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Bill Proposes Hefty Tax For TARP Firm Bonuses

By [Jessica Dye](#)

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Law360 (January 14, 2010, 12:18 PM EST) -- Rep. Peter Welch, D-Vt., has sponsored legislation that would slap a 50 percent tax on bonuses paid by companies that received assistance through the Troubled Asset Relief Program, aiming to crack down on excessive compensation practices at major Wall Street firms.

Welch on Tuesday introduced H.R. 4426, the Wall Street Bonus Tax Act, which proposes levying the higher tax rate against any bonus compensation exceeding \$50,000, both cash and stock awards, at the hundreds of Wall Street firms and banks that accepted bailout funds from the government's \$700 billion TARP fund.

Revenues raised from the tax would help fund a new temporary, direct small-business lending program administered by the [Small Business Administration](#). Similar to the SBA's 7(a) loan program, the new fund would extend low-interest federal loans to relatively healthy businesses that are experiencing trouble obtaining credit to cover operating and expansion costs and expenses.

Welch said the aim of the bill — take from Wall Street and give to Main Street — would help compensate for what he called a "distinct drop" in small-business lending by TARP recipients, citing reports that the 22 banks receiving the biggest portion of TARP funds had cut back small-business lending by \$11.6 billion since April 2009.

He also pointed to media rumors that the 2009 bonus pool of five major banks who took TARP funds, voluntarily

or otherwise — Goldman Sachs, [JPMorgan Chase & Co. Inc.](#), [Citigroup Inc.](#), [Morgan Stanley](#), and [Bank of America Corp.](#) — have set aside \$90 billion for compensation this year, including record bonus packages, according to The [New York Times](#).

"As most Americans struggle to endure a long and wrenching recession, the same Wall Street bankers who came to the American taxpayer with hat in hand are now preparing to pocket record-breaking bonuses," Welch said. "Financial firms that received taxpayer assistance must remember that they owe their return to profitability to hardworking Americans."

The bill is patterned after similar measures taken in Great Britain and France to curb excessive banker bonuses by levying heavier tax burdens, Welch said. Great Britain's recently imposed 50 percent tax on bonuses exceeding £25,000 (\$40,665) is expected to raise about £2 billion in revenue, according to the congressman.

Similar measures to increase taxes on bonuses paid by specific companies — especially bailed-out insurer [American International Group Inc.](#) — failed to gain traction in early 2009, despite Congress' early outcry over executive compensation at firms taking taxpayer assistance.

Congress has recently shown a renewed interest in bankers' pay, however.

On Wednesday, House Financial Services Committee chairman Barney Frank, D-Mass., announced his committee would hold a hearing on Jan. 22 to discuss compensation at both financial and nonfinancial firms, focusing on whether shareholder say-on-pay provisions passed by the House in H.R. 4173, the Wall Street Reform and Consumer Protection Act, should be expanded.

"If we were satisfied with the way it looked we wouldn't be doing it," Frank said in a press conference announcing the hearing. "I think compensation has gotten excessive. We may not be able to deal with it; there are limits to what you can do publicly. But I want to explore what we can do further, and I want to underline what we are already doing."

Frank added that he hoped the hearings would help push the [U.S. Senate](#) along as it considered financial reform legislation, including the shareholder say-on-pay provision and new restrictions on executive pay designed to push bank officials into taking a longer-term view on investments.

He blasted prior Republican administrations for reducing marginal bonus tax rates from 39 to 36 percent, and chided bankers who claim hefty new taxes could discourage top talent from working for financial firms.

"There is an argument that says if you limit compensation too much you lose some of the best people," Frank said. "I don't know where people would go for comparable salaries. There may be in some of these financial institutions people capable of playing [Major League Baseball](#). I'm not aware of any."

President Barack Obama has also taken aim at the firms themselves, announcing Thursday that he would impose a new fee on financial firms with assets greater than \$50 billion to help recoup TARP funds and reduce the federal budget deficit.

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