero taxes, including giants like WellsFargo, Boeing, Verizon and General Electric. In fact, General Electric even finagled a rebate.

When it comes to oversea tax havens, it's estimated that the U.S. national budget is annually starved of $280 billion in tax revenue.

Politicians have been struggling with ways to deal with the problem, since even in their mind some amount of tax collection needs to happen, if only to fund the military, provide more subsidies to corporations, and please the public by appearing to try to reduce the billionaire's obscene behavior.

One popular idea among the politicians is to declare a corporate "tax holiday," where the trillions of off-shore profits can be ceremoniously brought back to the U.S. while the feds look the other way. The idea is that, once the money is actually back in the U.S., the wealthy will want to spend it on something which will eventually help the economy — trickle down economics at its finest.

What seems certain to happen is that lowering corporate taxes will be a central piece of any "grand bargain" that eventually emerges, since there is a clear bi-partisan consensus that corporations need to pay lower taxes.

Some argue that if corporate taxes are low enough — and regulations removed — the corporations will reward the nation by not stockpiling their profits abroad and not creating pass through loopholes.

Of course all of this implies that the wealthy have a stranglehold over the U.S. economy. It's telling that politicians want to deal with corporate tax evasion by lowering the corporate tax rate, instead of actually sending the IRS after them and throwing them in jail, as they do with working and middle class people.

The above dynamics create an ever-increasing wealth inequality that claws at the thinning strings holding society together. The bankruptcy and social disintegration of Detroit is a foreshadowing event for the rest of the country, unless this dynamic is stopped.

When the next crash happens the nation will have learned its lessons: the big banks and wealthy investors who destroyed the economy in 2008 are back at it, encouraged by Obama's pro-corporate behavior and the Federal Reserve's money flooding.

It's becoming increasingly obvious that breaking the power of the super wealthy is the first step towards balancing the budget, job growth, protecting the safety net, and creating a semblance of a rational society. Until then the U.S. will lurch from one crisis to another, while blaming everyone but the real culprits.