SENATE BUDGET COMMITTEE CONSIDERS CORPORATE TAX REFORMS

EXECUTIVE SUMMARY

On June 12, the Senate Budget Committee held a hearing entitled "Making Wall Street Pay Its Fair Share: Raising Revenue, Strengthening Our Economy." The hearing centered on potential reforms to the U.S. tax code, particularly surrounding taxes paid by corporations, as well as provisions of the 2017 Tax Cuts and Jobs Act (TCJA) that are due to expire in 2025. Notably, discussions mainly addressed potential changes to existing "tax loopholes" — some of which spur corporations and high-income individuals to pay lower tax rates on certain forms of income than the standard income tax rate — instead of specific desired tax rates.

There was bipartisan consensus on the need to eliminate some tax loopholes such as the "step-up in basis" tax exemption. However, Senate Democrats and their invited witnesses also expressed their interest in implementing stricter tax code enforcement and additional taxes on securities transactions and other specific financial practices, while Republicans on the panel opposed these policy proposals.

During his closing statement, **Chair Sheldon Whitehouse (D-RI)** requested that one witness, **Dr. Joseph Stiglitz**, submit information to the Committee on climate-related risks to the financial services industry.

OPENING STATEMENTS

Chair Sheldon Whitehouse (D-RI) (statement) discussed the upcoming expiration of TCJA provisions and emphasized the need to reform the "corrupted" U.S. tax code to increase federal revenue and hike corporate taxes. He highlighted disparities between average U.S. wage growth and economic productivity over the past several decades to illustrate inconsistencies in income and tax rates. Chair Whitehouse provided several possible methods of increasing taxes on corporations, including raising the tax on stock buybacks and enacting a minimum corporate tax rate.

Ranking Member Chuck Grassley (R-IA) (statement) acknowledged the difficulty of reforming the tax code, noting that policy solutions require "bipartisan consensus" and a broad scope of changes beyond targeting only the largest corporations. The Ranking Member contended that some tax reforms could have already been enacted in recent years but lacked support from both parties, citing the "carried interest loophole" in the tax code as an example of a potential issue that Congressional Democrats failed to address in the Inflation Reduction Act (IRA).

Witness Testimony

Dr. Joseph Stiglitz (testimony), University Professor of Economics at Columbia University, highlighted several potential policy solutions to develop a more "equitable" tax code, including: (1) reform existing tax loopholes; (2) eliminate "distortionary" tax incentives providing credits to specific industries; (3) provide additional tax incentives for companies investing in research and development (R&D) and other efforts to promote innovation; (4) introduce more "non-distortionary" taxes for income sources such as rental income; (5) enforce the minimum corporate tax rate; and (6) enact a "windfall income" tax.

Ms. Sarah Anderson (testimony), Global Economy Program Director at the Institute for Policy Studies, applauded the 15 percent corporate alternative minimum tax provision included in the IRA but urged Congress to take further action to increase tax revenue. She highlighted the lack of a sales tax on securities transactions and limited taxation on windfalls as two areas for potential reforms. Ms. Anderson also offered several policy suggestions, including: (1) increasing taxes on corporations that pay executives more than 50 times the wages of average employees at the company; (2) implementing a tax on securities transactions; and (3) enacting a tax on stock buybacks.

The Honorable Michael Faulkender, Ph.D. (testimony), Dean's Professor of Finance at the University of Maryland, expressed opposition to increasing corporate income tax rates above levels included in the TCJA. He emphasized increased economic growth following enactment of TCJA and warned that increased taxes could deter further growth. Dr. Faulkender also expressed concerns that a tax on securities transactions could reduce the volume of investment activity.

Discussion and Questions

- Chair Whitehouse questioned whether more "equitable" tax rates on individuals and corporations would prevent economic growth. Dr. Stiglitz stated that economic inequality and noncompetitive market behavior have adverse effects on growth, while more parity for consumers and companies generate more growth.
- Chair Whitehouse and Dr. Stiglitz discussed the emergence of a "tax avoidance industry" among some large corporations, arguing this dynamic draws capital away from investing in R&D and innovation instead toward finding tools to reduce tax burden on the companies.
- Ranking Member Grassley and Dr. Faulkender contended that tax provisions included in the IRA offer incentives to large corporations and do not address existing tax loopholes.
- Ranking Member Grassley also expressed concerns with increasing marginal tax rates, contending that high-income individuals will adopt tax avoidance strategies.
- **Sens. Ben Ray Luján (D-NM)** and **Chris Van Hollen (D-MD)** both asked Dr. Stiglitz to describe the tax concept of "buy, borrow, die." Dr. Stiglitz explained that this is a method of borrowing money to finance the purchase of investments, with the assets being taxed for capital gains at a lower rate than typical income sources.

- **Sen. Ron Johnson (R-WI)** asked Ms. Anderson and Dr. Stiglitz for their views on the maximum effective tax rate on individuals. Neither witness provided a specific rate, instead urging for the elimination of tax loopholes.
- In response to a question from **Sen. Jeff Merkley (D-OR)**, Dr. Stiglitz warned that maintaining or expanding corporate tax rates from the TCJA would adversely impact individuals through decreased federal revenue.
- Sen. Merkley also warned against the growing frequency of institutional investors purchasing large quantities of single-family rental housing units.
- **Sen. Mitt Romney (R-UT)** suggested that legislative reforms could be necessary to increase revenue from corporate tax. He proposed eliminating the step-up in basis exemption as a method of reducing tax avoidance without harming economic growth. Sen. Luján and Dr. Stiglitz also discussed the importance of addressing the "step-up in basis" for capital gains tax exemption to increase tax revenues.
- **Sen. Chris Van Hollen (D-MD)** urged for stronger implementation of Section 956 of the Dodd-Frank Act, which requires federal regulators to provide guidance on incentive compensation for financial industry executives. Ms. Anderson expressed support for properly enforcing this provision to reduce financial market risk.