Senate Committee on Finance
U.S. Senator Orrin Hatch (R-UT), Ranking Member
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HATCH STATEMENT AT JOINT COMMITTEE HEARING ON TAX REFORM & TAX TREATMENT OF DEBT EQUITY

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following remarks during a Joint Committee hearing on tax reform and the tax treatment of debt equity:

Thank you, Chairmen Baucus and Camp for this historic hearing. And thank you Mr. Barthold and the staff of the Joint Committee on Taxation for producing this important report on the tax treatment of debt and equity.

Tax reform should be based on the same three principles that led to the enactment of the Tax Reform Act of 1986: fairness, simplicity and economic growth. I am very much looking forward to hearing what our witnesses have to say on these three principles as they relate to the tax treatment of debt and equity.

Allow me to share a few of my initial thoughts — first with respect to individuals and then with respect to corporations — on the topic of debt and equity. On the individual side, we can all agree that savings and investment is a good thing, and that the savings rate in the United States has traditionally been low when compared to many other countries.

But an income tax system by its nature discourages savings and investment by taxing the returns to such savings and investment. This was an observation made by John Stuart Mill over 160 years ago. Thus, the Code encourages consumption and even “negative savings” — that is, debt.

Our tax system encourages the use of debt rather than equity in the area of corporate finance as well as household finance. If a corporation is in need of additional funds, our tax system encourages the corporation to borrow money rather than raising funds by issuing stock. Why? Because any interest payments on the borrowing are deductible while any dividends paid on the stock are not deductible.

In addition, many U.S. multinational corporations are sitting on large piles of cash, yet these corporations are borrowing money. One reason is that their cash is trapped offshore, and the corporations will be subject to a 35 percent U.S. tax on repatriating the cash back to the United States.

The increased use of debt by both households and corporations makes both more vulnerable to the risks of bankruptcy and other downturns in the economy.

I would like to thank our witnesses for attending this historic hearing and look forward to their comments on the tax treatment of debt and equity.

Again, Chairmen Baucus and Camp, thank you very much for this important hearing you have called on tax reform.

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