



Baucus Statement on Tax Treatment of Debt and Equity
As prepared for delivery

Author Henry Wheeler Shaw once said, "Debt is like any other trap, easy enough to get into, but hard enough to get out of."

We meet together today because we share a common goal. We believe the tax code should boost American competitiveness. It should encourage economic growth and job creation. It should be fair, simple, efficient and certain. It also should not encourage households and businesses to take on too much debt – debt they cannot get out of.

Today, we examine the taxation of debt and equity. Right now, we are confronting a massive debt problem due, in part, to the 2008 financial crisis.

In the year before the crisis, the five major investment banks had a leverage ratio of 40 to 1. This means for every 40 dollars in assets, there was only one dollar in equity to cover losses. This raises the question whether excessive private debt played a major role creating that financial meltdown.

As we work to emerge from that crisis, we seek to understand how our tax code affects private debt, and how does debt affect stability and growth? Does the tax code encourage households and businesses to become overleveraged? Do tax preferences for corporate debt over equity provide an incentive for riskier capital structures? And did the tax code's treatment of debt contribute to the financial crisis?

We clearly do not want to encourage households and businesses to assume too much debt. Yet ensuring businesses can borrow at modest interest rates is an essential step on the road to economic recovery.

In today's tax code, it can be hard to tell what is considered borrowing and what is equity investment. A business can make an infusion of cash look like either, and naturally, some businesses choose to cast their financing in a light that gets the best tax treatment. But this requires sophisticated tax planning, which not everyone can afford.

Debt and equity can both be vital tools in today's economy. But as we work to inspire growth, we must make sure our tax code does not encourage businesses and individuals to put themselves in precarious positions.

Tax reform should simplify these issues and make our tax code fairer. Americans deserve a tax system they can understand – and benefit from – without an expensive tax planner.

So let us work together to address these issues, let us make our tax code more competitive and fair, let us find creative solutions to our nation's pressing problems and prevent new ones from arising and let us build the consensus we need to move forward.

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