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BAUCUS CALLS FOR TAX RULES PROMOTING USE OF FINANCIAL PRODUCTS FOR PRODUCTIVE, JOB-CREATING INVESTMENT, NOT TAX AVOIDANCE

Joint Hearing of Senate Finance, House Ways & Means Committee Examines Tax Treatment of Financial Products

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) today examined the tax treatment of financial products and considered how tax reform can address the potential use of financial instruments to avoid tax liability. At a joint hearing of the Senate Finance and House Ways and Means Committees, Baucus examined how the tax code causes uncertainty and inefficiency in the financial products market. Because of that inefficiency, many resources are dedicated to structuring complex financial products in order to receive a particular tax treatment when those same resources could otherwise be spent investing in our economy, creating jobs and helping U.S. businesses grow. Baucus, currently Vice-Chairman of the Joint Committee on Taxation (JCT), [released a JCT report](#) last week examining the tax code's treatment of financial products and the role they play in our economy. The report, which Baucus requested earlier this year in conjunction with Ways and Means Chairman Dave Camp (R-Mich.), was formally presented to the committees at today's hearing.

"Too many resources are spent developing new and complex financial instruments simply to avoid taxes," Baucus said. "Many financial instruments serve essential business purposes, including farmers in my home state of Montana who use futures contracts to reduce the impact of the market's ups and downs. But financial advisors have created a complex web of new products that mix debt, equity and derivatives, and the only purpose of some of these new products is to avoid paying taxes. Tax reform can simplify and clarify the tax treatment of these financial products."

The financial products market has grown significantly and become increasingly complex and intertwined in recent years. For example, the notional, or theoretical, value of over-the-counter derivatives, has grown by more than six times over the last decade. U.S. commercial banks now hold \$230 trillion in derivatives, and the global notional value of derivatives is estimated to be more than \$700 trillion.

While they serve an important financial role in many cases by mitigating risk and helping to minimize exposure to losses, derivatives and other financial products can also be structured to avoid or defer taxes. Mixing various types of investments with derivatives like options and swaps can garner particular treatment under the tax code that the original investment, on its own, might not have obtained. Baucus and the other senators and congressmen asked what effect this complexity has on our economy, and they addressed how tax reform can update the tax code to reflect the modern financial industry. They also discussed with the panel the merits of broad reforms versus more targeted reforms.

Today's hearing was only the second tax-related joint hearing of Finance and Ways & Means since 1940. The first, [held this summer](#), examined differences in the tax treatment of debt and equity. Watch today's and all past hearings and read witness testimony on the Finance Committee website at <http://finance.senate.gov/hearings/>.

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