

# GOVERNMENT MATTERS

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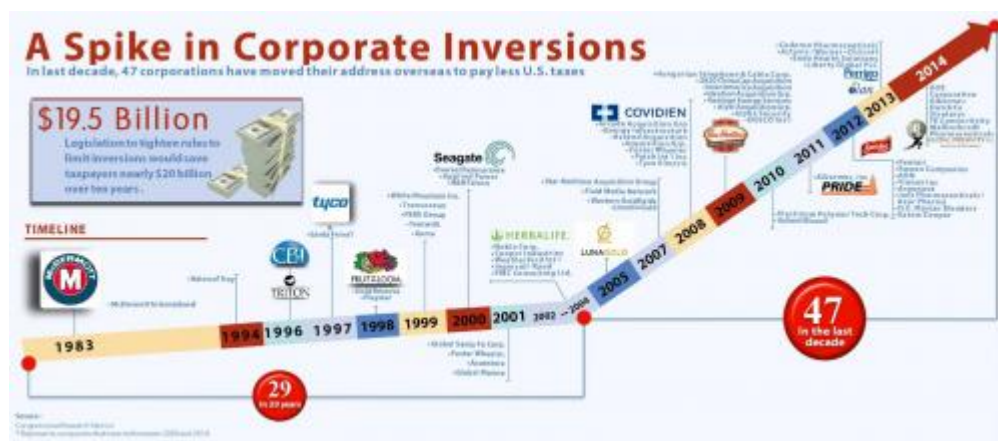
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## **32 Firms That Renounced America Paid CEOs \$439 Million Last Year**

**by Scott Klinger**

A trickle has turned into a torrent. Burger King's announcement last week that it would buy Canadian donut darling, Tim Horton's, and then move the merged corporation to Canada represents the 13th such deal announced this year. Most companies pursuing these "corporate inversions" have abandoned America for the express purpose of lowering their U.S. tax bills.

This year's baker's dozen of tax dodgers join 76 firms that have shed their U.S. identities and re-registered abroad since 1983, with 47 adopting inversions in the last decade alone, according to a [May 2014 report](#) by the Congressional Research Service.



[Click for enlarged view](#)

Firms that refuse to pay taxes to support the public services and people that have helped their businesses thrive defend their actions by saying they are simply responding to their financial obligations to shareholders to lower company costs and boost corporate profits. Does that passion for cutting costs carry over to the pay of company CEOs?

We looked at the pay of the 32 companies that have undergone foreign corporate inversions and continue to report their executive compensation in their annual proxy statements filed with the U.S. Securities and Exchange Commission (SEC). We counted salary, bonus, non-equity compensation, perks (including personal use of corporate jets, country club fees, and personal financial service planning), as well as the value of stock grants vested and stock options cashed in. We did not include the theoretical value of new stock grants or stock options.

The CEOs of these firms collectively took home \$439 million in 2013, an average of \$13.7 million per CEO. Eight of the CEOs pocketed more than \$20 million each, and Stephen Luczo, CEO of Seagate Technology, took home nearly \$46 million last year. Seagate is a cloud-based data storage firm that operates out of California but is incorporated in Ireland.

<b>Inversion Date</b>	<b>Company</b>	<b>CEO</b>	<b>Total realized pay (2013)</b>
2000	Seagate Technology	Stephen Luczo	\$ 45,983,571
1994	Helen of Troy	Gerald Rubin	\$ 41,928,803
2008	ACE Limited	Evan Greenberg	\$ 32,388,252
2012	AON	Gregory Case	\$ 28,527,238
2012	Eaton	A M Cutler	\$ 28,141,754

