AIG Shouldn't Get Tax Breaks - Ex-Watchdogs

CNN Money
Jennifer Liberto
March 12, 2012

Four former members of a watchdog panel on Monday urged the Treasury Department to end tax breaks for government-bailed-out insurer AIG.

The former members of the Congressional Oversight Panel for the Troubled Asset Relief Fund, a congressionally appointed watchdog group disbanded in spring 2011, say they oppose the special tax treatment that American International Group got as a result of its 2008 bailout.

Other bailout beneficiaries, including General Motors, Citigroup, Fannie Mae and Freddie Mac get similar tax benefits -- which Treasury engineered to get those firms out from under the government's thumb more quickly, according to an academic paper by Harvard law school professor J. Mark Ramseyer and Indiana University-Bloomington business professor Eric Bennett Rasmusen.

In 2008, the federal government stepped in and propped up the failing AIG, pledging as much as $182 billion in support.

While most companies can offset future taxes with past losses, in the case of companies that go through bankruptcy and a change in ownership, corporate tax benefits are limited.

Last week, *New York Times* columnist Andrew Ross Sorkin argued that AIG should not get to enjoy continued tax benefits, and members of the former congressional oversight panel agree. They say AIG's meager tax bill helped the insurer post $17.7 billion in profit last quarter.

"When the government bailed out AIG, it should not have allowed the failed insurance giant to duck taxes for years to come," said Elizabeth Warren, former chair of the panel and a former adviser to President Obama. She is running for U.S. Senate from Massachusetts in a competitive race against Republican incumbent Sen. Scott Brown.

However, in AIG's case the "ownership change," put the federal government in charge. To date, the federal government still owns 70% of AIG.

As a result, at least one critic has pointed out that the special tax treatment benefits taxpayers the most.

Forcing the insurer to pay more in taxes would essentially make taxpayers pay themselves, said Larry M. Elkin, president of New York-based Palisades Hudson Asset Management LP.

"The government and, by extension, taxpayers, have a lot to gain from helping AIG along the path to recovery," Elkin wrote in a blog post on Monday.

Elkin added that CEO Robert H. Benmosche and AIG generated "some unexpected value for taxpayers, and the Treasury's position will allow taxpayers to capture that value sooner rather than later. Makes sense to me," Elkin wrote.

In a March 1 blog post, Treasury's acting Assistant Secretary for Tax Policy Emily McMahon made a similar point. McMahon said tax breaks made AIG and other bailed out firms "stronger businesses, helped attract private capital, and further stabilized the overall financial system."

Last week, Treasury announced new steps to help AIG pay back some $14.5 billion of its debt to the federal government, by selling stock and allowing AIG to buy back shares. The government still owns $45 billion of AIG.

Warren was joined in the statement by other former committee members: Damon Silvers, an attorney with the AFL-CIO, Mark McWatters, director of graduate programs at Southern Methodist University Dedman School of Law and Kenneth Troske, a University of Kentucky economist. Warren and Silvers were appointed by Democratic leaders, while McWatters and Troske were named by Republicans.