Senate Committee on Finance
U.S. Senator Orrin Hatch (R-UT), Ranking Member
http://finance.senate.gov

FOR IMMEDIATE RELEASE **CONTACT:** Julia Lawless, Antonia Ferrier
July 27, 2011 (202) 224-4515

HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING IMPACT OF TAX CODE ON EMPLOYERS, JOB CREATION

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining employer perspectives regarding the tax code's impact on hiring, and business and economic growth:

I would like to thank Chairman Baucus for calling this hearing today. And, I would like to welcome each of the CEOs who have come here today to participate in this Committee's continuing dialogue about tax reform. With so many of our fellow Americans out of work and struggling to find a job, it is refreshing to see that your companies collectively employ over 1.6 million Americans.

Today, we are here to learn how the corporate tax affects your businesses. The corporate tax is the third largest source of federal revenues behind the individual income tax and payroll taxes. Corporate income tax revenues as a percentage of total federal revenues have steadily declined since the 1940s and 1950s. During much of the 1990s, corporate tax revenues averaged about 11 percent of federal revenues. Last year, corporate tax revenues were less than 9 percent of federal revenues.

The corporate tax is generally considered to be the most inefficient of all taxes. And tax scholars have debated for years as to who bears the burden of the corporate tax. We know that although corporations cut the checks to the IRS, corporations don't ultimately pay taxes — people do.

But which people? Is it the shareholders of the corporation? Or maybe the employees of the corporation? Or the consumers?

The most recent research in this area seems to indicate that a substantial percentage of the burden of the corporate tax is borne by employees in the form of lower wages. In addition to inquiries about where the burden of the corporate income tax truly falls, I think it is important for this Committee to focus on how the corporate tax system encourages the use of debt rather than equity. 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.

How is that?

By making any interest payments on the borrowing deductible, whereas any dividends paid are not deductible. From a business standpoint, the increased use of debt by corporations makes a corporation more vulnerable to the risks of bankruptcy and other downturns in the economy. Dividends not being deductible means that corporate profits are taxed twice — once at the corporation level, and again at the shareholder level. As a result of this tax treatment, we have seen a decline in the use of traditional corporations. In 1980, 75 percent of all business income was earned by traditional corporations. In 2007, that figure was only 36 percent.

Equalizing the corporate tax treatment of debt and equity would reduce or eliminate distortions in at least four ways:

One, the incentive to invest in non-corporate businesses rather than corporate businesses;

Two, the incentive to finance corporations with debt rather than equity;

Three, the incentive to either retain or distribute earnings depending on the relationship among the corporation, the shareholder and the capital gains tax rates; and

Four, the incentive to distribute earnings in a manner to avoid or reduce a second level of tax.

We also need to consider the issue of repatriation. Many U.S. multinational corporations earn money overseas, and will typically want to bring that money back home to the U.S. However, our corporate tax system discourages or penalizes U.S. multinational corporations from repatriating foreign earnings by imposing a 35 percent residual U.S. tax at the time of repatriation.

As a result, several high-profile U.S. multinational corporations are sitting on large piles of cash earned from foreign operations, yet these same corporations are borrowing money. One of the reasons is that their cash is trapped offshore, and these corporations will be subject to a 35 percent U.S. tax on repatriating their cash back to the United States. As a result, because of our corporate tax system, these corporations keep their cash offshore and borrow money here in the U.S. One way of alleviating the problem of cash that is trapped offshore is for the U.S. to reform its corporate tax and international tax rules by, for example, adopting a territorial tax system.

Finally, no discussion of corporate tax reform can conclude without consideration of the corporate tax rates. Our corporate tax system has a top rate of 35 percent. When coupled with a state corporate tax, the tax rate is usually about 39 percent. As a result, the U.S. has one of the highest corporate tax rates in the world. Our corporate tax system is in need of reform, and the high corporate tax rate needs to be a major part of the discussion.

I am very interested to hear what our witnesses have to say today with regard to our corporate tax system and how it affects hiring, businesses, and economic growth. Again, Chairman Baucus, thank you very much for scheduling this important hearing.

###