2013	Liberty Global	Michael Fries	\$ 26,854,087
1996	Chicago Bridge and Iron	Philip Asherman	\$ 24,905,336
2002	Ingersoll Rand	M W Lamach	\$ 24,104,757
2013	Perrigo	Joseph Papa	\$ 19,436,931
2000	Everest Reinsurance	Joseph Taranto	\$ 16,884,027
2008	Covidien	Jose Almeida	\$ 14,066,086
2011	Alkermes	Richard Pops	\$ 13,240,087
2010	Valeant	Michael Pearson	\$ 12,840,460
2012	Pentair	Randall Hogan	\$ 12,527,625
2008	TE Connectivity	Thomas Lynch	\$ 10,581,959
2009	ENSCO	Daniel Rabun	\$ 10,545,183
2014	Medtronic	Omar Ishrak	\$ 8,331,159
2002	Herbalife	Michael Johnson	\$ 7,550,490
2002	Noble Corp	David Williams	\$ 6,900,800
2000	Actuant (Applied Power)	Robert Arzbaecher	\$ 6,801,432
1999	Transocean	Steven Newman	\$ 6,594,307
2001	Foster Wheeler	Kent Masters	\$ 6,231,992
2002	Weatherford International	Bernard Duroo-Danner	\$ 5,801,947
2012	Jazz Pharmaceuticals	Bruce Cozadd	\$ 5,725,092
1997	Tyco International	George Oliver	\$ 5,414,355

2012	Rowan Companies	Matt Ralls	\$ 4,601,781
2012	Tronox	Thomas Casey	\$ 4,116,806
2014	Mallinckrodt Pharmaceuticals	Mark Trudeau	\$ 2,118,129
1983	McDermott International	Stephen Johnson	\$ 1,833,089
1999	Xoma	John Varian	\$ 1,824,421
1999	White Mountain Insurance	Raymond Barrette	\$ 1,245,289
2010	Global Indemnity	Cynthia Valko	\$ 745,483
		<b>TOTAL</b>	<b>\$ 438,792,728</b>
		<b>AVERAGE</b>	<b>\$ 13,712,273</b>

Notes: Source of CEO pay data is company proxy statement (Form DEF 14A) filed with [U.S. Securities and Exchange Commission](#). Data current as of Sept. 4, 2014. Total realized pay includes salary, bonus, non-equity incentive compensation, value of stock options exercised, and stock awards vested. Total realized pay excludes formulaic value of new stock option grants and new stock awards.

Helen of Troy CEO Gerald Rubin retired on Jan. 14, 2014, after serving less than seven months of the fiscal year. Reported numbers for Helen of Troy include only Mr. Rubin's pay and do not include the pay of his successor for the balance of the year.

McDermott CEO Stephen Johnson left the company on Dec. 16, 2013, two weeks prior to the end of the fiscal year. Reported numbers for McDermott include only Mr. Johnson's pay and do not include the pay of his successor, David Dickson.

These CEOs grew their companies with the protection of U.S. laws and with public investment in education, infrastructure, and basic research. But now that they're successful, they no longer want to support the system that allowed and supported their growth.

Sen. Carl Levin (D-MI) and Rep. Sander Levin (D-MI) have introduced [The Stop Corporate Inversions Act of 2014](#). The legislation would impose a two-year moratorium on inversions and change the rules governing them. Under the new rules, companies would have to be managed from outside the United States and give up ownership control to foreign partners in order to be considered a foreign company for U.S. tax purposes. U.S. managers could not use the legal change to reduce their corporation's tax bill while maintaining their American lifestyle and control over their company. The Joint Committee on Taxation estimates this legislation would save the U.S. Treasury [\\$19.5 billion](#) over the next decade.

# A Taxing Double Standard: Americans with Troubled Mortgages Penalized While Scofflaw Banks Enjoy Tax Breaks

by Jessica Schieder

In early August, Bank of America agreed to a [\\$16.65 billion](#) settlement, which includes funds for “consumer relief.” However, after tax write-offs and deductions, Bank of America's net penalty could be [less than \\$15 billion](#). And while the company enjoys these tax breaks and avoids criminal charges, American families could be hit with penalties for accepting the help the settlement is designed to provide.

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***While Bank of America enjoys tax breaks and avoids criminal charges, American families could be hit with penalties for accepting the help the settlement is designed to provide.***

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Roughly half of the settlement, about [\\$7 billion](#), will be paid to communities and homeowners struggling with troubled mortgages. Some of these mortgages could be reduced to [75 percent](#) of the value of the home, and the interest rate would be permanently reduced to two percent.

Shockingly, however, some of these households could be *penalized* if they accept help from the consumer assistance fund. Any debt forgiveness will, in the absence of [legislative action](#), be counted as income when a homeowner files his or her taxes. People already harmed by Bank of America's faulty mortgages will be required to pay taxes on their share of the settlement.

