

Bloomberg News

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Rubio's corporate investment plan could make him popular on left

By Laura Davison

May 16 2019, 11:20am EDT

Republican Senator Marco Rubio is on a crusade to compel corporations to prioritize long-term growth over quarterly profits. That could make him some friends among Democrats, but he's facing steep resistance from corporate stockholders and his own party.

The Florida senator wants Congress to encourage corporations to spend money that creates jobs and grow the economy. To do that, policymakers need to focus on promoting capital investment and de-emphasize the financial sector, he said in a [report](#) released Wednesday.

Prioritizing shareholders "tilts business decision-making towards returning money quickly and predictably to investors rather than building long-term corporate capabilities, reduces investment in research and innovation, and undervalues American workers' contribution to production," Rubio said in the report.

Break with Orthodoxy

The ideas represent a break with Republican orthodoxy at a time the party is struggling to define where it stands on economic issues. Rubio has also contradicted most of his party by saying the 2017 tax law helped corporations more than workers.

Senator Marco Rubio, a Republican from Florida, listens during an event at the Heritage Foundation in Washington, D.C. Al Drago/Bloomberg

Rubio wants to make investors pay a higher tax when companies repurchase their own shares, hoping it might prod corporations to spend more on capital investment and wages.

Rubio, who voted for the 2017 tax overhaul, has since blasted his party's signature legislative achievement for benefiting corporations more than workers. The tax law gave companies five years of full expensing, which allows them to immediately write off investment in machinery. Rubio has said he wants to extend that tax break.

Rubio's sentiment, if not his exact policies, is gaining traction among Democrats running for president in 2020. Senator Elizabeth Warren has proposed to levy a 7 percent surtax on large corporations, citing the large benefits they reaped from the 2017 tax law. Senator Kamala Harris proposed repealing the entire 2017 tax law. Senator Amy Klobuchar has proposed raising the corporate tax rate and redirecting that revenue to workers.

Buybacks were at their highest levels in decades following the 2017 tax overhaul that slashed the corporate tax rate from 35 percent to 21 percent and cut the rates to as low as 8 percent for companies to bring back offshore cash.

The mechanics of Rubio's plan are still under wraps, but there are at least a couple of ways he could encourage reinvestment rather than buybacks. One option is for the IRS to send shareholders a tax bill for the appreciation in their holdings following the share buyback, but that would mean investors are likely paying a tax before they sell their shares and have realized that gain.

Or he could place a withholding tax on the corporation to cover the amount of the stock's gain as a result of the buyback. That would mean tax-exempt investors, such as pension funds that own significant amounts of the stock market, would indirectly be paying tax they don't owe.

Buybacks unlikely to stop

But Rubio's plan isn't enough to turn corporations off from buybacks, one of the favorite ways to spend extra cash, said Jeffrey Winkleman, partner-in-charge of corporate taxation at accounting firm Marcum.

"It's not like all of a sudden there will be no buybacks or dividends," he said. If Rubio's plan became law "you might have some companies thinking twice, but you're not going to see it stop."

It also wouldn't do what Rubio wants, said Kyle Pomerleau, an economist with the right-leaning Tax Foundation.

"If the company could use the money to buy back stock or invest in a project with a 2 percent rate of return, 2 percent might not be enough to make it worth it," he said.

So far, companies have shown they want to spend their tax cut on buybacks. Several large companies pursued big-dollar buybacks in the first year after the tax law was enacted. Qualcomm Inc. saw one of the biggest jumps, doing nearly 17 times the repurchases from the prior year for a total of \$22.6 billion. Apple Inc. increased buybacks 306 percent to \$73.1 billion in fiscal year 2018. Google's parent company, Alphabet Inc., nearly doubled its share repurchases from a year earlier, totaling nearly \$9.1 billion.

But share buyback numbers are not out of line with historical trends, according to a paper from hedge fund AQR Capital Management Founder Cliff Asness.

Buybacks in 2019 will likely still be strong, Kristina Hooper, the chief global market strategist at Invesco, said. Tax policy matters, she said, but companies are focused on allocating money where it makes the most sense for them.

Markets are worried about Rubio's plan, as evidenced when stocks dragged in March following the Florida Republican's tweet about his buyback plan.

Rubio's proposal isn't gaining steam. Senate Finance Committee Chairman Chuck Grassley defends buybacks as a way for corporations and their shareholders to re-allocate capital.

There's a misconception that after "stock buybacks the money goes up in smoke," Grassley said. "If a company has billions overseas and it isn't doing them any good and they bring it back and buy stock and it goes to the stockholders who can invest it in something that is productive."

Rubio said that despite discussions with members of the Senate Finance Committee, he's the only signature on the bill. He's also unlikely to gain the backing from outside groups. The right-leaning Club for Growth said raising taxes to fix a "perceived inequality" is the wrong solution.

And even though Rubio's plan plays right into Democratic talking points, they're going their own way. Senate Minority Leader Chuck Schumer and Senator Bernie Sanders, who is running for the 2020 presidential nomination, have their own plan that would block corporations from repurchasing their shares unless they pay all their workers at least \$15 an hour.

Michael Linden, a fellow at the left-leaning Roosevelt Institute said the sentiment is one that many Democrats back.

"Welcome to the left, Marco Rubio," he said.