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BAUCUS EXAMINES WAYS TO REDUCE DISTORTIONS IN BUSINESS CAUSED BY THE TAX CODE

*Finance Chairman: Businesses Should Plan and Organize Based on Growth and Job Creation – Not the
Tax Code*

Washington, DC – In a Senate Finance Committee hearing held today, Chairman Max Baucus (D-Mont.) said tax reform can play a pivotal role in helping reduce complications for businesses caused by the tax code, allowing businesses to focus on growth and jobs. Many businesses choose, for tax purposes, to organize as “pass-throughs” taxed as individuals rather than as corporations. Baucus noted that as a result, more and more businesses are choosing to avoid accessing capital through the stock markets, instead pursuing financing and growth through alternative routes.

“We want businesses focusing their energy and resources on growing and creating jobs – not the tax code. The tax code should cause as few distortions in business as possible,” Baucus said. **“Whatever changes we make to the corporate tax code must result in a more efficient system.”**

While the total number of businesses has increased steadily over the past two decades, a shrinking number are conducting initial public offerings on stock markets and organizing as C-corporations, which pay corporate taxes. Businesses are able to access the capital needed for investments and growth through sources like private equity or venture capital, and many organize as pass-throughs to avoid the higher taxes that come with a stock market listing. Pass-throughs, which are partnerships, limited liability firms, sole proprietorships and S-corporations, today make up 95 percent of all U.S. businesses. Pass-through structures were originally used primarily by small businesses, but now some of the largest businesses in the country are pass-throughs. This is due to recent changes in the law that made it easier for businesses of any size to form as pass-throughs and pay single level tax at individual rates.

Baucus said tax reform should examine whether the availability of pass-through structures has distorted the decisions businesses make while organizing and how this affects the economy. Baucus said tax reform should simplify the tax treatment of pass-throughs and allow businesses to organize based on the type of structure that will spur growth and help them create jobs, rather than having to plan based on tax treatment.

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