This highlights an important contradiction: Current policy gives tax breaks to law-breaking banks while families are penalized for accepting the compensation they are owed as a result of the banks' harmful actions. Bad behavior is subsidized, and those harmed are left to foot the bill.

In an attempt to address this problem, settlement negotiators set up a [\\$490 million](#) tax relief fund for homeowners. However, [it is likely too small](#) to prevent all qualifying homeowners from being taxed on the assistance they receive.

“Now, [the tax relief fund] will help tens of thousands of consumers to offset, at least in part, any taxes that result from consumer relief they receive as a result of this settlement, but it's only a [temporary fix](#); the fund isn't large enough to cover every potentially affected consumer,” explained Associate Attorney General Tony West. There are as many as [2 million](#) borrowers either in foreclosure or close to it in the United States, according to the Urban Institute.

While the Bank of America settlement and similar agreements have the potential to help some affected families, banks should not be using fines for bad behavior to reduce their tax bill while everyday Americans continue to suffer with the aftereffects of the 2008 financial crisis. Making sure that banks pay their fair share and that relief money reduces the hardships of vulnerable homeowners is crucial to helping these families – and our economy – recover.

## **For Further Reading:**

[\*\*Report: Obamacare Limits Subsidies for Excessive CEO Pay, Saves \\$72 Million\*\*](#), *The Fine Print* blog, Aug. 27, 2014

[\*\*Renters in Foreclosed Properties Could Be Left Out in the Cold\*\*](#), *The Fine Print* blog, Aug. 27, 2014

[\*\*20 Tax Dodgers: \\$240 Million for CEOs, Big Loss for the American People\*\*](#), *The Fine Print* blog, Aug. 17, 2014

[\*\*S&P: Reduce Inequality for a Better Economy\*\*](#), *The Fine Print* blog, Aug. 14, 2014

## **Drinking Diesel? Fracking Companies Use Toxic Substance without Permits**

**by Amanda Frank**

When it comes to protecting drinking water, fracking companies have just one federal rule to follow – get a permit if they are using diesel. But a new report by the Environmental Integrity Project (EIP) indicates that many drillers can't even abide by this simple requirement.

Thanks to an ill-advised [loophole in the Safe Drinking Water Act](#) – often called the Halliburton loophole – hydraulic fracturing (fracking) activities are exempt from drinking water protection standards – unless the drilling companies use diesel fuel. Diesel is the only fracking fluid that requires a federal permit.

Diesel fluids contain toxic chemicals such as benzene and toluene that are harmful, even in small amounts, and are known cancer-causing substances. Even small leaks into groundwater pose serious health concerns. For instance, water containing more than five parts per billion of benzene (equal to five drops in a swimming pool) is considered unsafe by the U.S. Environmental Protection Agency (EPA).

Permits are required to help protect groundwater from diesel contamination, and companies with diesel permits must take additional precautions. These include mapping possible routes to drinking water sources, conducting baseline testing of groundwater, and notifying landowners that they are going to use diesel. Failing to obtain permits bypasses these necessary safeguards and puts communities at risk of contaminated drinking water.

However, EIP's report found that at least 351 wells have been fracked using diesel fluids without necessary permits. These include wells drilled by 33 different companies in 12 states between January 2010 and July 2014. Well operators reported using diesel to FracFocus, an industry-run database to which companies voluntarily disclose fracking fluids. EIP obtained permitting data from EPA and found that none of these operators had applied for or obtained permits.

Moreover, the actual number of wells being fracked with diesel is likely higher, for several reasons:

1. FracFocus only contains information on fracking from a handful of states. It is generally a voluntary reporting site, though a few states require reporting to FracFocus.
2. FracFocus allows drilling companies to withhold any information as a “trade secret,” including the identity of fracking fluids that could include diesel.
3. Third, the site does nothing to confirm the accuracy of any information that companies report or claims of “trade secrets.”

The Center for Effective Government has consistently raised these and other concerns about [FracFocus](#) and [urged the Bureau of Land Management](#) not to use the site for its collection and disclosure of fracking data because of these shortcomings.

Further underscoring the concern about possible data manipulation on FracFocus, companies later removed reports of diesel use at 143 wells, which they had previously submitted to the site. FracFocus allows companies to alter reports for any reason without public notification.

