Statement of Senator Chuck Grassley

Hearing of the Committee on Finance

The President's Proposed Fee on Financial Institutions Regarding TARP: Part 2
Tuesday, May 4, 2010

I want to thank two Iowans who will be testifying on our second panel today. They are John Sorensen, the president and CEO of the Iowa Bankers Association, and Pat Baird, the chairman of AEGON USA and the last chairman of the American Council of Life Insurers.

The statute that created TARP said that the President is supposed to propose a plan in 2013 to repay taxpayers for any losses from TARP. However, earlier this year, three years before he was supposed to under the statute, the President proposed what he called a Financial Crisis Responsibility Fee. The President's top tax official, the Assistant Secretary for Tax Policy, admitted that the President's proposal is actually an excise tax, and not a fee. Obviously, in 2013 we will have a much better estimate of projected TARP losses than we have now in 2010.

The President said that one of the purposes of the TARP tax is to repay taxpayers for any losses from TARP. I completely agree that taxpayers should be paid back every penny of TARP losses. Any losses that result from TARP will increase the deficit, which has ballooned under President Obama. Therefore, to pay back taxpayers for any TARP losses, any money raised from the TARP tax would have to be used to pay down the deficit. Let me repeat that, any money raised from a TARP tax would have to be used to pay down the deficit in order to pay back taxpayers.

If a TARP tax is imposed and the money is simply spent, that doesn't repay taxpayers one cent for any TARP losses. It's just more tax-and-spend big government, while the taxpayers foot the bill for Washington's out-of-control spending. I've heard that some of my friends on the other side of the aisle are already looking to use the money raised from a TARP tax to spend it under their arbitrary pay-go rules.

These are the same pay-go rules that say expiring spending provisions don't need to be paid for, but expiring tax provisions do need to be paid for. That's inconsistent, until you realize that it leads to more taxing and more spending, which results in bigger government.

I hope that Secretary Geithner will assure us that the President means what he says about repaying taxpayers, and that the President will veto any TARP tax that simply spends the TARP tax money without paying down the deficit.

In looking at the President's TARP tax proposal, which I understand the President has already felt the need to change, I find it interesting that GM and Chrysler, which are responsible for about 30 billion of projected losses in TARP, are not subject to the President's proposed tax.

Also, Fannie and Freddie are not subject to the tax. And hedge funds, like John Paulson's that is involved in the recent Goldman scandal, are not subject to the President's proposed tax. Meanwhile, companies that did not take any TARP money are subject to the proposed tax. Also, companies that weren't eligible to take any TARP money are subject to the proposed tax. So, it's a questionable design that has been proposed by the President.

When I asked CBO to tell me who would bear the burden of the TARP tax, they said that one of the groups that would bear the burden of the tax would be consumers. I ask unanimous consent that the CBO letter , and a letter from the Independent Community Bankers Association in opposition to the TARP tax be printed in the record.

One of the purposes stated by the President was to reduce risky behavior by financial institutions. However, CBO stated in their letter to me that the TARP tax "would not have a significant impact on the stability of financial institutions or significantly alter the risk that government outlays will be needed to cover future losses."

One area I'm concerned about is the effect of the tax on small business lending. CBO stated in their letter to me that it will reduce small business lending. This comes at a time when the President and my friends on the other side of the aisle are trying to increase the tax rates on small businesses at the end of this year.

The nonpartisan Joint Committee on Taxation has written that 47 percent of all flow-through business income will be hit with the President's proposed tax rate hikes. This hits small businesses especially hard, because most small businesses are operated as flow-through entities. I have yet to hear Administration officials even acknowledge this fact. Instead, Administration officials choose to use the misleading talking point that the tax increases will only affect 2 or 3 percent of small businesses. I look forward to hearing the testimony of Secretary Geithner and the other witnesses on the President's proposed TARP tax.

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