UNITED STATES SENATE
COMMITTEE ON FINANCE
U.S. SENATOR ORRIN HATCH (R-UT), CHAIRMAN
FINANCE.SENATE.GOV

FOR IMMEDIATE RELEASE **CONTACT:** Katie Niederee, Julia Lawless
Sept. 19, 2017 (202) 224-4515

Hatch Opening Statement at Finance Committee Hearing on Business Tax Reform

WASHINGTON – Senate Finance Committee Chairman Orrin Hatch (R-Utah) today delivered the following opening statement at a hearing on reforming the business tax code. The goal of the hearing is to examine ways to create a healthier economic environment that will encourage job creators to invest in the United States and increase their competitiveness in the global market.

During this morning's hearing, we will discuss ways to improve the business provisions of the U.S. tax code, with an eye toward creating jobs and boosting wages for American workers and improving our country's overall business climate.

This hearing is part of our ongoing effort – following years of tax hearings and last week's hearing on individual reform – to draft and report comprehensive tax reform legislation later this year.

Members of both parties recognize the need to reform the way we tax businesses in the United States. As former President Obama noted when discussing his own framework for business tax reform, the current system "does too little to encourage job creation and investment in the United States while allowing firms to benefit from incentives to locate production and shift profits overseas."

As we all know, many elements of a particular business's tax burden depend on the company's organizational form. For example, C corporations are taxed at the corporate tax rate.

According to a recent report by the Congressional Budget Office, the top federal statutory corporate income tax rate has been 35 percent since 1993 and, with state taxes added, the United States' average corporate statutory rate is the highest in the industrialized world, at more than 39.1 percent.

And, while some have noted that not all corporations pay the full statutory rate, the average effective tax rate of U.S. corporations is the fourth highest among G20 *countries. According to a recent analysis by Ernst and Young, when you integrate corporate-level taxes and investor-level taxes such as those on dividends and capital gains, U.S. tax rates are the second highest among developed countries. That last one is important, given that the United States taxes most corporate earnings that are distributed to shareholders twice – both at the corporate and shareholder levels.*

For the past few years, I have been working on a corporate integration proposal that, among other things, would allow businesses to deduct their dividends paid to help alleviate the double taxation problem. I view this as a complement to a statutory corporate tax rate reduction, not a substitute. We held a few hearings on this topic last year, so I won't delve too deeply into the details at this time. For now, I'll just say I continue to believe this idea – whether it applies fully or in some other limited way – can help address a number of the problems we're trying to solve with comprehensive tax reform. I look forward to continuing this conversation as the process moves forward.

It is also important to note that, while the U.S. corporate tax rate has remained unchanged for decades, the trend among our foreign competitors has been to lower corporate rates, making American businesses increasingly less competitive.

This not just a Republican talking point. This problem is widely acknowledged on both sides of the aisle. Even former President Bill Clinton, who signed into law the rate increase to 35 percent, recently argued the rate should now be lowered.

I agree.

Our current business tax system – and the disparity between the U.S. corporate rate and our foreign competitors' corporate rates – has created a number of problems and distortions.

For example, the current system slows economic growth by impeding capital formation, hindering wage growth and job creation, reducing productive capacity, and lowering the standard of living in the United States, all of which directly harm middle-class families and individuals.

The current system lowers returns on investment, creating a bias against savings and investment. This hinders the creation of wealth for Americans across the economic spectrum, including the middle class.

The current system encourages corporations to finance operations using debt rather than equity, which increases risks, particular during times of economic weakness.

The current system gives corporations incentives to shift income, production, and intangible assets like intellectual property from the U.S. to lower tax foreign jurisdictions, thereby eroding our tax base.

In tax reform, we need to address all of these problems and distortions, and many others as well. In particular, we need to lower the corporate tax rate to relieve the burdens the tax *imposes on American workers, who, according to many economists, bear a significant part of the corporate tax.*

We also need to reduce the burden on pass-through businesses, whose earnings are reported and taxed on individual tax returns. These types of businesses include sole proprietorships, limited liability companies, partnerships, and S corporations.

And, we need to fix our international tax system so that American businesses can compete in the global marketplace without facing significant disadvantages simply because they are headquartered in the United States.

Each of these propositions is supported by people in both parties. Of course, when politics enter the equation, the story sounds much different.

According to some, all Republicans want to do in tax reform is give tax breaks to the super rich, cushy portfolios for Wall Street bankers, and more handouts for greedy corporations, all at the expense of middle-class workers and families.

Those types of claims may play well to political bases, but they don't align with reality.

As I noted in our hearing last week, virtually all of our current tax reform ideas are aimed squarely at helping the middle class as well as low-income families. Our chief goals, particularly in business tax reform, are to increase economic growth, create new jobs, grow wages for the employees of both large and small businesses, expand opportunities for all Americans, and improve standards of living for everyone in the United States.

The proof, I suppose, will be in the pudding. As the committee works through this process, with those goals in mind, I believe we will be able to demonstrate why those in the middle class should feel as though they have a stake in this discussion and how these ideas to reform our current system will help.

Let's keep in mind that the status quo – sluggish economic growth, stagnant wages, and decreased workforce participation – hasn't exactly been doing the middle class any favors. The case for tax reform should therefore be easy to make.

I want to reiterate what I said last week: Namely, that this committee will be the starting point for any tax reform legislation that is considered in the Senate. While I expect we'll continue to hear more arguments about secret tax plans written behind closed doors, this committee is going to consider tax reform through regular order. That applies to both the drafting and the reporting of any tax reform bills.

As I also said last week, I hope this process is bipartisan. As with individual tax reform, there are many areas of business tax reform where thoughts and interests of both Republicans and Democrats overlap. There is fertile ground for bipartisan agreement on this and I hope we can take advantage of this historic opportunity together.

I know that my friend, Ranking Member Wyden, shares these broad objectives.

In fact, he has put forward his own tax reform proposals in the past, likely with these same goals in mind.

And, at the end of the day, we should all, at the very least, agree that the current tax system is broken and the current state of our economy should not be accepted as the new normal.

I look forward to a robust discussion of these issues here today as well as some acknowledgement of the bipartisan agreement that exists on these matters.

###