The EIP report also noted that while the oil and gas industry claims diesel has been phased out, companies such as Halliburton continue to sell fracking fluids containing diesel and do not notify purchasers that they are required to seek a special permit before use.

To address this problem, the EPA can and should immediately open investigations into the 351 wells included in the EIP report. Moreover, state and regional EPA underground injection programs should also investigate the practice of unpermitted drilling. We need to ensure that companies are playing by the rules and that our groundwater is being protected from toxic diesel contamination.

## **World Health Organization: Public Health Rules Needed to Curb E-Cigarette Risks**

**by Katie Weatherford**

Contrary to industry advertising, a new [report](#) by the World Health Organization (WHO) finds that [electronic cigarettes](#) (e-cigarettes) and other electronic nicotine delivery systems pose significant public health hazards because of toxins emitted from the devices. The agency recommends that countries adopt e-cigarette rules to prevent misleading marketing of the products and to educate the public about the potential health risks involved.

### **E-Cigarettes Emit Dangerous Toxins**

E-cigarettes contain a battery that heats a nicotine fluid inside the device until it produces a mist-like aerosol that the user can inhale. According to the WHO report, the aerosol contains “nicotine and a number of toxicants” that pose health hazards to users and non-users, especially pregnant women and children, contrary to claims that these devices release nothing more than water vapor. Nicotine use is



linked to long-term adverse effects on brain development. Moreover, the aerosol typically contains “some carcinogenic compounds,” including formaldehyde.

Although the report finds that adult smokers who completely switch from regular cigarettes to e-cigarettes will be exposed to lower levels of toxins, WHO warns that the “amount of risk reduction . . . is presently unknown.” The report also notes uncertainty about whether second-hand exposure risks from e-cigarettes are lower than regular cigarettes.

### **Marketing Contains Unsubstantiated Claims, Targets Children**

The WHO report also takes misleading marketing to task, noting the frequent use of unsubstantiated claims about e-cigarettes in product ads. According to the report, there is insufficient evidence that using e-cigarettes will help people quit smoking, yet ads commonly market e-cigarettes as a smoking-cessation device.

Other marketing tactics may even encourage *more frequent* smoking. For example, many ads promote using e-cigarettes in places where regular smoking is banned. WHO cautions that this could interfere with the intent of smoke-free policies, which “are designed not only to protect non-smokers from second-hand smoke, but also to provide incentives to quit smoking and to denormalize smoking . . . .”

Moreover, e-cigarette marketing has “the potential to glamorize smoking,” which may encourage nonsmokers and children to start using e-cigarettes. The endless variety of designs and flavor options can also appeal to adolescents.

### **WHO Recommends Developing Public Safeguards**

The WHO report says, “Regulation of [e-cigarettes] is a necessary precondition for establishing a scientific basis on which to judge the effects of their use, and for ensuring that adequate research is conducted, that the public has current, reliable information as to the potential risks and benefits of [e-cigarettes], and that the health of the public is protected.”

The report will be a topic of discussion this October at the [Sixth Conference of the Parties](#) to the WHO Framework Convention on Tobacco Control. The Convention is an international effort to address global tobacco use. The report calls on the 179 countries that are parties to the Convention to adopt new standards to protect the public from the hazards associated with e-cigarettes. Such safeguards would:

- Prohibit claims that these products can help people quit smoking until manufacturers provide sufficient scientific evidence to support the claim and gain regulatory approval
- Ban indoor use of e-cigarettes unless it is proven there are no health effects from second-hand exposure
- Restrict marketing by requiring that all ads, promotions, or sponsorships provide warnings, encourage people to quit smoking, in no way promote use by nonsmokers or adolescents, contain no images, words, etc. associated with a tobacco product, and more
- Require that manufacturers design products to reduce exposure to toxins, make information about contents and exposure levels available to users, register products with a governmental body, and report design and emissions information to a governmental body



- Prohibit sales to people under the age of 18 and ban fruit, candy-like, and alcohol-drink flavors unless and until it is proven that these flavors do not appeal to minors

To ensure strong public health protections, the global community must adopt WHO's recommendations so that people understand the risks associated with e-cigarettes and adults can make informed choices about whether or not to use them.

### **Protecting Public Health in the U.S.**

Although the U.S. is a signatory to the Convention, it has not yet ratified the tobacco control treaty. However, the U.S. Food and Drug Administration (FDA) is taking some steps similar to WHO's recommendations.

