COMMITTEE ON FINANCE
NEWS RELEASE

Max Baucus, Chairman
http://finance.senate.gov

For Immediate Release
September 28, 2008

Contact: Carol Guthrie
202-224-4515

TAX PROVISIONS IN FINANCIAL RESCUE PLAN PROTECT HOMEOWNERS AND COMMUNITY BANKS, SHORE UP EXECUTIVE COMPENSATION RULES

Legislation extends debt forgiveness for American homeowners in trouble, helps banks stuck with worthless Fannie/Freddie stock, makes companies and execs pay tax on compensation left after cuts

Washington, DC – Tax provisions in the financial rescue plan being unveiled Sunday will protect struggling homeowners from higher tax bills, help community banks hit hard by losses on Fannie Mae and Freddie Mac stocks, and toughen the rules on executive compensation for companies participating in the U.S. Treasury plan to purchase as much as $700 billion in bad assets from American financial institutions. Finance Chairman Max Baucus, who conditioned his support for the rescue plan on taxpayer protections and overall curbs to executive compensation, said the tax provisions help to make the legislation fairer and better for taxpayers.

"I fought for these tax provisions because the Treasury Department's original plan gave way too much to Wall Street, and forgot about the folks on Main Street who are struggling in this economy too. The tax provisions make this legislation more responsive to homeowners and community banks on the front lines of the financial crisis at home," said Baucus. **"I insisted on closing golden parachutes and curbing executive compensation overall because that was most important to me, but I wanted tax provisions as a second stop on excess payments to company heads. Taxing more of the compensation that's left to these executives will help to keep Americans from subsidizing Wall Street salaries and severance packages."**

Tax provisions in the financial rescue plan are as follows:

Help for Homeowners Sinking Under Mortgage Debt

Usually, when homeowners have parts of their mortgages forgiven, they immediately owe income taxes on the amount of indebtedness forgiven. To keep struggling homeowners from facing higher tax bills, the housing relief bill passed by Congress this year allowed homeowners caught up in the mortgage crisis to avoid paying tax on forgiven mortgage debts through 2009. To help more homeowners stay on their financial feet in the ongoing economic crisis, the rescue plan will extend through 2012 the housing bill provision that forgives income from the cancellation of indebtedness. It does not extend the relief to home equity loans.

--more—

Fairness for Banks Hit by the Failures of Fannie Mae and Freddie Mac

Federal law limits the allowable investments for banks, and so many community banks invested in Fannie Mae and Freddie Mac preferred stock – which became worthless when the government bailed those companies out. This proposal ensures fairness for the approximately 800 banks that held Fannie and Freddie preferred stock, by allowing financial institutions or financial institution holding companies to treat their Fannie and Freddie losses as ordinary losses. Applying to any preferred stock that was owned on September 6, 2008 or sold between January 1 and September 6, 2008, this provision will allow banks to claim the book benefit of the loss on their tax returns, therefore reducing the need to obtain additional capital from the FDIC or investors. This should also prevent some community banks from becoming insolvent.

Stronger Taxation of Compensation and Severance Pay for Financial Executives

The financial rescue plan contains non-tax measures aimed at limiting executive compensation and "golden parachute" severance packages overall for companies and executives participating in the buyout – a key element in gaining approval of the package among negotiators. When the Treasury directly buys assets from a company, not through an auction or bidding process, the financial institution will be required to meet certain standards for executive compensation, including a total prohibition on "golden parachute" severance payments to senior executive officers.

When more than $300 million of a company's assets are purchased by the Treasury through an auction, "golden parachute" payments will be banned for top executives hired while the Treasury rescue is in effect. Additionally, tax provisions will kick in to strengthen the tax treatment of remaining executive compensation and severance packages. The deductibility of executive compensation for companies will be cut in half from the level in current law, and companies will also lose deductions currently available for excessively large severance packages. Executives receiving severance packages will continue to face a 20 percent excise tax on payments once they reach an excessive threshold, and that tax will now be due if the executive leaves for reasons other than a standard retirement for which they are eligible – not just if the company changes hands, as in current law.

"If I had my way, I'd have gone further to force cuts in executive compensation," said Baucus. **"But these tax proposals, combined with overall curbs on executive compensation and severance pay, helped us get to agreement and are an important part of protecting taxpayer interests in this financial rescue plan."**

Legislative language for the entire financial rescue plan, including these proposals, is available at http://financialservices.house.gov.

# # #