Higher Taxes on Stock Repurchases Would Harm the U.S. Economy and U.S. Workers

"When you are told that all repurchases are harmful to shareholders or to the country, or particularly beneficial to CEOs, you are listening to either an economic illiterate or a silver-tongued demagogue (characters that are not mutually exclusive)." – Warren Buffet, Letter to Shareholders of Berkshire Hathaway, Inc., February 25, 2023

- A majority of U.S. households owns stock directly or through mutual funds and retirement accounts and would be harmed by the Administration's fiscal year 2025 Budget proposal to increase the tax rate on corporate stock repurchases.
  - In 2022, 58% of families owned stock directly or indirectly according to the Federal Reserve Board, including 40% of families making between $34,600 and $59,500 and 60% of families making between $59,500 and $91.900.[1]
  - According to a more recent 2023 survey conducted by Gallup, 61% of households owned stock directly or indirectly, including 63% of those with annual household income between $40,000 and $100,000 and 29% of those earning less than $40,000.[2]
  - Approximately 94% of 401(k) participants had at least some investment in equities in 2020.[3]
- The excise tax on stock repurchases discourages the return of profits to shareholders who may be able to deploy the funds in higher-yielding investment opportunities. The excise tax is economically self-defeating as it encourages companies to make lower-return investments rather than distribute funds to shareholders so they can invest in higher-return, higher-growth opportunities.[4]
- The net effect of the increased excise tax would be to reduce economic growth and employment.[5]
- Discouraging return of capital to shareholders lacks any economic justification.
  - The proceeds of stock repurchases to shareholders are not flushed from the economy; instead they are either reinvested in other productive investments or spent on goods and services that support the domestic economy.
  - Research shows that companies that pay out earnings via stock repurchases rather than dividends spend more on research and development and are less likely to reduce research spending when cash flow declines.[6]
- Buybacks do not displace capital investment. U.S. companies have increased their capital investment at the same time that they have increased stock buybacks.[7]

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[1] https://www.federalreserve.gov/publications/files/scf23.pdf and https://www.federalreserve.gov/econres/scf/dataviz/scf/table/index.html#series:Stock_Holdings;demographic:all;population:all;units:have

[2] https://news.gallup.com/poll/266807/percentage-americans-owns-stock.aspx

[3] https://www.ebri.org/content/ebri-ici-study-shows-401(k)-participants-asset-allocations-favor-investment-in-equities and https://www.ebri.org/content/401(k)-plan-asset-allocation-account-balances-and-loan-activity-in-2020

[4] Bo Becker, Marcus Jacob, and Martin Jacob, "Payout Taxes and the Allocation of Investment," *Journal of Financial Economics*, vol. 107, 2013, pp. 1-24, finds that increased payout taxes skew investment away from companies with limited access to internal financing, including companies with strong growth opportunities.

[5] Lower payout taxes increase investment efficiency. J.B. Chay, Byung-Uk Chong, Hyun Joong Im, "Dividend Taxes and Investment Efficiency: Evidence from the 2003 U.S. Personal Taxation Reform," *Journal of Accounting and Economics*, vol. 75, 2023,

[6] Sharier Azim Khan, "Does Payout Choice Affect R&D Spending?" April 12, 2023, available at SSRN: https://ssrn.com/abstract=4417459.

[7] Jesse M. Fried and Charles C.Y. Wang, "Are Buybacks Really Shortchanging Investment?" Harvard Business Review, March-April 2018, https://hbr.org/2018/03/are-buybacks-really-shortchanging-investment. Jesse M. Fried and Charles C.Y. Wang, "The Virtues of Stock Buybacks," Wall Street Journal, August 9, 2022.