FDA [proposed a rule](#) in April that would ban the sale of e-cigarettes to anyone under the age of 18. The rule would also require e-cigarette manufacturers to register with the agency and report the manufacturing process and ingredients used in their products. Moreover, companies would be required to place health-warning labels on e-cigarettes.

However, some tobacco control advocates believe the proposal does not go far enough and are urging FDA to prohibit manufacturers from marketing candy-flavored options that attract children. The Center for Effective Government and other health and safety groups also [heavily criticized](#) the FDA's decision to discount the benefits of the proposed rule by 70 percent, which the agency claims is necessary to account for the "lost pleasure" from reducing tobacco use.

FDA is currently [reviewing public comments](#) and considering any changes to its draft rule. We hope the agency will correct its flawed benefit calculation and move forward with strong safeguards without delay. The U.S. should also ratify the treaty and communicate its support for global efforts to combat the tobacco use epidemic.

## **Election Transparency Threatened by Lack of Resources for Key Agency**

**by Lukas Autenried**

Impeded by a lack of resources, the Federal Election Commission (FEC) has been slow to publicly release recent campaign finance disclosures. The FEC is the independent agency charged with enforcing federal election laws and making campaign finance information available to the American people. This information is vital, particularly in the wake of recent U.S. Supreme Court decisions that gutted our campaign finance laws, and significant delays in releasing such data are of serious concern to the health of our democracy.

On May 21, the Center for Responsive Politics [downloaded all FEC files](#) for 2014 House candidates, which had to be submitted by April 15. The group was surprised to discover that information for 347 of the 703 active House candidates from the first quarter of the year was missing. When the center

followed up with the FEC regarding the missing data, the group was told that the agency simply had not finished processing the filings.

These delays are the result of a more systemic problem: FEC resources have failed to keep pace with the political activity it is charged with overseeing. According to a [report](#) by the Center for Public Integrity, when adjusted for inflation, the FEC's estimated funding is the same as it was in 2003, and the commission has lost almost 50 staff members over the past seven years.

Meanwhile, spending on federal elections has skyrocketed. According to the Center for Public Integrity, between the 2005-2006 and 2010-2011 cycles, spending in a given federal election cycle rose from \$2.85 billion to \$6.3 billion, an increase of 120 percent. The 2014 midterm and 2016 presidential elections are expected to shatter political spending records.

Because of its resource constraints, the FEC has struggled to keep pace with the record number of political transactions it must process – 23 million in 2012 alone. The result is a major backlog in disclosure reports still awaiting review and release and a spike in the number of new reports requiring more than 30 days to process.

In addition to inadequate funding, the FEC faces three significant challenges:

- **Paper Filings** – The FEC has [requested](#) that Senate candidates file their reports electronically, which would reduce filing and processing costs and drastically reduce the amount of time it takes to integrate these reports into the FEC's searchable databases. This could help get campaign finance information out to Americans far more quickly. Currently, because Senate candidates file with the Secretary of the Senate, mandatory electronic filing provisions do not apply to them.
- **Outdated IT** – The commission's IT system is out of date. Simple things like searching for campaign vendors can be difficult, if not impossible. More alarmingly, the FEC has failed to update its IT security despite warnings from external audits that its outdated software and inadequate system patches made their systems vulnerable to cyber attacks. System breaches could erase or corrupt large amounts of data in the agency's system, causing even further delays in releasing crucial campaign finance information to the American people.
- **Error Correction** – Currently, FEC staff are expected to review data for errors and make corrections. But the entire onus should not be on the agency to clean up errors and omissions in the reports they receive. Instead, campaigns and committees need to take responsibility for the accuracy and completeness of their data as they prepare their filings, lessening the burden on the FEC.

In the absence of reasonable limits on campaign contributions, it is critical that voters know who is funding campaigns and attempting to influence their votes. As the agency responsible for providing timely, accurate campaign finance information to all Americans, the FEC must have the resources it needs to operate effectively. The continued push in the Senate to pass the [DISCLOSE Act](#), which would further expand the disclosure mandate of the FEC to include campaign-related expenditures by 501(c)

nonprofit organizations and 527 political groups, further underscores the need to empower the FEC to effectively carry out its core objectives.



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