

H.R.4.

IN THE HOUSE OF REPRESENTATIVES

January 13th, 2022

Mr. Sullivan of Olympia (for himself, Mr. Posting of Pacifica, Mr.
Morales of Frontier) introduced the following bill;

A BILL

*Be it enacted by the Senate and the House of Representatives of the United States of
America in Congress Assembled,*

SEC. 1. SHORT TITLE.

This Act may be cited as the “Lowering the Deficit Act of 2023”.

SEC. 2. FINDINGS.

Congress finds that—

- (a) Stock Buybacks are one of the many mechanisms by which the wealth gap is growing out of control, and ever since Corporate Repurchases of stock [were fulling legalized in 1982](#) in a decision by the Securities and Exchange Commission,:
 - (i) The share of aggregate wealth held by upper-income families, the primary beneficiaries of corporate stock repurchases, has [increased by 19%](#), as of 2016; so as to make them holders of nearly 79% of aggregate wealth as of 2016, up from only 60% in 1983; and
 - (ii) The share of aggregate wealth held by middle-income families has [decreased by 15%](#), so as to make them holders of only 17% of aggregate wealth as of 2016, down from 32% in 1983; and
 - (iii) The share of aggregate wealth held by lower-income families has [decreased by 3%](#), so as to make them holders of only 4% of aggregate wealth as of 2016, down from 7% in 1983.
- (b) The wealth gap is a drag on economic growth and, consequently, tax revenues. Concentrated income and wealth reduces the level of demand in the economy because rich households tend to [spend less of their income](#) compared to poorer ones,
- (c) As of 2016 and 2017, the proportion of Repurchases funded by corporate bonds [reached as high as 30%](#), endangering the American economy due to excessive bad debt that is being taken on by corporations,
- (d) Repurchases are [draining corporate treasuries](#), making Corporations more vulnerable to economic recessions, and therefore are causing the government to spend more on bailouts,

- (e) Senior corporate executives are using open-market repurchases to manipulate their companies' stock prices to their own benefit, so as to achieve [higher compensation](#),
- (f) The open and tax-free availability of stock buybacks has allowed Corporations to use their record profits to spend money on repurchasing their stock, making shareholders even richer, rather than reinvesting in the industry, services, and employees that keep their corporations running and add real value to the economy,
- (g) A tax on Repurchase of Corporate stock may incentivize the shareholders of corporations to re-invest in their employees and business rather than themselves,
- (h) Without accounting for the fact that firms may decrease Corporate Stock Repurchases as a result of this bill, it is estimated that this tax will generate \$27,500,000,000.00 per year in additional revenue, and that additional revenue may be used to reduce the deficit.

SEC. 3. EXCISE TAX ON REPURCHASE OF CORPORATE STOCK.

- (a) IN GENERAL. Subtitle D of the Internal Revenue Code of 1986 is amended by inserting after chapter 36 the following new chapter:

“Chapter 37 — REPURCHASE OF CORPORATE STOCK.

- (a) General Rule. — There is hereby imposed on each covered corporation a tax equal to 5 percent of the fair market value of any stock of the corporation which is repurchased by such corporation during the taxable year.
- (b) Covered Corporation.—For purposes of this section, the term ‘covered corporation’ means any domestic corporation the stock of which is traded on an established securities market (within the meaning of section 7704(b)(1)).
- (c) Repurchase.—For purposes of this section —
 - (1) In General. — The Term ‘repurchase’ means —
 - (A) a redemption within the meaning of section 317(b) with regard to the stock of a covered corporation, and
 - (B) any transaction determined by the Secretary to be economically similar to a transaction described in subparagraph (A).
 - (2) Treatment of purchases by specified affiliates. —
 - (A) In general.—The acquisition of stock of a covered corporation by a specified affiliate of such covered corporation, from a person who is not the covered corporation or a specified affiliate of such covered corporation, shall be treated as a repurchase of the stock of the covered corporation by such covered corporation.
 - (B) Specified affiliate.—For purposes of this section, the term ‘specified affiliate’ means, with respect to any corporation—
 - 1. any corporation more than 50 percent of the stock of which is owned (by vote or by value), directly or indirectly, by such corporation, and

