



FOR IMMEDIATE RELEASE

August 1, 2012

Contact: Communications Office

(202) 224-4515

Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Tax Reform and Business Entities
As prepared for delivery

Baseball great Babe Ruth once said, "Yesterday's home runs don't win today's games."

The same is true in our modern economy. Businesses have to be responsive to the changing landscape around them.

Today, that landscape offers many different pathways to success. For example, that success could come through an IPO, private investment or by forming as a pass-through.

For some businesses, the ultimate success is the IPO, or initial public offering. This is when after months or years of hard work, a business debuts as a publicly-traded company.

Once believed to be the best route forward for growing a business, IPOs are becoming less and less common. In the 20-year period from 1980 to 2000, nearly 300 U.S. companies went public each year. In this past decade, however, the average fell to 90 companies per year.

Fewer businesses are filing their taxes as C-corporations, which are taxed separately from their shareholders. That number has been falling at a fairly steady pace for the past 25 years, from a high of 2.6 million corporations in 1986 to 1.7 million in 2009.

But even with fewer IPOs and C-corporations, the total number of businesses has increased steadily over the past 20 years.

Why are more and more businesses avoiding stock markets, once seen as the pinnacle of business success?

Today, a business can obtain the capital they need to grow through a variety of sources including private equity, venture capital and private placement. In addition, many businesses may want to avoid the higher taxes that come with listing on established stock markets.

Today, 95 percent of all U.S. businesses are structured as so-called pass-through entities — which are partnerships, limited liability firms, sole proprietorships and S-corporations.

Originally used primarily by small businesses, recent changes in the law have made it easier for medium and large businesses to be taxed as pass-throughs and still retain the benefits of limited liability.

The pass-through structures give businesses unique tax incentives that might discourage companies from accessing stock markets. Pass-throughs don't pay corporate taxes; their business income is taxed at individual income tax rates.

However, C-corporations get taxed on income, and then — when that money is distributed in dividends to shareholders — it is taxed again.

While a valuable tool for small businesses, we should examine if the use of pass-throughs have disrupted the level playing field for larger non-public companies and their public competitors.

Ideally, our tax code should cause as few distortions in business as possible. Businesses should plan and organize based on growth and job creation – not the tax code.

One of my main goals of tax reform is to make the system more competitive, but also keep it fair.

Our hearing this morning will examine the difference between corporate and pass-through taxation and whether current rules strike the right balance in our diverse economy.

Today we will explore various proposals to reform our tax system, ranging from the idea of creating one business level tax through some method of integration to proposals to treat large pass-throughs as corporations.

We will also discuss more tailored changes. That could mean simplifying the complex ways the tax code treats different pass-throughs, or simplifying the audit process of large pass-through entities.

Many businesses have urged Congress to enact corporate tax reform, arguing that the United States is out of step with international rates and methods of taxing foreign income. It is important for us to compare how all forms of business are taxed internationally. We will discuss that today as well.

Recently, I outlined four goals that must be at the heart of any tax reform plan. These are the creation of jobs from broad-based growth, competitiveness in the world markets, innovation and opportunity.

Whatever changes we make to the corporate tax code must result in a more efficient system. We want businesses focusing their energy and resources on growth and jobs. I look forward to discussing these issues today.

So let us remember that for entrepreneurs, the American dream is to create an idea, build a business and then watch as the hard work and sacrifice turn to success.

Let us remember Babe Ruth's words, and remember that yesterday's home runs won't win today's games. And let us build a tax code that works for today and tomorrow.

###