Senate Committee on Finance
U.S. Senator Orrin Hatch (R-UT), Ranking Member
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CONTACT: Julia Lawless, Antonia Ferrier
(202) 224-4515

HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING THE IMPACT OF TAX REFORM ON AMERICAN BUSINESSES & CORPORATIONS

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today released the following opening statement at a committee hearing examining the impact of tax reform on American businesses and corporations:

There seems to be a lot of interest in corporate tax reform, which is understandable given that the top U.S. corporate tax rate of 35 percent is about ten percentage points higher than the average top corporate tax rate of the OECD countries.

But corporate tax reform should really be viewed as part of business tax reform, which is the subject of our hearing today.

As is well known to tax scholars and the business community, the earnings of a C corporation are taxed once at the corporate level and a second time at the shareholder level if the earnings are distributed in the form of a dividend. As a result, the earnings of a corporation may be subject to two levels of taxation, a system generally referred to as the classical system of taxation. For many years, the U.S. Treasury Department, the organized tax bar, and other interested parties have advanced a number of proposals to integrate the individual and corporate level of taxes.

It makes no sense today to have two levels of taxation of corporate earnings. In fact, I am not sure it ever made sense to have two levels of taxation even in the early years of our income tax system. Earlier this year, President Obama released his framework for business tax reform. One of the really bad ideas in there was to double-tax certain pass-through entities. Like all bad ideas, this one should be rejected. All business income, whether earned by a C corporation, a large pass-through entity, or a small business, should be subject to a single level of tax — either at the entity level or at the owner level. A big challenge in moving to a tax system in which all business income is subject to a single level of tax, which we should do, is that such a system may raise less revenue than the current system.

In 2003, Congress enacted preferential treatment for dividend income leading to partial integration of the individual and corporate level of taxes. Next year, an additional tax on capital gains and dividends is scheduled to go into effect. As part of Obamacare, the Democrats enacted a 3.8 percent tax on the net investment income of single taxpayers earning more than $200,000 and married couples earning more than $250,000. This was not indexed for inflation at all. With the scheduled expiration of the 2001 and 2003 tax cuts at the end of this year, capital gains will be subject to a 23.8 percent tax beginning in 2013 — a 59 percent increase from current law. Dividend income will be subject to a 43.4 percent tax in 2013 — a 189 percent increase from current law! The result would be a return to the classical system of taxing the earnings of a corporation with all the distortions that accompany such a system.

With a top corporate tax rate of 35 percent (coupled with an average four percent state corporate tax rate), the U.S. has the highest corporate tax rate in the developed world. The top corporate tax rate should be reduced by at least ten percentage points to a maximum of 25 percent, which would bring the U.S. in close alignment with other OECD countries. The top individual rate should also be substantially reduced. Having both corporate and individual tax rates at approximately the same percentages coupled with corporate integration will achieve a large measure of parity in the taxation of business income, whether earned by a corporation, partnership, limited liability company or sole proprietorship.

We have a great panel of witnesses, and I look forward to hearing what they have to say.

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