Historical Perspective on the Corporate Interest Deduction

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The Debt-Equity Distinction

- Interest paid to debt holders is fully deductible
- Dividends paid to stockholders are not deductible

Proposals to "Cap" the Interest Deduction

- President's Framework for Business Tax Reform (2012)

- Bipartisan Tax Fairness and Simplification Act of 2011 (Wyden-Coats Bill)

Historical Argument Against a Cap

"Shareholders . . . are entitled to the residual profits and going concern value of the venture. It is the latter point that caused the differentiation of debt and equity in the origins of the corporate income tax. The corporate tax was initially . . . viewed as necessary to reach shareholders' intangible wealth and prevent them from avoiding the tax by keeping profits at the corporate level."

Jonathan Talisman, former Treasury official

Year	Legislation on Deduction	Income Tax/Excess Profits Tax	Cap
1894	No deduction in House Bill/Added in Senate	Income tax	None
1909	No interest deduction in original proposal	Neither	Par value of capital stock
1913	Interest deduction in original bill	Income tax	Par value of capital stock + one-half of interest bearing debt
1916	Interest deduction in original bill	Income tax	Original bill proposed twice par value of capital stock; 1913 limit retained
1918	Interest deduction in original bill	Income tax and Excess profits tax	Interest fully deductible