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Hatch Statement at Finance Hearing on Business Tax Reform

WASHINGTON – Senate Finance Committee Chairman Orrin Hatch (R-Utah) today delivered the following opening statement at a hearing to explore ways Congress can reform the business tax code to make it more globally competitive and to consider the findings of the Committee's bipartisan business income tax working group:

Good morning. It's a pleasure to welcome everyone to today's hearing, which we've titled "Navigating Business Tax Reform."

I think this title accurately describes the challenges we have before us in moving forward on business tax reform specifically and on comprehensive tax reform more generally. In the recent past identifying and developing certain bipartisan policy proposals and moving them through the legislative process has proven especially difficult. But I am an optimist, and I believe we can, and should, find common ground on a path forward for comprehensive tax reform.

Of course, as I've said in the past, successful tax reform will take a President who truly makes it a priority and works closely with Congress to get it over the finish line. Currently, I think it's safe to say that we haven't met that prerequisite with this administration, which, most acknowledge, means that, for now, we have to wait. But, in the interim, this committee will continue to lay the foundation and develop pro-growth proposals for when the appropriate opportunity arises.

That is why, last year, Senator Wyden and I asked members of our committee to work in various Tax Reform Working Groups to help identify issues and develop consensus, if possible, around tax policy proposals. Today we will focus our attention on business tax reform issues, including topics that were covered in the report issued by the Bipartisan Business Income Tax Working Group.

I want to thank the co-chairs of that working group, Senators Thune and Cardin, as well as the other members of the working group – Senators Roberts, Burr, Isakson, Portman, Toomey, Coats, Stabenow, Carper, Casey, Warner, Menendez, and Nelson. A lot of time and *effort went into examining these issues and compiling this report. I appreciate everyone's willingness to help advance this cause.*

Tom Barthold, the Chief of Staff for the Joint Committee on Taxation, is with us today to provide background on business tax reform issues and highlight some of the major topics reviewed in the working group's report. We have a great group of additional witnesses here today as well that will provide important insights and recommendations about broad design issues of the business tax system and practical, on-the-ground issues that are important for us to keep in mind as we further develop and refine proposals in the business tax space.

I want to take a minute to discuss one particular business tax issue that was discussed in the working group report and that I believe warrants real consideration by everyone here today: Corporate integration.

In very general terms, corporate integration means eliminating double taxation of certain corporate business earnings. Under current law, a corporation's earnings are taxed once at the corporate entity level and then again at the shareholder level when those earnings are distributed to shareholders as dividends.

In other words, under our system, if a business is organized as a C corporation, we tax the earnings of the corporation itself AND those same earnings when paid out to the individual owners of the business. This creates a number of inequities and distortions, and my staff and I have been working for a few years now to develop a proposal to address this problem.

I was glad to see that the business tax working group addressed corporate integration in its report, noting that "eliminating the double taxation of corporate income would reduce or eliminate at least four distortions built into the current tax code: (1) the incentive to invest in non-corporate businesses rather than corporate businesses; (2) the incentive to finance corporations with debt rather than equity; (3) the incentive to retain rather than distribute earnings; and (4) the incentive to distribute earnings in a manner that avoids or significantly reduces the second layer of tax."

Depending on its design, corporate integration could have the effect of reducing the effective corporate tax rate and help address some of the strong incentives we are seeing today for companies to relocate their headquarters outside of the United States. It would also have the likely effect of making the United States a more attractive place to invest and do business. I'll have much more to say on this topic in the coming weeks and months. But, I plan to raise this issue in general terms here today.

Once again, I want to welcome our witnesses. I look forward to a robust and informative discussion.

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