
**FOR IMMEDIATE RELEASE**
May 24, 2016

**CONTACT:** Aaron Fobes , Julia Lawless
(202) 224-4515

## Hatch Statement at Finance Hearing on Corporate Integration

WASHINGTON – Senate Finance Committee Chairman Orrin Hatch (R-Utah) today delivered the following opening statement at a hearing to explore how corporate integration could make the tax code neutral in regards to financing with debt or with equity:

*Welcome, everyone, to this morning's hearing, which is our second hearing on the topic of corporate tax integration. Last week we had a hearing to examine the potential benefits of a dividends paid deduction. Today, we will focus on the differing tax treatment of debt and equity under the current system and the distortions that are created as a result.*

*As a number of studies have shown, U.S. businesses pay an effective tax rate of about 37 percent on equity financing, while the effective tax rate on debt financing is negative. That's right: Negative. The tax code actually gives a subsidy to corporations for debt financing. Experts and policymakers across the ideological spectrum have acknowledged that this a problem.*

*For example, President Obama's Updated Framework for Business Tax Reform, which he released last month, makes this observation: "[T]he current corporate tax code encourages corporations to finance themselves with debt rather than with equity. Specifically, under the current tax code, corporate dividends are not deductible in computing corporate taxable income, but interest payments are. This disparity creates a sizable wedge in the effective tax rates applied to returns from investments financed with equity versus debt."*

*The Congressional Budget Office and the Joint Committee on Taxation, along with Treasury Departments of past administrations, agree. The George W. Bush Administration's Mack-Breaux tax reform panel and the Obama Administration's Volcker tax reform panel came to the same conclusion: Our tax code's bias in favor of debt financing causes significant distortions in the economy.*

*We'll talk about a number of these distortions today, but I want to mention just a few here at the outset.*

*Most obviously, the bias in favor of debt under our tax system incentivizes businesses to base financing decisions, not necessarily on market conditions or their specific situations, but on relative tax consequences.*

*In addition, while debt isn't inherently an inferior option, businesses and economic sectors that are over-leveraged are, broadly speaking, more vulnerable to losses in the event of an economic downturn. This puts consumers at greater risk for things like higher interest rates due to bankruptcies, taxpayer bailouts, and the like. Our system, which puts a premium on debt in the form of a tax preference, adds to these risks.*

*Finally, the favored tax status of debt incentivizes the use of complicated and often wasteful tax-planning strategies that redirect resources away from projects and ventures that will lead to growth. This includes, for example, the use financing instruments that will be regarded as debt by the IRS, even though they resemble equity in a lot of ways. This was apparently the focus of the administration's newly proposed Section 385 regulations, which were ostensibly promulgated to prevent inversions, but, as we're finding out, have a much broader scope. These proposed regulations are, to say the least, quite complicated and will surely continue to generate a lot of discussion. One thing is clear, however: This mess demonstrates how distortive our current system really is.*

*Now, before I conclude my opening statement, I want to address some misunderstandings that came up during our last hearing on corporate integration and the dividends paid deduction. During that hearing, some arguments and concerns were expressed in a manner that I believe mischaracterized the approach to corporate integration that I've been discussing for several months.*

*I didn't dwell on these points last week because I didn't want to disrupt the witnesses' statements or deny them a chance to answer members' questions, and I didn't want the hearing to get bogged down by a prolonged debate over a policy proposal that is not yet final. But I do want to briefly set the record straight on a few points.*

*One assertion we heard was that corporate integration favors big business at the expense of small business. That claim just isn't accurate.*

*True enough, corporate tax integration would directly benefit businesses organized as C corporations. According to the most recent JCT data, while there are about 1.6 million C corporations in the U.S., only about 5,000 – less than one half of one percent – are publicly traded. The vast majority of the remaining 99.7 percent of C corporations are closely-held small businesses.*

*Like large corporations, these small businesses are subject to double taxation on earnings paid out to shareholders, but there are limitations on what they can do. So a dividends paid deduction would ensure a fairer and more efficient tax system for small businesses as well*

*as large businesses.*

*You don't have to take my word for it. A large coalition of small business associations, including the National Federation of Independent Businesses and the S Corporation Association, recently sent a letter to the leaders of the Finance Committee and the House Ways Means Committee stating:*

*"Congress should eliminate the double tax on corporate income. … The double corporate tax results in less investment, fewer jobs, and lower wages than if all American businesses were subject to a single layer of tax. A key goal of tax reform should be to continue to reduce or eliminate the incidence of the double tax and move towards taxing all business income once."*

*Without objection, a copy of that letter will be included in the record.*

*On top of this pretty persuasive assessment from the small business community, our committee's Business Tax Reform Working Group also made clear in their report that dysfunctional tax policies affecting larger publicly-traded businesses can and do have ripple effects on smaller businesses, including suppliers, service providers, and community organizations.*

*Another assertion we heard last week was that corporate integration would impose a double tax on retirement plans. Truth be told, I'm not entirely sure what the basis is for this particular claim. However, I do want to do my best to assuage any lingering concerns that people might have about this idea.*

*Put simply, while we're still seeking input and crafting the specifics of our integration plan, I am not aware of any serious proposals out there that would result in two layers of tax on retirement plans, whether we're talking about income the plans receive from interest or from dividends.*

*Now, I don't want to spend too long discussing all of the issues raised in our last hearing.*

*Clearly, we'll have to continue this discussion in the coming weeks and months. I look forward to a robust public discussion about these issues going forward, including here today with our distinguished panel of witnesses.*

###