2. any partnership more than 50 percent of the capital interests or profits interests of which is held, directly or indirectly, by corporation.
- (C) Adjustment.—The amount taken into account under subsection (a) with respect to any stock repurchased by a covered corporation shall be reduced by the fair market value of any stock issued by the covered corporation during the taxable year, including the fair market value of any stock issued or provided to employees of such covered corporation or employees of a specified affiliate of such covered corporation during the taxable year, whether or not such stock is issued or provided response to the exercise of an option to purchase such stock.
- (d) Special Rules for Acquisition of Stock of Certain Foreign Corporations. —
 - (1) In general.—In the case of an acquisition of stock of an applicable foreign corporation by a specified affiliate of such corporation (other than a foreign corporation or a foreign partnership (unless such partnership has a domestic entity as a direct or indirect partner)) from a person who is not the applicable foreign corporation or a specified affiliate of such applicable foreign corporation, for purposes of this section—
 - (A) such specified affiliate shall be treated as a covered corporation with respect to such acquisition,
 - (B) such acquisition shall be treated as a repurchase of stock of a covered corporation by such covered corporation, and
 - (C) the adjustment under subsection (c)(3) shall be determined only with respect to stock issued or provided by such specified affiliate to employees of the specified affiliate.
 - (2) Surrogate Foreign Corporations. — Surrogate foreign corporations.—In the case of a repurchase of stock of a covered surrogate foreign corporation by such covered surrogate foreign corporation, or an acquisition of stock of a covered surrogate foreign corporation by a specified affiliate of such corporation, for purposes of this section—
 - (A) the expatriated entity with respect to such covered surrogate foreign corporation shall be treated as a covered corporation with respect to such repurchase or acquisition,
 - (B) such repurchase or acquisition shall be treated as a repurchase of stock of a covered corporation by such covered corporation, and
 - (C) the adjustment under subsection (c)(3) shall be determined only with respect to stock issued or provided by such expatriated entity to employees of the expatriated entity.
 - (3) Definitions.—For purposes of this subsection—
 - (A) Applicable foreign corporation.—The term ‘applicable foreign corporation’ means any foreign corporation the stock of which is traded on an established securities market (within the meaning of section 7704(b)(1)).
 - (B) Covered surrogate foreign corporation.—The term ‘covered surrogate foreign corporation’ means any surrogate foreign corporation (as determined under

section 7874(a)(2)(B) by substituting `September 20, 2021' for `March 4, 2003' each place it appears) the stock of which is traded on an established securities market (within the meaning of section 7704(b)(1)), but only with respect to taxable years which include any portion of the applicable period with respect to such corporation under section 7874(d)(1).

(C) (C) Expatriated entity.—The term `expatriated entity' has the meaning given such term by section 7874(a)(2)(A).

(e) Exceptions. —

- (1) to the extent that the repurchase is part of a reorganization (within the meaning of section 368(a)) and no gain or loss is recognized on such repurchase by the shareholder under chapter 1 by reason of such reorganization,
- (2) in any case in which the stock repurchased is, or an amount of stock equal to the value of the stock repurchased is, contributed to an employer sponsored retirement plan, employee stock ownership plan, or similar plan,
- (3) in any case in which the total value of the stock repurchased during the taxable year does not exceed \$50,000,
- (4) under regulations prescribed by the Secretary, in cases in which the repurchase is by a dealer in securities in the ordinary course of business,
- (5) to repurchases by a regulated investment company (as defined in section 851) or a real estate investment trust, or
- (6) to the extent that the repurchase is treated as a dividend for the purposes of this title.

(f) Regulations and Guidance. — The Secretary shall prescribe such regulations and other guidance as are necessary or appropriate to carry out, and to prevent the avoidance of, the purposes of this section, including regulations and other guidance —

- (1) to prevent the abuse of the exceptions provided by subsection (e),
- (2) to address special classes of stock and preferred stock, and
- (3) for the application of the rules under subsection d.”.

(b) Tax Not Deductible. — Paragraph (6) of section 275(a) is amended by inserting “37” before “41”.

(c) Clerical Amendment. — The table of chapters for subtitle D is amended by inserting after the item relating to chapter 36 the following new item:

“Chapter 37 — Repurchase of Corporate Stock”.

(d) Effective Date. — The amendments made by this section shall apply to repurchases (within the meaning of section 4501(c) of the Internal Revenue Code of 1986, as added by this section) of stock made after February 31, 2023.

Written by Representative Daniel Sullivan, sourcing the vast majority of the text from the [IRL Inflation Reduction Act](#), for use by the Congress of the United States of America.