The United States Senate
COMMITTEE on FINANCE
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Wyden Statement at Finance Committee Hearing on Corporate Integration
As Prepared for Delivery

This morning the Finance Committee will discuss the concept of corporate integration, which isn't exactly a topic that comes up at summer picnics. But this issue is important to the tax reform debate, and I want to thank Chairman Hatch and his staff for putting a whole lot of sweat equity into this topic. I'm glad the committee will have this opportunity today to dig into the specifics. Today I want to begin mostly with questions about what corporate integration would mean for middle class families and small businesses looking for opportunities to get ahead.

Corporate integration is about eliminating what some people call double taxation, where income is taxed once at the corporate level and again at the individual level. Once in place, this kind of tax change would allow companies to write off payments they make to shareholders in the form of dividends. The theory goes, the profit corporations bring in would go out as dividends, and corporate tax bills would shrink. But to finance that big corporate tax cut, 35 percent of the money paid out in dividends and bond interest would be withheld automatically by the Treasury.

Now this raises a question with respect to retirement savings.

It looks, on its face, like this proposal could go from double taxing corporate income to double taxing retirement plans. Here's why. Today, most middle-class savers put their money into retirement plans that are tax-deferred. It's a good deal for workers, and this country's savings crisis would probably be a lot worse without it. Retirement plans invest in a lot of stocks and bonds. But under a corporate integration plan, when you withhold a chunk of the dividends and interest payments that go to retirement plans, suddenly they could get hit with a big, new tax bill for the first time. Their special tax-deferred status – which today is the key that unlocks opportunities to save for millions of Americans – would go away.

Right now, most savers already face a tax bill when they take money out of their accounts. Corporate integration could often add a second tax hit up front. So if you're an electrician in Medford or a teacher in Salem and you've got an IRA or a 401(k), you'd have to wonder if this system says the dollar you socked away is worth less than it used to be. If the math on retirement plans suddenly looks worse to small business owners, there's a possibility they might think twice about offering a plan to their employees.

There is another question whether corporate integration could wind up picking winners and losers in how it affects businesses. Companies that run airlines and wind farms, which need capital to invest and operate, would face higher costs if interest rates jump. And start-ups may not necessarily want to pay dividends to shareholders because they need to turn their earnings into growth instead of dividends. A corporate integration plan might look great to established companies with lots of cash, but not so hot to the small businesses that dominate the economic landscape in Oregon and in hundreds of communities across the country. These are big issues to discuss today.

I want to thank our witnesses for being here this morning and I look forward to hearing their testimony. And before I conclude, I want to recognize one of our witnesses today, Judy Miller, who is retiring at the end of the summer. Judy served as a senior pension advisor to this committee under Senator Baucus for four and a half years. She's also testified before the committee a number of times. I'd like to congratulate and thank Judy for her service and invaluable advice over the years and wish her well in the future.

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